Motor Trades Association – Queensland

Briefing Paper

2008 Commonwealth Budget - Luxury Car Tax

1. Motor Trades Association Queensland Background

MTA Queensland is an industrial association of employers incorporated pursuant to the Industrial Relations Act of Queensland and is the peak organisation in Queensland representing the interests of 2,500 businesses involved in the retail, repair and service sector of the automotive industry.

The Association also represents and promotes the issues of the automotive industries to all three levels of government and within state and national economic structures.

The MTA Queensland membership comprises 14 separate divisions, each representative of a specialist area of the State's automotive industry. They are –

- Australian Automotive Dealers' Association of Queensland;
- Queensland Farm and Industrial Machinery Dealers' Division;
- Auto Electrical Specialists' Division;
- Queensland Motorcycle Industry Division;
- Automotive Engineers' Division;
- Queensland Tyre Dealers' & Retreaders' Division;
- Engine Re-conditioners' Association of Queensland;
- Rental Vehicle Industry Division;
- Independent Tow Truck Operators;
- Service Station & Convenience Store Association of Queensland;
- National Auto Collision Alliance;
- Used Car Division;
- Automotive Under Car Division; and
- Auto Parts Recyclers' Association of Queensland.

The Association is the largest training provider of automotive skills in Queensland offering nationally recognised training covering all aspects of the retail motor trades industry. The MTA Institute of Technology is the largest automotive apprentice trainer in Queensland and has trainers positioned in Papua New Guinea and Fiji to increase the knowledge and skills base of the automotive industry and career opportunities in these countries.

2. Queensland's automotive trade's value chain

In Queensland, the automotive value chain is estimated to generate in excess of $16 billion annually, directly employ more than 60,000 people and make a significant contribution to the Queensland and national economies. According to the Australian Bureau of Statistics the automotive trade sector employs more than the Mining and the Agriculture, Forestry and Fishing sectors - respectively 34,300 and 40,700.

3. Introduction

The 2008 Commonwealth Budget initiative to increase the Luxury Car Tax (LCT) on vehicles above $57,123 from 25% to 33% is punitive and does not have the elements of a good tax or an understanding of its negative implications for the automotive industry value chain and Commonwealth and State government revenues. On current sales about 105,000 cars would be affected.

Indisputable evidence exists that taxation can devastate the automotive value chain. The introduction of the original LCT and recent stamp duty rises in Queensland are two excellent demonstrations of this cause and effect.

Neither of those tax increases delivered the predicted revenues to Treasury because contrary to the assumption that sales would not be affected, the dominant response by purchasers was to defer their buying decision rather than substituting their preferred choice of vehicle with an alternative vehicle considered to be of an inferior standard.

On both occasions these tax increases resulted in a contraction of the new vehicle market and reduced tax revenues. If the 2008 Budget proposal is adopted, a reduction in luxury vehicle sales of only 10% would result in losses of GST revenue equivalent to the estimated increase in LCT revenue. Reductions would also occur in other Commonwealth and State revenues including import duties, excise, stamp duty, and registration fees. It is a foregone conclusion based on previous experience that the increase in LCT will result in a net reduction in Commonwealth and State revenues.

Of even greater concern is the social cost which a contraction of new car sales would have in a market already struggling from small-scale diseconomies and relatively high debt levels.

The back end of the automotive value chain occupied by our members in Queensland is under extreme financial pressure with a number of large dealerships failing and many others on credit watch. Many of these businesses are located in regional areas already affected by drought and restructuring of the sugar industry.

A large number of working families nationwide rely on the automotive value chain including the luxury vehicle sector for their livelihood. Many of our members are already reporting sharply reduced sales and job redundancies caused by the increases in State stamp duty and the increase in LCT will make many more vulnerable to job losses.

Even in a period of low unemployment, many of these people will require assistance from social security services for reasons of spatiality and matching job skills. Businesses will almost certainly fail with a cascading effect on creditors.

Past experience also shows that the adverse impacts of even a small reduction in new vehicles sales caused by the LCT increase will be disproportionate because of the vital contribution these sales make to business overheads over the whole value chain including manufacture.

The budget measure to increase LCT also pre-empts the outcomes of the Bracks Review of the Automotive Industry (Review). It undermines the credibility of the Review process and politically limits the options available to the Review in developing recommendations for a sustainable Australian automobile industry that includes manufacturing.

A consistent problem confronting the Australian automobile industry is that the small market size for its niche product of medium to large right hand drive cars does not generate the economies of scale to compete with larger overseas plants.

Submissions to the Bracks Review have highlighted the negative impacts of structural rigidities such as statutory regulation and Commonwealth and State taxes in reducing the size of the Australian automobile market. It has been put to the Review that reductions in LCT, GST, FBT thresholds, Stamp Duty and other cost imposts would increase sales and deliver a more effective, equitable and longer term form of assistance to the capital grants schemes currently in place and should be included as part of any industry assistance package developed by the Review.

Mitsubishi has ceased manufacture in Adelaide. With a current market share of less than 10% in Australia, Ford's plant at Dandenong must also be considered to be under threat of closure and General Motors is suffering a major decline in demand for its locally produced vehicles.

Cessation of motor vehicle manufacture in Australia will have a disproportionate impact on Australia's manufacturing sector and our strategic defence capability because automobile manufacture provides the economies of scale essential to the survival of a number of concomitant industries like tooling. The industries are also a prerequisite for local production of elaborately transformed goods without which we would be reduced to a 'rocks and crops' economy.

Over three quarters of LCT revenue is currently paid by companies including rural enterprises requiring such vehicles and the additional cost will diminish their competitive position.

4. Application of Luxury Car Tax

The LCT of 25% applies to that portion of the sale price in excess of $57,123 for the 2007-08 financial year. The price threshold has increased a mere $1,989 since its introduction in July 2000 which is less than a sixth of the CPI inflation rate. The LCT threshold is also the maximum value for depreciation purposes. The LCT raised $298 million of revenue in 2004-05 with over 75% being raised from companies.

5. Summary of Issues and Consequences of the Increase in LCT

- The 2008 Budget assumption that an increase in LCT from 25% to 33% will not reduce vehicles sale is incorrect. This view is supported by the reaction of the car market when the LCT was originally introduced in July 2000 and following the recent stamp duty rises in Queensland.

- The LCT increase contained in the 2008 Budget will cause a contraction in new vehicle sales and have a net negative impact on both Commonwealth and State revenues. A reduction of 10% in luxury vehicle sales alone is estimated to reduce GST receipts by the equivalent amount to be raised by the increase in LCT. In addition to GST, many other tax revenues will also be reduced including customs and excise duties, state stamp duties, registration fees and other charges on new vehicle sales.

- Past experience also shows that even a small contraction in new vehicle sales will have a disproportionate impact across the whole automotive value chain. It will result in redundancies in the manufacturing, retail and services sectors and business failures which cascade down the creditor chain.

- Currently the automotive value chain is relatively highly geared and running on high levels of debt. Any slowdown in the number of transactions has a very high propensity to cause economic damage across the whole value chain. The consequences are that participants along that value chain will cease business, may become insolvent or unsustainable. Such outcomes will have a greater impact on regional economies where the automotive industries are a significant contributor to local economic activity.

- The increase in LCT is an additional constraint to a market already dealing with interest rate increases and a strong exchange rate for the Australian dollar and will have a multiplier effect which will exacerbate the size of vehicle purchases.

- The increase does not really target the 'wealthy'. The purchasing decision for cars costing above $120,000 tends to be price inelastic and therefore the increase in LCT tax will have less impact on these sales. The greatest impact will be on vehicles costing between $57,000 and $105,000. Many of these vehicles are not truly luxury vehicles and are in the middle range with many being purchased for specific purposes.

- The rural sector will also suffer. People living in rural Australia regard a four wheel drive or a six cylinder vehicle as a necessity for the long distances and poor roads confronting them – not a luxury.

- Many people entering retirement decide to reward themselves with their last car purchase. Others decide to buy a four wheel drive and travel Australia with their caravans. The increase in the LCT will impact on people who plan their retirement and their real retirement income will contract by the amount of the tax. It is ironic that cars above $57,000 are targeted raising the question of other luxury acquisitions such as jewellery, private jets, yachts, helicopters etc.

- The Budget proposal pre-empts the findings and recommendations of the Bracks Review of the Automotive Industry and it is unlikely that the Review will recommend reduced levels of taxation to stimulate increased vehicle sales rather than relying on cash grants to manufacturers. A reduction in the taxes and charges imposed on new vehicles could be expected to increase sales and form part of a more effective, equitable and longer term form of assistance to Australian manufacturers.

- The increase in the LCT does not take into account the thousands of jobs in importation, distribution and services of so-called luxury cars nor the research and development and investment in leading edge technologies such as airbags, ABS brakes and Electronic Stability Control that flow through to mass market brands.

- It is accepted principle of taxation that thresholds should be adjusted for inflation but there has not been any significant adjustment to the LCT threshold since its introduction in 2000. This omission means that many vehicles within the $57,000 - $110,000 range which were never intended to be included in the regime are now affected.

- An incongruity of maintaining the $57,000 threshold is that it caught many imported vehicles when it was introduced in 2000 because the exchange rate of the Australian dollar was US$0.65. At the current exchange rate of US$0.96 these vehicles avoid the LCT whereas many Australian produced vehicles are now above the LCT threshold. We are of the view that this is discriminatory and inequitable in terms of the Australian industry and constitutes bad automotive industry policy.

- Any contraction in demand will adversely impact on the fixed costs faced at every level of the automotive value chain. Australian manufacturers will have a lower volume of cars over which to amortise development costs, overheads and capital depreciation. The cost structure of Australian manufacturers will be adversely affected and impact on their viability and sustainability. The industry is already facing economic difficulties and this will exacerbate this position and is likely to result in further redundancies directly affecting working families in Geelong, Fisherman’s Bend, Dandenong and Elizabeth.