



The Office of the
Group Chief Executive

4 July 2008

The Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Email: economics.sen@aph.gov.au

Dear Mr Hawkins

The Motor Trades Association Queensland (MTA Queensland) responds to the Senate Standing Committee on Economics' (the Committee) invitation for submissions to the Inquiry into:

Tax Laws Amendment (Luxury Car Tax) Amendment Bill 2008;
A New Tax System (Luxury Car Tax Imposition-General) Amendment Bill 2008;
A New Tax System (Luxury Car Tax Imposition-Customs) Amendment Bill 2008;
A New Tax System (Luxury Car Tax Imposition-Excise) Amendment Bill 2008.

The 2008 Australian 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. It has negative implications for the automotive industry value chain and State and Commonwealth government revenues.

MTA Queensland has had an ongoing involvement in the policy processes pertaining to the Australian Automotive Vehicle Industry Review (Bracks' Review) of which the LCT is an element. Submissions to the Bracks' Review indicated the negative impacts of structural rigidities such as statutory regulation and Commonwealth and State taxes in reducing the size of the Australian automobile market.

We have submitted to the Bracks' Review that a phased reductions in statutory imposts such as the LCT could be expected to increase sales and deliver a more effective, equitable and longer term form of assistance to capital grants schemes currently in place and should be included as part of any industry assistance package developed. A copy of that Submission is attached for the Committee's reference.

Following the 13 May Federal Budget measure to increase the LCT from 25% to 33% applying to cars above \$57,123, MTA Queensland forwarded a briefing paper outlining the adverse impact on our

Members to Treasurer Hon Wayne Swan. A copy of that Briefing Paper is attached for the Committee's reference.

In response to Treasurer Swan's 23 June statement that the law in its proposed form was to apply retrospectively from 1 July 2008 and Australian Tax Office (ATO) administrative advice on how the proposed LCT should be applied to the vehicles delivered from 1 July 2008, MTA Queensland informed the ATO of potential conflict between the administrative arrangements and statutory obligations under the *Trade Practices Act* (TPA) which requires full disclosure of the actual purchase price to the customer at the time of the transaction and in any advertising or promotional material. A copy of that document is attached for the Committee's reference.

The ATO subsequently instigated a Round Table with industry representatives to discuss administrative procedures to be followed by suppliers of motor vehicles subject to LCT at which MTA Queensland was a participant in seeking an equitable and workable solution to the potential contravention of the TPA and in recovering the increase LCT from purchasers.

In summary, the documents submitted to the Senate Standing Committee on Economics address the issues that the Inquiry will examine including:

- Implications of the LCT 13 May 2008 Federal Budget measure on the automotive vehicle value chain;
- Difficulties of the administrative requirements applying to the retrospectivity of the LCT on motor vehicle suppliers in terms of Federal and State consumer policies; and
- The consumer behaviour for automotive vehicle purchases over \$120,000 tends to be price inelastic and therefore the increase in the LCT will have less impact on these sales.

MTA Queensland is of the view that the critical issues to determine the policy setting and effective regulations in relation to the increase in the rate of LCT are summarised below and are addressed in detail in the attachments.

- The 13 May Federal Budget measure to increase LCT constitutes a suboptimal automotive vehicle industry policy setting for establishing and maintaining a sustainable automotive sector in Australia.
- The increase in the LCT does not constitute sound economic policy and it is difficult to justify in terms of equity.
- Retrospective implementation of the increase in LCT appears to compromise federally promoted consumer policy framework and the *Trade Practices Act*.
- The increase in the LCT compromises commercial relations between consumer and the motor vehicle value chain.
- The LCT definition is difficult to justify. Various definitions apply to "luxury" and the level at which the price elasticity for vehicle demand changes because of taxes, appears to be germane to any threshold value adopted.

- The regulatory compliance and additional costs applying the ATO retrospective administrative treatment of the LCT appears to contradict the Council of Australian Governments Reform Agenda – Business Regulation and Competition assessments.

Attached are:

1. MTA Queensland *“Preliminary Comments – Bracks’ Automotive Industry Review”* 7 March 2008



Bracks' Automotive
Industry Review lth 7

2. MTA Queensland submission to the Department of Innovation, Industry, Science and Research *“Review of Australia’s Automotive Industry 2008”* 19 May 2006



Bracks Automotive
Industry Review 16.5

3. MTA Queensland Briefing Paper to Treasurer Hon Wayne Swan *“2008 Commonwealth Budget – Luxury Car Tax”* 26 May 2008



Luxury Car Tax - W
Swan 22.5.08.doc



Luxury Car Tax
Briefing Paper - May :


4. MTA Queensland letter to Australian Taxation Office concerning *“administrative advice regarding the delay in the enactment of Tax Laws Amendment (luxury Car Tax) Bill 2008”* 24 June 2008



MTAQ Response to
Admin Advice.doc

Thank you for your consideration of this submission and if you require a discussion or clarification on matters pertaining to the attachments I would be pleased to do so.

Yours sincerely

A handwritten signature in black ink that reads "Aivars Blums." The signature is written in a cursive style with a large initial 'A' and 'B'.

Aivars Blums
Group Chief Executive Officer