



Tax Laws Amendment (Luxury Car Tax–Minor Amendments) Bill 2008

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Tax Laws Amendment (Luxury Car Tax–Minor Amendments) Bill 2008

Date introduced: 25 November 2008

House: House of Representatives

Portfolio: Treasury

Commencement: Sections 1 to 3 of the Bill and Schedule 1, items 1 to 7, Royal Assent. Schedule 1, item 8, 3 October 2008.

Links: The [relevant links](#) to the Bill, Explanatory Memorandum and second reading speech can be accessed via BillsNet, which is at <http://www.aph.gov.au/bills/>. When Bills have been passed they can be found at ComLaw, which is at <http://www.comlaw.gov.au/>.

Purpose

The Bill amends the *A New Tax System (Luxury Car Tax) Act 1999*, the *Taxation Administration Act 1953*, and the *Tax Laws Amendment (Luxury Car Tax) Act 2008* to ‘ensure that amendments to the Tax Laws Amendment (Luxury Car Tax) Act passed earlier this year operate as intended’.¹ It appears that the current uncertainties relate to the effect of motor vehicle financing arrangements on these amendments.

Background

Changes to the luxury car tax (LCT) were contained in the Tax Laws Amendment (Luxury Car Tax) Bill 2008 introduced into the Parliament on 26 May 2008.²

The Bill was passed by the Senate on 24 September 2008 with amendments which were agreed to by the House of Representatives.³ The *Tax Laws Amendment (Luxury Car Tax) Act 2008* received Royal Assent on 3 October 2008 and commenced on that date.

1 The Hon Chris Bowen MP, Assistant Treasurer, ‘Second Reading Speech: Tax Laws Amendment (Luxury Car Tax–Minor Amendments) Bill 2008’, House of Representatives, *Debates*, 25 November 2008, p. 6.

2 See: Bills Digest No. 131 2007-08, Tax Laws Amendment (Luxury Car Tax) Bill 2008, <http://www.aph.gov.au/library/pubs/bd/2007-08/08bd131.htm>

3 House of Representatives, *Debates*, 24 September 2008, p. 8404.

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The basis for the increase in the rate of LCT from 25 per cent to 33 per cent was to protect the market pricing of locally produced vehicles and to re-invest the additional revenue into the local industry.⁴

LCT as set out in the new Act is based on a price threshold and other factors, including fuel consumption, usage and the method of indexing the LCT threshold.

However, since the amendments were passed economic conditions, and in particular the global financial crisis and a manufacturing slowdown, have resulted in a fall in vehicle sales and a revision of the Government's estimates of the amount of revenue that will be raised by the increase in LCT.

Fall in motor vehicle sales

Vehicle sales for October show an 11.4 per cent fall compared to the same month in 2007 (see table below). According to the Federal Chamber of Automotive Industries, the fall reflects the broader slowdown in Australia and globally, as well as reduced access to car finance.⁵

4 Bills Digest No. 131 2007-08, Tax Laws Amendment (Luxury Car Tax) Bill 2008, p. 8.

5 See Federal Chamber of Automotive Industries, "Global Financial Crisis Impacts New Vehicle Sales", 6 November 2008, <http://www.fc.ai.com.au/news/2008/11/192/global-financial-crisis-impacts-new-vehicle-sales->. For October 2008 sales figures, see <http://www.fc.ai.com.au/sales>

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Sales Volumes

	Month October		YTD		Variance +/- Vol. & %			
	2008	2007	2008	2007	MTH	YTD	MTH	YTD
Passenger	45,978	53,336	508,050	531,102	-7,358	-23,052	-13.8	-4.3
SUV	14,357	17,748	167,300	163,360	-3,391	3,940	-19.1	2.4
Light Commercial	15,686	14,537	158,514	147,211	1,149	11,303	7.9	7.7
Heavy Commercial	3,084	3,668	30,173	29,978	-584	195	-15.9	0.7
Total Market	79,105	89,289	864,037	871,651	-10,184	-7,614	-11.4	-0.9
	Month		YTD		Variance +/- Vol. & %			
Light	9,972	11,150	107,415	105,693	-1,178	1,722	-10.6	1.6
Small	17,339	19,228	196,217	194,416	-1,889	1,801	-9.8	0.9
Medium	7,038	7,952	74,092	76,057	-914	-1,965	-11.5	-2.6
Large	8,956	11,170	99,694	117,778	-2,214	-18,084	-19.8	-15.4
Upper Large	302	762	4,916	7,934	-460	-3,018	-60.4	-38.0
People Movers	1,118	1,283	11,098	13,692	-165	-2,594	-12.9	-18.9
Sports	1,253	1,791	14,618	15,532	-538	-914	-30.0	-5.9
SUV Compact	6,791	8,089	73,037	75,324	-1,298	-2,287	-16.0	-3.0
SUV Medium	5,382	6,839	64,896	61,215	-1,457	3,681	-21.3	6.0
SUV Large	1,001	753	13,169	10,049	248	3,120	32.9	31.0
SUV Luxury	1,183	2,067	16,198	16,772	-884	-574	-42.8	-3.4
x	264	215	2,989	2,067	49	922	22.8	44.6
Vans	1,856	1,686	21,204	16,740	170	4,464	10.1	26.7
PU/CC 4X2	6,261	5,975	62,404	57,597	286	4,807	4.8	8.3
PU/CC 4X4	7,192	6,555	70,874	69,643	637	1,231	9.7	1.8
Trucks 2.5-3.5 GVM	113	106	1,043	1,164	7	-121	6.6	-10.4
Heavy Commercial	3,084	3,668	30,173	29,978	-584	195	-15.9	0.7
Total Market	79,105	89,289	864,037	871,651	-10,184	-7,614	-11.4	-0.9

As a result of falling vehicle sales estimates of LCT revenue have been revised down by \$20 million in each of the forward estimates.⁶

Manufacturing slowdown

The fall in vehicle sales coincides with a manufacturing slowdown and a fall in manufacturing employment.

Manufacturing activity, as measured by the Australian Industry Group–PricewaterhouseCoopers Performance of Manufacturing Index, fell in October 2008 to 40.4 points, the lowest recorded level since the index began in 1992. This followed four

⁶ Senate, *Questions Without Notice*, 25 November 2008, p. 16.

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successive months of decline and confirms that manufacturing output is contracting (the 50.0 level in the index separating expansion from contraction).⁷

Critically the fall in manufacturing production reflects a continuing decline in new orders, slower domestic economic growth and cost pressures.⁸

According to the index, manufacturing employment fell in most sectors with wages growth slowing in October.

Financial implications

According to the Explanatory Memorandum, the Bill will have no financial impact.⁹

Main provisions

Schedule 1 – Luxury Car Tax

Items 1 to 4 of Schedule 1 to the Bill propose to clarify the entity bearing the LCT for the purpose of claiming the refund.

Item 5 ensures that the date of operation is from 1 July 2008.

Item 6 amends the *Taxation Administration Act 1953* to clarify that LCT refunds are to be paid directly to the claimant.

Item 7 ensures that the date of operation of this amendment is from 1 July 2008.

Item 8 amends the *Tax Laws Amendment (Luxury Car Tax) Act 2008* so that contracts for the taxable supply or taxable importation of a vehicle that are entered into before 7.30 pm on 13 May 2008 are relevant for determining the 25 per cent LCT. Item 8 commences immediately after the commencement of the *Tax Laws Amendment (Luxury Car Tax) Act 2008* on 3 October 2008.

7 See Australian Industry Group–PricewaterhouseCoopers Performance of Manufacturing Index October 2008, http://pdf.aigroup.asn.au/economics/pmi/7174_PMI_Oct08.pdf

8 Anecdotal evidence suggests cost pressures from low cost emerging economies. The decision by South Pacific Tyres, a subsidiary of the US Goodyear Tyre and Rubber Co., to close its operations reflected these competitive pressures. See “South Pacific Tyres to close at end of the year”, *The Australian*, 26 June 2008, <http://www.theaustralian.news.com.au/story/0,25197,23925022-5006785,00.html>

9 Tax Laws Amendment (Luxury Car Tax–Minor Amendments) Bill 2008, Explanatory Memorandum, p. 5.

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Concluding comments

The outlook for Australian vehicles sales for 2009 is not strong and the Government has already revised downward its estimate of revenue from the LCT. The recent and rapid depreciation of the Australian dollar will further impact vehicle sales. In certain areas the luxury car market does not seem to be on the decrease, for example hybrid luxury vehicles and SUV diesel models, but this does not necessarily guarantee that the market overall will not be affected by an economic slowdown.

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