Audi Australia Pty. Ltd.

Audi

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Committee Secretary
Senate Economics Committee
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600

Submission on behalf of Audi Australia Pty Ltd, to the Senate Economics Committee Inquiry into the Tax Laws Amendment (Luxury Car Tax) Bill 2008

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To Whom It May Concern

Executive summary

Background - AUDI AG

AUDI AG, based in Ingolstadt, Germany, develops and produces cars for the premium segment worldwide. The company achieved its twelfth consecutive record year in 2007, with 964,151 cars sold. In 2008, the company will exceed 1 million units worldwide.

The company is more than 100 years old and is active in more than 100 markets, employing more than 54,000 people worldwide, including 45,000 in Germany.

The brand invests more than € 2 billion each year in order to sustain the company's technological lead embodied in its "Vorsprung durch Technik" slogan.

Audi plans to nearly double the number of models in its portfolio by 2015, from around 25 to 40 models.

Background - Audi Australia Pty Ltd

Audi Australia P/L has been operating in Australia since 1997, first as an independent importer and since 2001, as a joint venture between the parent company AUDI AG and Audi Australia.

In 2004, the company became a wholly-owned subsidiary of AUDI AG. Since that time, sales of Audi vehicles in Australia have more than doubled, from 3700 units to well over 7000 units in 2007, as a result of investment into the Australian market. After the first six months of 2008, the company has sold more than 5,100 units.

Audi is directly responsible for more than 800 jobs in Australia.

Due to its strong growth here, and the planned investment by the head office into national facilities and new products, Audi is one of the most-attractive franchises in the automotive industry.

To manage the growing product portfolio and sales growth of the brand over the next 3 to 5 years, the national Audi network has committed to investments of around $150 million dollars in the three years to 2010.

AUDI AG has also shown significant commitment to the Australian market with the development and construction of a $50 million 'Lighthouse' facility on South Dowling Street in Sydney, due to open in mid-2009.

Audi is the fastest-growing premium European marque in Australia, and the Australian arm is the fastest-growing national sales company in the Audi world, achieving year-on-year record results for the past three years, (2005: 30%, 2006: 20%, 2007: 25%). At June 2008 YTD, Audi is tracking at 34 % growth.

However, this sales growth would be seriously impacted should the proposed increase in the Luxury Car Tax be passed as legislation. The company predicts losses of at least 15% with the implementation of a 33% LCT. Reduction in our planned volume could also have a negative impact on our planned investment in Australia.

Key points

Audi Australia P/L strongly opposes the proposed increase to the Luxury Car Tax (LCT) from 25 to 33 percent, believing it will have far-reaching negative effects on the Australian car industry, vehicle buyers and Australia's competitiveness in the global market.

Undertaken without any consultation with the industry to manage it's introduction, or discover the potential impact and consequences, the increased LCT is:

1. A tax that puts Australia's competitiveness at risk

Australia is the only world market with a tax on luxury vehicles. A similar impost is not found on other luxury items, making it a discriminatory tax.

Increasing this tax at a time of opening free trade markets simply ensures that we are less competitive on a global scale, by making the market less-attractive to importers.

It can be seen as a non-tariff barrier to imported vehicle brands like Audi, and puts the competitiveness of the vehicle industry in Australia at risk.

2. A tax that puts jobs at risk

The LCT rise will have a negative effect on jobs in Australia. Due to cost increases, it is likely that Australians will buy fewer cars. Not only will this reduce the expected income from luxury car sales, it will also impact on car sales in general. It puts at risk thousands of other industry jobs – from management to sales staff in dealerships to technicians servicing cars in workshops.

Suppliers to car manufacturers are also at risk if sales drop due to the tax. European manufacturers alone are responsible for more than 10,000 jobs in wholesaling, importing, marketing, sales and servicing.

Audi Australia Pty Ltd is predicting a 15 percent drop in sales should the Luxury Car Tax legislation be passed without amendment.

3. A tax that puts key investments at risk

Audi is directly responsible for more than 800 jobs in Australia, which may be affected if Australians stop buying cars above $57,180 due to the tax increase.

Audi has clearly demonstrated it's commitment to the Australian market, announcing plans to invest more than $200 million in its retail network to make the brand more competitive.

This considerable investment includes Audi's plans to build a $50 million 'Lighthouse' facility in Sydney, demonstrating the long term commitment by the brand to this market. The investment is the largest, single project undertaken by Audi outside of Europe.

This investment is based on necessary facility upgrades in the next 3 to 5 years, based on our sales growth calculations. The tax rise and subsequent affect of lower vehicle sales means this investment needs to be reconsidered and scaled back to reflect the drop in sales.

Once again, this reduction in investment has a flow-on effect to suppliers, builders, and architects involved with our projects around the country.

4. A tax on innovation and safety

Luxury cars have been responsible for the introduction of key technologies in the market such as airbags, safety glass, ABS brakes and ESP. These breakthrough technologies are now taken for granted and are available on mass-market brands because they are clearly seen to be necessary to driver and passenger safety.

This new tax penalises both the carmakers for their important research and innovative thinking, and the customer for investing in this innovation.

It also clearly discourages the early uptake of advanced safety features. There is a risk that car buyers will be tempted not to take advantage of these advanced options in order to keep the price of a new car under the threshold and so avoid paying the tax.

It also means that car owners will keep their car for a longer time before turning over to newer, more advanced vehicles with improved safety features. Customers should be encouraged, not discouraged, to buy new cars which are safer. Driver assistance systems such as advanced night vision, lane assistance and side assistance technologies help to prevent accidents on the road, however innovation comes at a cost to the customer. The LCT simply taxes those buyers who want to invest in the safety of their family.

5. A tax on cleaner, greener technology

Australia has a seriously ageing carparc, with some 5.5 million vehicles (out of 13 million) cars aged between 11 and 20 years.

Luxury carmakers make some of the cleanest, greenest cars available. Buyers should rather be provided with incentives to purchase younger cars with newer, greener technology, lower emissions and better fuel consumption than to tax the very cars that herald this technology.

The tax therefore goes against the Govt's green agenda as it directly affects cars with lower CO2 emissions and better fuel consumption. It would make more sense to put a tax on C02 emissions than to tax carmakers importing cleaner cars.

Furthermore, brands like Audi lead the way with alternative fuels and future-proof technologies, yet the state of the fuel industry regulation and now this tax hike, clearly prevent us from importing cars with lower consumption. More efficient technology that leads the way does have a higher cost association yet customers are prepared to pay a premium in the knowledge that they are minimizing their environmental impact – however the tax hike is a clear disincentive to these customers.

Comparative to Australia, the average age of the carparc in Germany is 7 – 8 years. Many European countries actually actively encourage drivers to buy younger, more efficient vehicles and fuels like diesel which are more economical to run in modern cars also carry tax benefits. When combined with a diesel particulate filter as all Audis are in Australia, the result is cleaner, more efficient technology.

6. A tax on families, not on luxury

Taxing vehicles above the so-called $57,180 'luxury car' threshold also penalises working families who have a genuine interest in buying safer, cleaner cars with innovative driver assistance systems.

Many family-sized vehicles which should not be considered 'luxuries' are affected by virtue of their size, yet families need space to travel comfortably and therefore need to purchase larger cars.

There is no equivalent tax on luxury boats, private planes, jewellery or holidays for example and therefore rather than actually tax 'luxuries', the LCT unfairly targets safe, clean and newer vehicles.

The tax is also inflationary. Rather than curb consumer spending, this tax rise will simply see consumers buy cheaper, less safe vehicles and then spend their money on other luxury items which do not carry any 'luxury' tax. The inflationary cycle will simple continue.

Furthermore, the luxury car tax threshold is unrealistic and has not kept pace with CPI, nor has it been indexed according to today's average weekly earnings or the average price of a 6-cylinder family car.

In summary;

Audi Australia Pty Ltd strongly opposes this proposed tax increase, and further strongly disagrees with the planned retrospective implementation of the tax to 1 July 2008, should it be passed.

We urge the Senate Economics Committee to reconsider that the proposed LCT rise on the basis that an increase will not benefit Australia or Australians.

It will simply add yet another tax on top of more taxes for working Australians. Car buyers pay GST, stamp duty and registration fees, and on top of that they pay tax on the fuel they use in their cars. If the fuel is more efficient, like diesel, or cleaner and greener, it also costs more to buy.

The timing of this introduction is also incredibly unfortunate, coming at a time when consumers can ill-afford additional taxes. Families are being hit by steadily rising interest rates, rising property prices and rising petrol and diesel prices to name a few. If families need to make savings, it should not be at the expense of safety features and innovative technology which may be at risk to bring down the price of a new car.

Furthermore, customers who placed their order for a vehicle months ago, will now also be hit by a luxury car tax increase that they could never have predicted. Some of those buyers who are waiting for a car to arrive, and who ordered the car pre-14 May, now face having to forfeit deposits because they may not be able to afford their new car with an additional 8 percent of LCT which they could never had foreseen.

We would appreciate if the Senate Economics Committee would positively reconsider the proposed LCT increase to 33%, and the planned retrospective introduction.

Yours sincerely

Joerg Hofmann
Managing Director