

Submission regarding Luxury Car Tax

Proposal to increase the rate of Luxury Car Tax from 25% to 33%

Motor Traders' Association of New South Wales

The MTA is an employer's association specifically for businesses in the motor industry and currently has over 6,000 Members and Affiliates across New South Wales. The Association's aim is to help the motor industry and it does this by assisting in the daily running of Member's businesses through advice and services and also by lobbying to ensure a long and viable future for the industry.

You may have already heard of the Association or seen its logo displayed on our Member's businesses. The Association is not just for mechanical repairers or car dealerships as is a common misconception, but for any business associated with the automotive industry. The Membership base of the MTA is varied and covers a huge cross section of the industry.

Members of the MTA include not only car dealers new and used, mechanical repairers, brake steering and suspension specialists, body repairers but farm machinery dealers and repairers, caravan dealers, commercial vehicle dealers and repairers.

Founded in 1910, the MTA represents owners and business principals in the automotive industry throughout NSW.

In the state sphere the MTA is strongly placed to represent the interests of its members. The MTA is in constant contact with politicians and Government officials and regularly provides advice to them on matters affecting the industry.

The MTA is the principal party and a leader in industrial relations issues affecting the retail motor industry.

The MTA is also a founding member of the Motor Trades Association of Australia - the federal body which draws together MTA's sister organisations in other states and territories to represent the industry at Federal Government level.

Vehicle Sales in NSW 2007

In the calendar year of 2007 the number of new vehicles sold in Australia reached 1,000,000 units for the first time. The NSW share of the market was 320,058 units for this period.

As LCT affects approximately 10% of the market this equates to 32,000 vehicles.

Position

The MTA NSW believes that the imposition of Luxury Car Tax is unfair, discriminatory and unjustified.

MTA NSW believes that the LCT should be abolished altogether and that only GST should apply on vehicles. In the absence of removal, MTA NSW believes that the threshold before LCT applies should be substantially increased to ensure that only "luxury" vehicles are captured by this tax.

Vehicles that are not "Luxury" vehicles but everyday vehicles such as some variants of the Toyota Tarago, Nissan Patrol, Holden Calais, Ford Territory and even an Australian icon, the "ute" are captured by threshold of this tax. Vehicles used in rural situations where there is little choice are also captured by this tax affecting people who could not be described as "rich" by any means. Only in very specific circumstances is the use of a vehicle considered when the tax itself applies. An example of this is an emergency vehicle such as an ambulance.

Luxury Car Tax

The LCT is applied to vehicles at a rate of 25% on the GST inclusive value of \$57,180. After the threshold rate has passed, any additional consideration for the vehicle has been taxed at a rate of 25%. For instance-

A vehicle is purchased for \$100,000. The breakdown of this is vehicle cost \$84,097, GST of \$5,198 and LCT \$10,705.

If the GST (10%) was the only tax applied to this sale the vehicle would cost \$92,506.

This makes this vehicle \$7,494 more expensive due to LCT at a rate of 25%.

In effect the purchase applies taxation on a tax. By applying the GST until the threshold, any amount over the threshold is a tax on a tax.

The impact of LCT on consumer behaviour

The new vehicle market in Australia provides that vehicles can be option or have additional accessories fitted to "spec up" or customise the vehicle. There are many items that are safety related such as air bags, stability control and the like that consumers can choose to have fitted on their vehicle. Once the price of the vehicle exceeds the LCT threshold all items attract the LCT at the prescribed rate.

As an example a Mitsubishi Pajero 3.2l manual has a RRP of \$56,890. if a consumer chooses side and curtain airbags at a cost of \$850. This alone pushes the price of the vehicle into the threshold and the safety items taxed accordingly. This is without the addition of additional on road costs.

Great inroads have been made in the past decade or so in regards to the safety of the Australian fleet and where centre airbags were once only seen on high end vehicles are now standard fitments on many small cars that retail for less than \$20,000.

This is for a variety of reasons but generally speaking the more that these items are fitted to vehicles, the less the cost becomes and these technologies then become mainstream.

Another issue that is of concern is that consumers may purchase various items after the sale of the vehicle. These items may not be the manufactures (of the vehicle) product and may raise compliance with Australian Design Rules (ADR) issues. However, consumers can hardly be blamed for this behaviour as once the vehicle has been sold those accessories only attract a tax rate of 10%, not the LCT rate.

If a vehicle for sale at \$60,000 and the purchaser desires to upgrade the brakes on the vehicle at the time of purchase (IE a brake package) the rate on the upgrade is 25% tax, yet those same items fitted to the vehicle after the sale only attracts GST of 10%, providing a disincentive for people to fit such items. This is even more prominent when the vehicle is financed as any items fitted after the sale are not able to be financed with the vehicle so if the purchaser does not have the cash available to pay for the upgrade it wont be done.

No other item sold in Australia has a Luxury tax

There are no other items in Australia that has a luxury tax applied. There is no additional taxation system for boats, artworks, jewellery, designer watches and private jets to name a few. The owner of a \$60,000 Toyota Tarago would not be viewed in the same light as the wearer of a \$200,000 Rolex watch for instance. Designer or luxury brands and items such as handbags, shoes etc attract only the GST regardless of how expensive they might be.

In addition to this the definition of a luxury car has been somewhat diluted over the years to include vehicles that are not luxury vehicles and this definition seems to be based on pricing alone with little regard to the characteristics or proposed use of the vehicle (with the exception of exemptions for emergency and vehicles adapted for wheelchair access)

The threshold for LCT has remained relatively static since the introduction of GST in July 2000. The threshold was \$57,009 for several years before being increased to \$57,123 in 2007 and to \$57,180 in 2008. Vehicles themselves have seen price rises above this and vehicles that previously did not reach the price threshold now do.

Administration Burden on business

Luxury Car Tax creates an administrative burden on businesses—this more so applies in the current situation whereby dealers must either collect the tax now or possibly at a subsequent time post sale as a result of the intention to retrospectively apply an increase to this tax.

When LCT applies dealers must calculate the price of the vehicle and options/accessories using the appropriate formula. This in itself creates additional work for sales staff quoting vehicles and the business must ensure that the LCT is collected and accounted for appropriately.

Another issue that dealers face is that LCT is applicable whilst a vehicle is under 2 years of age. This issue is created where a dealer acquires a vehicle in this age bracket for resale. The dealer is required to remit any additional LCT on the sale price to the ATO above what has already been collected by the ATO. Unless they view the original selling paperwork and verify that the LCT has been remitted to the ATO there is no way a dealer can ascertain how much, if any, LCT has been remitted on that particular vehicle. In fact, without conducting audits the ATO itself cannot ascertain how much LCT has been remitted on a particular vehicle.

Dealers must also be familiar with the various exemptions in place for some vehicles (such as modified for wheelchair access) and if they are modifying vehicles for such things must ensure that accounting is accurate. Given that these instances call for specialist advice the end result is greater costs to the business which in turn flows through to the end user.

The current situation sees dealers facing the option of collecting the additional LCT or faced with the possibility of recovering it at a later time from the purchaser. This has created issues with advertising and also flows through to manufactures who conduct "brand" advertising. In such a competitive market manufactures and dealers desire to offer the most competitive price and simply for consistency and allowing consumers to compare "apples with apples", the current situation creates problems in this regard.

GST is affected when it comes to disposing of the asset

When a business registered for GST purchases a vehicle subject to LCT the amount able to be claimed as an input credit, regardless of the price paid for the vehicle is \$5,198. Upon sale of that same vehicle the business is liable to the ATO for one eleventh of the sale price.

To put this into perspective if a business purchases a vehicle for \$90,000 the amount claimed as an input credit is \$5,193. If that same vehicle is sold for say \$80,000 the next day, the business must remit \$7,272 to the ATO. Whilst this may not occur often, or for private purchasers, it is a pertinent example of how LCT creates issues in the marketplace.

Summary

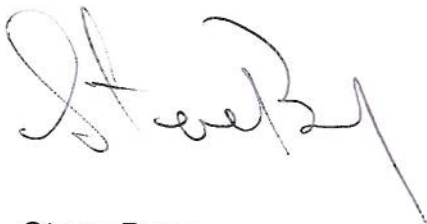
The Motor Traders Association of NSW believes:

1. That LCT should be discarded altogether
2. In the absence of this the LCT threshold should be significantly increased to capture only vehicles that are "luxury"
3. That the LCT unfairly penalises purchases of safety items and accessories, environmental benefits and security features on those vehicles that exceed the LCT threshold
4. That the LCT creates additional administrative burden for business in the collection of and the remittance to the Australian Tax Office.

The Motor Trader's Association thanks the Committee for its time and for allowing the Association to have the opportunity to present this case.

Should further information or clarification be required please contact me and I will gladly assist in any way possible.

Kind Regards



Steve Borg
PRESIDENT- Motor Traders' Association NSW