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SENATE

STANDING COMMITTEE ON ECONOMICS

Reference: A New Tax System (Luxury Car Tax Imposition—Customs) Amendment Bill 2008; A New Tax System (Luxury Car Tax Imposition—Excise) Amendment Bill 2008; A New Tax System (Luxury Car Tax Imposition—General) Amendment Bill 2008; Tax Laws Amendment (Luxury Car Tax) Bill 2008

TUESDAY, 22 JULY 2008

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SENATE STANDING COMMITTEE ON

ECONOMICS

Tuesday, 22 July 2008

Members: Senator Hurley (*Chair*), Senator Eggleston (*Deputy Chair*), Senators Bushby, Cameron, Furner, Joyce and Pratt

Participating members: Senators Abetz, Adams, Arbib, Barnett, Bernardi, Bilyk, Birmingham, Mark Bishop, Boswell, Boyce, Brandis, Bob Brown, Carol Brown, Cash, Colbeck, Jacinta Collins, Coonan, Cormann, Crossin, Ellison, Farrell, Feeney, Fielding, Fierravanti-Wells, Fifield, Fisher, Forshaw, Hanson-Young, Heffernan, Hogg, Humphries, Hutchins, Johnston, Kroger, Ludlam, Lundy, Ian Macdonald, Marshall, Mason, McEwen, McGauran, McLucas, Milne, Minchin, Moore, Nash, O'Brien, Parry, Payne, Polley, Ronaldson, Ryan, Scullion, Siewert, Stephens, Sterle, Troeth, Trood, Williams, Wortley and Xenophon

Senators in attendance: Senators Abetz, Bushby and Hurley.

Terms of reference for the inquiry:

To inquire into and report on:

The provisions of the following bills: Tax Laws Amendment (Luxury Car Tax) 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; and A New Tax System (Luxury Car Tax Imposition—Excise) Amendment Bill 2008, together with the following matters:

a. the incidence of the luxury car tax (LCT) and the effect of the proposed increase in the LCT rate on rural and regional communities, small business families and tourism operators;

b. the effect of the LCT increase on the prices of vehicles, the affordability of motor vehicles, the cost of living, and the consumer price index (CPI);

c. the expected impact of the increase in the LCT rate on vehicle demand and the likely consequences for government revenues including from the LCT, goods and services tax (GST) and stamp duty;

d. the growing incidence of the LCT over time and the adequacy of current arrangements for indexation of the LCT threshold, in comparison with alternative measures including the CPI, average weekly earnings and the increase in the retail price of motor vehicles;

e. the rationale for taxing 'luxury' cars at a higher rate than other goods and services;

f. the effect of the LCT and the proposed increase in the LCT rate on Australian vehicle manufacturers and vehicle importers and distributors;

g. the overall taxation burden on ownership and operation of motor vehicles including customs duty, GST, LCT stamp duty and excise on fuel;

h. the effect of the LCT and the proposed increase in the LCT rate on the adoption of vehicle safety features and environmental technologies; and

i. the extent to which the LCT is viewed as a non-tariff barrier by other car exporting countries.

WITNESSES

Committee met at 9.00 am

BAULCH, Ms Chris, Director, Compliance and Operations, Federal Chamber of Automotive Industries

McKELLAR, Mr Andrew John, Chief Executive, Federal Chamber of Automotive Industries

REARDON, Mr Tim, Federal Chamber of Automotive Industries

CHAIR (Senator Hurley)—I declare open this meeting of the inquiry of the Senate Standing Committee on Economics into the Tax Laws Amendment (Luxury Car Tax) Bill 2008. On 18 June 2008, the Senate referred the bill to this committee for report not before 26 August 2008. This bill amends the luxury car tax legislation to increase the luxury car tax rate from 25 per cent to 33 per cent from 1 July 2008. The inquiry will examine the incidence of the luxury car tax and the effect of the proposed increase in the LCT rate on rural and regional communities, small business families and tourism operators; the effect of the LCT increase on the prices of vehicles, the affordability of motor vehicles, the cost of living and the consumer price index; the expected impact of the increase in the LCT rate on vehicle demand and the likely consequences for government revenues, including from the LCT goods and services tax and stamp duty; the growing incidence of the LCT over time and the adequacy of current arrangements for the indexation of the LCT threshold in comparison with alternative measures, including the CPI, average weekly earnings and increase in the retail price of motor vehicles; the rationale for taxing luxury cars at a higher rate than other goods and services; the effect of the LCT and proposed increase in the LCT rate on Australian vehicle manufacturers and vehicle importers and distributors; the overall taxation burden on ownership and operation of motor vehicles, including customs duty, GST, LCT, stamp duty and excise on fuel; the effect of the LCT and proposed increase in the LCT rate on the adoption of vehicle safety features and environmental technologies and the extent to which LCT is viewed as a non-tariff barrier by other car exporting countries.

This is the first of three public hearings for this inquiry. These are public proceedings, although the committee may agree to a request to have evidence heard in camera or may determine that certain evidence should be heard in camera. I remind all witnesses that, in giving evidence to the committee, they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee. Such action may be treated by the Senate as a contempt. It is also a contempt to give false or misleading evidence to a committee. If a witness objects to answering a question, the witness should state the ground on which the objection is taken and the committee will determine whether it will insist on an answer, having regard to the ground which is claimed. If the committee determines to insist on an answer, a witness may request that the answer be given in camera. Such a request may, of course, be made at any other time. I welcome Andrew McKellar from the Federal Chamber of Automotive Industries. Do you wish to make an opening statement?

Mr McKellar—Yes, thank you. Thank you for the opportunity to make a presentation to the committee today on the proposed increase in the rate of the luxury car tax. I want to start with the comment that, on current trends, we would expect to see a situation over time where the incidence of the luxury car tax will potentially increase to capture up to half of all vehicles by 2030. In the chart pack, which has been circulated and which is available to members of the committee, you will see that, in the period since what is now the luxury car tax threshold was introduced in 1979, the tax itself impacted upon about 2½ per cent of all vehicle sales in the Australian market. In the period since then it has more than quadrupled and we would expect that, over the period to 2030, it would quadruple again. This raises one of the key issues about the luxury car tax itself—it is a punitive tax. It is a tax which is increasingly hitting a wider and wider range of vehicles, and that is an issue for concern. It means that the impact of the tax is stretching further and further into the market and impacting a range of particular groups, which causes significant hardship and concern.

The tax is now applied to many vehicles which are popular with families or vehicles which are predominantly relied upon by people living in rural and regional areas of Australia. For those living in rural and regional areas, access to safe, reliable and convenient family transport is absolutely essential. They often need to drive on unsealed roads, particularly during flooding in the wet season, so they need enhanced vehicle stability and durability and they need long-range fuel capacity. As a consequence, for many people living in rural and regional areas, four-wheel-drive vehicles are considered essential, not a luxury. It is of concern then that the incidence of the luxury car tax is higher on four-wheel drives than on any other type of vehicle. If current trends continue, all LandCruiser wagon, Mitsubishi Pajero five-door and Nissan Patrol wagon models will exceed the luxury car tax threshold within five years. These are some of the most popular vehicles for people living and working in regional and rural communities, particularly those that are living in the most remote areas.

It would be surprising to many people that Australia’s top-selling luxury vehicle is not a Porsche, a Ferrari, a Maserati, a Lamborghini, a Rolls-Royce or even an Aston Martin—all brands that are synonymous with the concept of luxury. In fact, none of those brands are represented in the top 20 models in terms of sales of luxury cars, using the luxury car tax definition. In fact, none of them are even in the top 40. You may be surprised to know, senators, that Australia’s top-selling ‘luxury’ vehicle is in fact the Toyota LandCruiser wagon. There are a couple of examples of that in the presentation pack, the slides that we have provided, on page 2. It is a vehicle that is used everywhere in rural and regional areas. And it is not the top of the range Toyota LandCruisers that we are referring to. All of the 200 series LandCruisers are captured by the luxury car tax, and even the so-called poverty pack—and I use the term advisedly—the Workmate model, incurs the luxury tax these days. There are some pictures of that on page 3 of the handout.

This vehicle retails at a price of around $54,000 or $55,000, but with the addition of a few options and accessories, such as air-conditioning, a bullbar and a winch, it incurs luxury car tax. For those driving on rural roads, unsealed roads, frequently having to dodge wildlife and so on, the addition of those sorts of features is quite normal. Equally, operating in high temperatures, the use of an air-conditioning system in a vehicle like that also makes good sense. It would hardly, in this day and age, be considered to be a luxury. I must say that that vehicle, which incurs increasing amounts of luxury car tax, comes standard without carpet. The interior is fitted out in vinyl as standard so that you can hose out the inside. That was the vehicle that introduced Australians to the Toyota brand back in the 1950s. The LandCruiser earned a reputation for reliability and versatility during the construction of the iconic Snowy Mountains scheme, but today, according to the definitions of the luxury car tax, it is a luxury vehicle.

The luxury car tax is a 33 per cent tax on safety features and low-emission technologies. If a customer seeks the fitting of airbags to a vehicle priced over the luxury car tax threshold then the customer will incur a 33 per cent additional tax. Increasing the tax on these vehicles risks delaying the introduction of future technologies like this to the Australian fleet. One of the points that I think highlights this is illustrated in the slide on page 5, which shows that a safety feature like electronic stability control is very prevalent in vehicles now currently above the luxury car tax threshold. One of the things we observe in the marketplace is that these sorts of leading safety technologies are introduced first in the so-called premium end of the market and then, over time, they filter through and become standard features as the cost of the technology becomes more affordable throughout the broader range of the market. Any additional cost which means that we may see the delay in the introduction of these technologies, or models with these technologies, in the Australian market is quite a retrograde step. That is certainly one of the consequences that we fear from the increase in this tax.

Road safety of course is of particular importance in rural and regional areas, and I come back to the incidence of the tax on four-wheel drive vehicles of the type that are most popular in those areas. There are a couple of charts on page 6 which are drawn from a road safety report compiled here in South Australia showing the incidence of fatal crashes in South Australia in urban and regional areas. The higher incidence of those types of crashes in rural areas versus the metropolitan areas is very starkly apparent from those charts. One of the things that we are now seeing in the Australian marketplace, particularly for four-wheel drive vehicles, is a very high uptake emerging of technologies like stability control, which greatly enhances the stability of those vehicles in avoiding single vehicle rollover accidents, one of the key risks that motorists would otherwise face.

What defines a luxury car? No other goods and services are luxury items according to the tax system. Passenger cars are an important feature underpinning our way of life. They are a vital mode of transport and in many parts of Australia the only form of transport available to access essential services such as hospitals, schools and workplaces. Why are these goods considered a luxury when a private jet, yacht, designer clothes or jewellery are not considered luxuries under the Australian tax system? It is interesting to compare what constitutes a luxury car under the definition in this legislation. On page 7 are a couple of examples for your consideration and the first example of a Rolls Royce Silver Phantom, I think even I would concede is clearly a luxury car by anybody’s definition. The Rolls Royce Silver Phantom not only has carpet as a standard feature.

Senator ABETZ—You cannot wash it out.

Mr McKellar—You can try, senator, and I am sure you can have the carpet dry-cleaned. It also has built-in adjustable footrests and starlight headlining above. According to the brochures: ‘The starlight headliners create a magical effect; the illusion of a dazzling sky at night.’ I certainly consider that to be a luxury feature. In contrast we see next to it a vehicle the Volkswagen Multivan—a seven-seater. I think one would have to agree that as practical and as I am sure very useful as that vehicle is, it does not under anybody’s definition fall into the same camp as the Rolls Royce Silver Phantom. It is a practical family vehicle for people who need that requirement.

What does the increasing incidence of the tax mean in real terms? The tax has failed to keep pace with the price of many vehicles and the changes in the marketplace. As a result the incidence of the tax, as we have said, is increasing over time. On page 8 there is an example. The definition of a luxury car is changing. Back in 2000 a Mitsubishi Pajero was not a luxury car. Today, because of the fact that the threshold has not changed to keep pace with changes in the market, the 2008 Mitsubishi Pajero is now a luxury car. Essentially it is very much the same sort of car with the same sorts of features. One was not a luxury car; one is now a luxury car. I think that is a key concern for all in the industry.

It is increasingly hurting local manufacturers, and that is an important consideration in a town like Adelaide where we have still a significant presence for the automotive industry here, with General Motors Holden manufacturing the Commodore and other similar variants for the domestic market. It has been the top selling local car in the Australian market over the past 12 years and is a key export contributor for the Australian industry.

Back in 1979, when the threshold was originally introduced, only the Holden Caprice and the Ford LTD were above that threshold. Today, all Australian-made vehicle models have variants that exceed the so-called luxury car tax threshold. So there is a much greater range in terms of Commodores, Ford Falcons, the Ford Territory, the turbo Ghia model and even Toyota’s recently produced Aurion. There are variants within each of those model ranges that are now above the threshold. I guess our concern, as I highlighted before, is that this impact is not only increasing but will be even more manifest in the future if current trends continue. It is not inconceivable that in the future we could see mid-range and even base-model Falcons and Commodores being defined as luxury cars under this legislation.

The other issue I want to pick up on is the issue of implementation. Here, I think there has been particular concern on the part of the industry about the disruption that this is having on the marketplace. In particular, these concerns and confusions stem from several issues. There remains considerable uncertainty within the industry as to the legal basis of a car dealer imposing a tax that has not and may not be passed by the parliament or which may be amended by the parliament. The tax increase will be applied retrospectively to purchasers of new motor vehicles where a contract has been signed prior to the budget announcement on 14 May and if the vehicle is not delivered until after 30 June.

Figures also show that the planned increase in the rate of the luxury car tax has had a significant impact on vehicle sales, and I have provided a chart on page 12 which illustrates the chamber’s analysis and projections of what we anticipate is likely to occur over the remainder of 2008 in that regard. Certainly in the June sales figures there was a very clear spike, and this is based not on a full breakdown across every single vehicle that incurs luxury car tax but across key market segments. We saw a 23 per cent spike in sales in those segments in June. On figures that we are getting from the industry now, sales within those segments are down 40 and 50 per cent in July, which is even greater than we had projected within the chamber, and we are anticipating that there will be something in the order of an 18 to 20 per cent reduction in sales over the remainder of the year. I think that calls into question the viability of the budget estimates in terms of the revenue impact that this measure is likely to deliver through the course of this financial year.

In fact, there is a historical precedent for that, going back to the Hawke and Keating government days and the luxury car tax. The wholesale sales tax, as it was then, was increased in the early 1990s, and within 12 months the government was forced to reverse that increase because it found that the impact on the market had been so great and the loss of sales was so significant that it did not recoup the revenue that it projected it would recoup. In order to restore that revenue base, the government was forced to rescind that previous tax increase. So there is a precedent there in that regard.

The other key concern we have is the obvious disruption it is causing to dealers and motorists in terms of how the tax will be applied. We have very clear advice on the Taxation Office website that the current law is 25 per cent and that must be applied. However, should the bill be passed in its current form the tax office says that dealers have essentially two choices: they can either seek to collect tax now—even though the law is still the law and it is still 25 per cent—and the tax office will then ask them to remit it immediately within the first tax period after the passage of any legislation; or they can not collect it and the tax office will still ask them to remit the revenue in the first tax period after the passage of any legislation.

The issue then is: what do you do in those circumstances? The vehicle has been delivered and the customer has driven off with it. What if the vehicle has been damaged? What if the purchaser cannot be found? What is the situation then? It creates enormous uncertainty in a situation where you have vehicles that are under contract and which are to be delivered several months down the track. In many instances buyers placed orders before this measure was announced. It is not like going to the shop for a can of soup or a tin of beans. There are complex delivery arrangements in place and there are insurance and finance considerations, stamp duty calculations and so on—all these are impacted by the changes in the tax rate. It is a complex process and one which incurs significant financial risk for the businesses that are selling these vehicles as well as for the motorists who are seeking to buy vehicles that are above the threshold. On that point I will rest in my comments, but if there are any questions we would be happy to seek to answer them for the committee.

CHAIR—A feature of the tax, of course, is that it is not a flat rate. It does not apply immediately the threshold is reached. It is a percentage of the sale price over the threshold. You are talking about Rolls-Royce Silver Shadows and Lamborghinis and things. The fact is that buyers of those cars will pay much more in a luxury car tax than owners of a car that is only a few thousand dollars over the threshold—isn’t that so?

Mr McKellar—The tax is applied on a percentage which is above the threshold. Two things happen: one of course is that GST is payable, and that occurs at 10 per cent right across the full price range of the vehicle; and, on top of that, above the threshold of course, you start adding the tax, currently at 25 per cent. Under this proposed rate increase that would occur at a rate of 33 per cent above the threshold. So very quickly the tax does become a significant impost. In fact there are really no other precedents, if you look around developed economies around the world, where a luxury tax is imposed at such a high level. I can look at other international experience in, say, the United States, where in 1990 they introduced luxury taxes on yachts, on some jewellery and other products and on cars in that market. They very quickly found that that had a punitive impact on a range of industries, and by 1993 the senator, from Maine, who had advocated the introduction of the tax found that the luxury yacht-building industry in his state had been wiped out. So they very quickly moved to rescind that. All luxury taxes and federal taxes on motor vehicles in that form in the United States were phased out by 2003. So we now have a situation where Australia, amongst the developed economies, is really pretty much going it alone. By international standards this is a punitive tax, and it certainly adds up to significant sums by the time you even move $2,000 or $3,000 in price over the threshold.

CHAIR—The luxury car tax has of course been in place for some time and it has not decimated any industry. In fact, anecdotally and from what I have read, it seems that top-end car sales have been growing quite rapidly. Will this increase destroy the industry?

Mr McKellar—We believe it will have an impact in the marketplace, and we are already observing that in the most recent sales figures. As you say, the tax has been in place for some time. Our concern is that the measures proposed in these bills are to increase the rate of that tax. The industry’s very strong position is to advocate the abolition of this tax in its entirety. It is a distortional tax in the market. It does cause significant disruption.

In terms of the local industry, our analysis shows that there is a significant distortion in the marketplace. If you take vehicles up to a threshold of about $70,000, more than 50 per cent—in fact, it approaches 60 per cent—of all vehicles incurring the luxury car tax fall within that range. Just below the threshold there is an equal distortion in the marketplace. The impact that that has is quite significant for the local manufacturers, because the price range of Holden Commodore, Ford Falcon, Toyota Aurion and Camry begins to push up towards that threshold. As that occurs they are moving into a space where there are more and more models, more and more brands, competing at the same price level as people try to minimise the tax burden that they incur upon their customers.

When this tax was originally introduced it was a thinly veiled protectionist measure for the local industry. These days it actually adversely impacts the industry, because it means the level of competition that those local brands are facing is more and more intense. I think you are seeing that come to pass in terms of some of the recent changes in the model mix. For example, Ford has recently phased out production of its long wheel-base Ford LTD. That is one of the vehicles that has been most impacted in terms of local manufacturers since this tax’s introduction.

CHAIR—You were talking about Commodores, Fords and Aurions. Can you me what the average price is?

Mr McKellar—There is a whole range of variants of the models that are available, but in essence, from the base model—which for a Ford Falcon currently would be in the order of $36,000 to $37,000—they range through to $50,000 and $60,000, up to $70,000 for some variants and then up to the low eighties.

CHAIR—But most families would not be buying in that luxury range. When you talk about Commodore, Falcon and Aurion, most people would be thinking about a vehicle somewhere in the high thirties or early forties.

Mr McKellar—That is entirely correct. I guess one of our concerns is that over time what we are seeing is that the threshold itself is not keeping pace with changes in the market. As I have illustrated with an example of the Pajero, eight years ago it was not a luxury car; today it is. In terms of the range of Commodores, Falcons, Aurion and so on, if you go back 10 or 15 years—certainly when the tax was introduced—there were only two locally made vehicles.

CHAIR—Is that the market responding to the demand for more luxury-end cars? I am not saying that the tax is not a factor, but you talk about the Pajero. In response to the fact that not a great percentage of four-wheel drives do go into rural and regional areas—most people are driving them around in the city—

Mr McKellar—No, that is not right.

CHAIR—carpets and other luxuries are being put in, so that has contributed to the price as much as anything.

Mr McKellar—In fact, there are two factors here. The first issue is that the indexation of the threshold is deeply flawed in a technical sense because it is based on the motor vehicle subindex in the CPI. That does not just reflect raw price movements of vehicles.

CHAIR—No; I did acknowledge that had some effect.

Mr McKellar—What is occurring over time is that the price of vehicles is changing and the threshold is not changing, which means that over time it is like bracket creep in the income tax system. If you do not continue to adjust that threshold to reflect the forces of inflation or price change in the economy then more and more people will be drawn into higher tax brackets. It is the same with the luxury car tax. What we have seen over time is that 'luxury' has been redefined. It has been dumbed down, if you like. It is pushing down in the marketplace to lower and lower spec vehicles. Over time its incidence is increasing. The sorts of vehicles we are talking about—some of the four-wheel drive vehicles in particular that I have identified—are ubiquitous in rural and regional areas. We have seen significant change over the period of 10 or 15 years in the Australian vehicle market.

Once upon a time, the term 'Toorak tractor' used to be applied and, commonly, something like that might be a Landcruiser, a Pajero or a Patrol. These days, if you pull up outside almost any private school in the country, you will see very few of those vehicles. However, if you drive out along the Mooney Highway or somewhere like that in Queensland, what you will see is a predominance of those sorts of vehicles. They are in fact stock in trade for people living in rural and regional areas; they are not predominantly used in urban areas.

CHAIR—I am not sure what private schools you are pulling up beside. The private school near me has lots of four-wheel drives pulling up every afternoon.

Mr McKellar—I am sure it does, but I would contend that very few of them are Landcruisers.

CHAIR—Okay. You talked about the delay in introducing technology, but Australia would be a very small part of the market for most of those luxury vehicles. They are predominantly made overseas, aren't they?

Mr McKellar—That is correct. We are a small market. The key concern here that we have is the introduction of those technologies into the Australian market because, for a brand to bring a vehicle with particular specifications into this market, it needs to be assured of a particular volume of sales. If it believes that the demand is not going to be there, is not going to be met, it is not a matter of despec-ing the vehicles. Let us be clear: most of these leading brands that would be bringing in these sorts of vehicles are not going to devalue their product. What would tend to occur is that, frankly, the Australian market and the Australian motorist will miss out or it will be delayed in its introduction. That is the concern.

CHAIR—So you are saying that Mercedes will not import?

Mr McKellar—I am not going to speak for a brand like Mercedes individually. They will appear before the committee at a later hearing and they can provide their own evidence in this regard. But I would observe that the issue for the Australian market is whether or not particular variants of vehicles come into the Australian market and at what point they enter the Australian market, and our concern is that, the more expensive you make it, the more disincentives you put in place and the higher you tax these vehicles, the risk is not so much that the vehicles will be despec-ed and still come into the Australian market but that they will not come into the Australian market at all or their entry into the Australian market will be delayed.

One of the issues that we are trying to promote in the Australian market currently, and which a number of state governments are encouraging the industry to promote, is the uptake of technologies like electronic stability control. That is a very good example of an emerging technology. It is now one that is gaining quite wide currency within the Australian market. It is something we all want to encourage because it has genuine safety benefits. Our concern is that, as we look to the next generation of safety technologies, we do not put in any additional imposts or obstacles that will affect the timing of the introduction of those technologies. If we do, the consequence of that is that road safety outcomes will not be as good as they could be. The industry, motoring bodies, and governments, whether federal or state, are all trying to contribute to lowering fatality rates, and if we delay the introduction of technologies by one year, two years or five years, the road toll will be higher than it needs to be.

Senator ABETZ—How is the CPIMV calculated—that is, the consumer price index as it relates to the motor vehicle? As I understand it, that has been used to allegedly index the threshold for the luxury car tax. We have seen a snail’s pace increase in that. Why is that?

Mr Reardon—The CPIMV is a subgroup of the CPI. It takes into consideration the average price of motor vehicles. Where it starts to deviate from the genuine reflection on the prices that people are paying for vehicles is that the CPIMV adjusts prices based upon quality factors. Those quality factors can take into consideration any change in specification of a vehicle and include things such as air conditioning or changes in safety equipment within the vehicle. It actually reduces the average price below what people are genuinely paying.

Senator ABETZ—You would say that the CPIMV is not reflective of the general movement in motor vehicle prices in Australia?

Mr Reardon—It is not reflective of the prices that people are actually paying for vehicles. It may serve a purpose in terms of building up an overall CPI figure for the nation, but in terms of reflecting the real prices that people are paying for vehicles, it is not an accurate reflection.

Mr McKellar—The differences in the prices of indexation under the motor vehicle subindex and perhaps the CPI as a whole can be illustrated in the chart which is on page 11 of the handouts provided. That shows that in terms of the current threshold of $57,180, as it has been since 1 July this year, had the threshold been indexed on the basis of the CPI since its introduction, in fact the threshold would now be $71,000. I think that is a measure of, at the very least, the minimum difference that we calculate in terms of maintaining the incidence of the tax. Within that range more than half of all the vehicles that are now termed as luxury vehicles have no right to be within that definition if you had just simply used the CPI. For most other indexation calculations under the Income Tax Assessment Act the CPI is used. For this one we use this index. One of the key issues we would highlight to this committee in terms of considering this bill and possible amendments would be the process for indexation and how we would seek to minimise the future risk that more and more cars are going to be captured by this tax. We would urge the committee to very carefully scrutinise the indexation process and the level of the threshold, which is also an important issue.

Senator ABETZ—In reference to your graph on page 11, why do you start with a figure of $40,000?

Mr McKellar—It is just indicative of the differences in each of those different measures.

Senator ABETZ—What was the LCT in 2001? Do you know that?

Mr McKellar—When the current threshold was introduced as part of the new tax system legislation it was just over $55,000. It has increased in that period to just over $57,000.

Senator ABETZ—Would you be able to provide us with a graph that indicates to us, if you were to start in 2001 on all these factors, with the LCT as being zero in 2001, then the CPI, the cost of a ‘family six’ and then the average weekly earning comparisons, which I found very helpful? Also could you put into that graph another column which would represent a figure if only 2.5 per cent of vehicle sales were to still be captured, because that is how it was at the beginning? It would be interesting to get that figure as well. Sorry to give you that homework.

Mr McKellar—I would be happy to liaise with the secretariat and provide that sort of information and comparisons in terms of alternative measures of the threshold which might be contemplated by the committee.

Senator ABETZ—Thank you for that. I now turn to the issue of implementation which seems a matter of great concern to the industry. I have been inundated by dealers in my home state and elsewhere saying, ‘How on earth are we going to deal with this?’ As I understand it, it would be legal for a car dealer to sell a vehicle at the moment charging only 25 per cent luxury car tax?

Mr McKellar—Correct.

Senator ABETZ—That would then have an impact on the stamp duty, because, as I understand it, the stamp duty is calculated on the LCT as well. So you do the deal and get the car registered et cetera, but say in three months time the luxury car tax does get passed as proposed, what obligation would there be in relation to the potential increase in stamp duty?

Ms Baulch—The problem is also that a lot of these cars are purchased under a finance arrangement. A lot of the finance arrangements are in place, so they have to be unwound and recalculated. You are quite correct: the stamp duty is paid on the full purchase price of the vehicle. It depends on which option the dealer proceeds with. If it is at 33 per cent—which I assume most of them are doing—the customer then also has to finance that additional eight per cent while this is being negotiated. So the complexity of unwinding these things or increasing them is profound to the customer. There are also insurance issues. The other problem is that the dealer has no empowerment to insist, down the road, that the customer actually pays the additional eight per cent when it becomes law that the 33 per cent is enforced. It places the dealer in a very difficult position when they become liable for the tax and may not in fact be able to collect the eight per cent.

Senator ABETZ—I understand the eight per cent dilemma. I think you have made that case exceptionally well. The issues have been outlined in a number of submissions: if you keep that eight per cent on trust, does that earn interest; if so, who gets the benefit of the interest, who pays tax on the interest et cetera? But, if the transaction is completed and the stamp duty is paid, what are the various state and potentially territory laws in relation to the stamp duty factor if you have withheld eight per cent from the contract price?

Mr McKellar—It is a good question. I think this is one of the areas where the guidance in the implementation of this proposed measure has fallen down. We have had, throughout this process, conflicting advice provided to the industry and to motorists. It has been unclear what the overall revenue impact would be from a delay of the legislation. There has been some confusion on the point of retrospectivity. The tax office has provided unclear advice that was difficult to interpret. And we have no advice at this stage from the respective state governments about how they will administer their stamp duty and other charges that they might impose as part of the sales process.

All of those things are of concern, let alone the issues of any interaction between GST and additional amounts, and whether any additional amount that you charge constitutes a price increase or whether it is provisional luxury car tax, and how that impacts in terms of the capital value, finance leasing, repayments and so on. All of these things are very much unclear at the moment. Individual brands and individual dealerships are having to make decisions about this and to accept varying degrees of commercial or other risk and decide whether they will absorb that themselves or whether they will pass that on to their customers. Then we have the situation where potentially, if a transaction does go through and some other factor changes in the ownership of the vehicle or the status of the purchaser, there may be absolutely no comeback at all.

This really goes to the issue of retrospectivity, and I think on that point the tax commissioner has been clear. In the tax commissioner's press release dated 23 June he says quite categorically:

…if passed at a later date, the proposed law in its present form will apply retrospectively from 1 July 2008.

The tax commissioner makes it clear that this is retrospective legislation. From that point of view, our submission to this committee is that, in the interests of clarity for motorists and for customers that are buying vehicles that incur luxury car tax as well as for the businesses that are seeking to operate in this circumstance, the clearest and simplest thing would be for any amendments that are made through passage of legislation—should that occur, should that be the view of the Senate and the parliament—to not apply retrospectively but apply prospectively.

Senator ABETZ—If the finance agreement were to be based on the full cost, including 33 per cent and also the extra stamp duty that would then be needed, then the legislation would not get passed. Would it be correct to say that in scenarios like that the finance companies usually do not give any credit for early repayment? How would that actually work in relation to the finance companies' arrangements? You might have built within the finance agreement thousands of dollars worth of LCT and stamp duty which all of a sudden are no longer payable. What are the finance companies doing—are they saying, 'In the event that happens we will simply reduce the agreement and you won't have to pay interest on all those amounts through the life of the agreement'? Do you have any experience to share?

Mr McKellar—That is another source of uncertainty in relation to this proposed legislation. Perhaps in some instances it will be a case of buyer beware. The buyer in those circumstances arguably faces a significant risk. They need to inform themselves as to what those risks are and make some judgements about that. That is one of the concerns the industry has—whether, faced with that sort of uncertainty, a buyer will be discouraged. In many circumstances, they will be. The situation there will really depend on the contractual arrangements that the buyer and/or the finance company have sought to put in place as to what the comeback will be and who will bear that risk, but the risk is there and it is having a real impact. Certainly in the evidence that we have seen in the marketplace since 1 July it has been quite significant. Some brands are reporting sales drops of 40 per cent—some of 50 per cent. We will only see the first instalment of those figures when we get the sales results at the end of this month. The committee has a public hearing on 6 August. We will have some of that evidence available, and some of the parties providing evidence to the committee may well be able to comment on that in more detail, when we get to that hearing in Melbourne.

Senator ABETZ—I think we have covered the area of risk, confusion and uncertainty sufficiently, but can I ask: what consultation took place with the industry and government prior to its implementation? From what I was told at Senate estimates I understand the answer to be 'none whatsoever'; it was a budget measure and they were not going to alert the industry. Can you just confirm that there was none before the measure was announced?

Mr McKellar—Regrettably, that is the case.

Senator ABETZ—Then since the measure was announced, what consultation has occurred to try to overcome this picture that has been so graphically painted this morning of confusion, uncertainty and risk?

Mr McKellar—To reinforce the point, regrettably, in the original announcement there was no consultation with the industry. From the industry's viewpoint, simply because something is a budget measure, that is not grounds for a bypass of sound policy process. There are a number of reviews currently underway which relate to the industry. Of course, the Bracks review is a very significant review. Equally, in the period around the same time as this measure was foreshadowed, the government indicated that it would be commencing a comprehensive review of future arrangements for the Australian tax system and we would anticipate that the whole luxury car tax arrangements, along with other taxation arrangements affecting the automotive industry, should fall within the terms of reference of that enquiry. There is an opportunity, then, to look at all those policy arrangements and we believe that it is appropriate that that occur. But, in light of those facts, it seems very curious to us and very difficult to understand that there would be no consultation whatsoever, and that we would bring in a measure for which no analysis has been undertaken as to what the impact might be or how the government's revenue objectives may be achieved through other means.

The industry is not about wrecking individual budget measures or the government's underlying budgetary strategy. When someone buys a motor vehicle, they pay significant amounts of tax as it is. The industry is not averse to working through the policy process with government to ensure that the taxation arrangements affecting the industry are fair and equitable and that the industry and motorists pay their fair share of tax. We are not averse to that at all, but we need to go through a consultative process where that occurs and where we consider all the impacts and all the implications. This inquiry gives the industry, motoring organisations and other stakeholders an opportunity to at least flag some of those issues which could have been covered in that consultation process.

Senator ABETZ—Yes, but there was no consultation immediately after the budget to try to deal with the issues of stamp duty, of who holds the eight per cent in trust—do you pay it over, do you get it reimbursed et cetera? Has there been any consultation—

Mr McKellar—As soon as the measure was announced, we started contacting the tax office to try and get urgent advice on how this would impact. The tax office has issued its opinion.

Senator ABETZ—But have state governments—the revenue offices, for example—issued their opinions as to how you ought to be dealing with the stamp duty issue?

Mr McKellar—Not that I am aware of.

Senator ABETZ—Has whatever top dog organisation it is for the finance companies been consulted by the appropriate authority—I am not sure who that would be within Australia; perhaps APRA—to tell them or guide them as to how to look after the consumer the best in circumstances where thousands of dollars may potentially be cut out of a finance agreement? So none of that has occurred?

Mr McKellar—Not that I am aware of.

Senator ABETZ—All right. Thank you for that. I will move on to a discrete area that you may be aware of: the LPG rebate. In the event that Ford, for example, puts an LPG tank into its brand new vehicles, the federal government provides a $1,000 rebate. I assume there must be some Fords that are in the luxury car tax bracket. I was just wondering how that $1,000 rebate works in those circumstances. If you have a car that would normally be under the LCT threshold but has an LPG tank put in it, which would put it over the LCT threshold and LCT would be payable but then, somewhere along the way, the $1,000 rebate comes in, do you know how that works? If not, hopefully the department or somebody else can provide us with that information.

Mr McKellar—I am not aware of how that particular situation would play out. I am aware that Ford are booked in to appear before the committee at a later hearing. It may well be that they have had some advance notice of that particular issue and can provide you with some clearer guidance when we get to the hearings on 6 August in Melbourne.

Senator ABETZ—Now the federation represents a whole raft of the sectors. Do you consider yourself to be qualified to comment on who buys the vehicles within the luxury car tax threshold area or would that be better left for the motor traders?

Mr McKellar—The chamber itself represents principally the brands, the importers, the distributors and the local manufacturers, so we are best placed to answer issues arising in respect of those members. In terms of the dealers, the Motor Trades Association and other related entities—the VACC, I think, are appearing—would be best placed to answer that.

Senator ABETZ—The dealers would have a fair idea as to who the customers are and what—

Mr McKellar—Yes. The AAA, which is a peak body for motoring organisations representing consumers, motorists, will be appearing as well. Across the board, all industry groups and all groups related to the industry have expressed concern about the impact of this measure on the industry, on the dealers and on the motorists themselves.

Senator ABETZ—What I am raising is the suggestion that those who buy vehicles within the luxury car tax threshold or bracket have been described as millionaires. I never realised that one could gain millionaire status by buying a Volkswagen Multivan seven-seater.

Mr McKellar—No.

Senator ABETZ—But I dare say that, on that basis, people owning Toyota Taragos, land cruisers et cetera would therefore fall into the millionaire category. The Australian Bureau of Statistics may well have to re-examine their definition of ‘millionaire’ according to Senator Kim Carr, who believes that this will only impact on millionaires. But we might leave that issue for the dealers to comment on.

Mr McKellar—There is information around in terms of the demographics of the buying public. We would potentially be able to provide some of that information to the committee at a later hearing. I will endeavour to have that made available to you.

Senator ABETZ—I have a stack of other questions, but Senator Bushby has some as well.

Senator BUSHBY—Thank you for your submission. On page 12 of your chart book, you look at projected sales impacts. What have you based your projections for 2008 on?

Mr McKellar—We are looking at a couple of things. We have firm figures now for June and we have undertaken an analysis of the key segments under which the affected vehicles fall. Each month the chamber produces comprehensive monthly sales figures for the industry. Those sales figures are very detailed. We break them down by individual model and then aggregate up into quite well developed market segments, some of which are distinguished on the basis of price. We have drawn out the sales impact across those key segments. The analysis here, if anything, will probably understate the full effect in June, because we have not sought to include any sales impact on some segments, such as the large car segment, which will include a range of Commodore, Falcon and other vehicles that have vehicles both under and over the threshold. So here we have just sought to draw out those segments which are pretty much predominantly entirely over the threshold.

Looking into future months, we have based the assessment of the short-term unwinding of that impact in July on the immediate evidence available from the figures and the analysis as to individual brands and what is occurring to their sales in the first part of July. We have adopted a cautious approach to that. I have to say that some of the figures that we are looking at and the feedback we are getting suggest that the July figures may be worse than we have projected here. We are then working again on a conservative basis to see some moderation, some unwinding, of the immediate impact of that through the reminder of this year. But still, when one puts all of that analysis together, you come up with a figure that, I think, conservatively is in the order of 18 per cent. One brand that I spoke to this morning advised me that they are projecting, across the remainder of 2008, about a 15 per cent reduction. At the moment that brand is absorbing fully the tax impost. So, even in that circumstance, they have expressed that concern. They may have an opportunity to provide evidence to the committee at a subsequent hearing. But I guess that is the nature of the information that we have.

Senator BUSHBY—Thank you. So it is based on some fairly robust projections. They are still projections, but they are based on some robust information on past—

Mr McKellar—In any of these analyses where we are looking into the future, of course, there is an element of uncertainty. We have tried to be cautious and conservative and we will get some further information prior to the end of this inquiry process as to the July results. I would be more than happy to provide that so that you could—

Senator BUSHBY—That would be very interesting.

Mr McKellar—have a look at what is occurring in July.

Senator BUSHBY—You have quite clearly a peak in June.

Mr McKellar—Correct. There is very clear evidence that there was a bring forward in sales—

Senator BUSHBY—Purchasers are bringing forward their purchasing decisions, which in part would account for the drop-off later in the year.

Mr McKellar—That is correct, yes. You will get an unwinding.

Senator BUSHBY—Your projections show an ongoing lower level of sales than were experienced—

Mr McKellar—Than would otherwise have been the case; that is correct.

Senator BUSHBY—Would you say that that is entirely accounted for by people bringing forward purchasing decisions, or do you think it will—

Mr McKellar—No, it is a range of factors. But predominantly it is the ongoing uncertainty in the marketplace about how this measure is being implemented and the impact that it will have which is causing consumers to be cautious. Beyond that, we would expect that a price increase would also have some impact in terms of demand elasticity, particularly for vehicles at the lower end of the threshold range. Beyond that, of course, other factors are occurring in the market which will tend to, I think, cause us to be more conservative about the outlook for sales in the second half of this year as well.

Senator BUSHBY—Given your projected 18 per cent loss, have you done any projections on how that would impact on the government tax take for LCT?

Mr McKellar—Not in detail at this stage. We can undertake some revenue analysis of that or some analysis of the likely elasticity that would result from that sort of loss in sales. Much of that will depend really on what we see occurring also in the first part of next year. But we can seek to provide an indicative figure of that, if necessary.

Senator BUSHBY—I think that would be a very interesting figure. It would be very interesting to find out what the impact or negative impact would be on the LCT. As I understand it, the increase is one of the government's responsible economic management measures, which means that they are trying to raise more cash. If they are actually going to lose it the other side, it may not be as responsible as—

Mr McKellar—I think if these figures come to pass, it will be very difficult for the government to achieve the budgetary estimates that it has published in the budget.

Senator BUSHBY—If you are able to extrapolate from those figures what it will mean as to how much LTC will or will not be raised, that will be quite useful.

Mr McKellar—Yes. As I also identified before, there is a precedent where a similar measure was implemented previously and, in fact, the government did lose more revenue than it raised.

Senator BUSHBY—That is right. That would be interesting. Just moving on, I note in your recommendations that you propose that the government consider amendments that would moderate the adverse implications of the proposed increase on key affected groups. Do I take it from that that you are suggesting that, if the increase goes ahead, some exemptions or other measures should be put in place for those groups?

Mr McKellar—The chamber's position, the industry's position, first and foremost, is that we urge the Senate and the committee to oppose this proposed rate increase. We think it is unnecessary, punitive and damaging. We urge the committee to oppose it; we would urge the Senate to oppose it; and we would urge the government to rethink this particular strategy and to work with the industry on alternative measures that might achieve its budgetary objectives. Failing that, should the committee, as a majority, not be of the view that it wishes to oppose this measure—I guess we are all political realists in this context—we would urge it, nonetheless, to contemplate a series of simple and, I think, very practical, workable amendments that would enhance the operation of the luxury car tax in the short term and would mitigate or moderate the adverse impacts of this proposed measure. We would then urge the committee to consider how the longer term future and effectiveness of the tax arrangements might be considered in the Henry review and so on.

In that regard, there are just a couple of things I would like to point out. One is the indexation issue. We do think that that requires urgent reform. The second issue—and this is a possible amendment that should be contemplated—is some adjustment in the threshold to reduce the incidence. I can provide—and I had intended to provide today—a chart which shows the incidence of the tax up to a figure of $70,000. More than 50 per cent of all vehicles that incur luxury car tax fall in that range. There could be a short-term or immediate increase in the threshold to that level. About 20 per cent of the overall revenue is in that sort of band. We think that that would take the tax back to something closer to the arrangement had it been indexed to CPI all along. That would be, at the very least, a reasonable compromise starting point to go forward with as we look at the longer term future of this tax.

Senator BUSHBY—There are a number of other things I would like to ask, but I think we are running out of time. I have one more question I do want to ask. Does the threshold at which the LCT cuts in have an effect on the way that manufacturers price their vehicles and the features that they include? Does that decrease the incentive for local manufacturers to innovate and introduce new features, including safety features?

Mr McKellar—It certainly has an impact in the market, as we see it. Our analysis would suggest that there is a clustering of vehicles around just above that threshold, as well as just below it, as you see brands seeking to minimise the incidence of the tax on their particular models. In some cases, of course, particular models just will not come to the Australian market, as we have talked about before. If you introduce any threshold like this in any market, it will create a distortion. It is no exception with this so-called luxury car tax. It does create a distortion in the market. As I outlined in my earlier comments, our analysis is that it has an adverse impact on local manufacturers these days. That impact is increasing the more the threshold fails to reflect changes in the marketplace. When it was originally introduced, it was set at a level which was, in real terms, higher than where it is today. What we are seeing now is a greater compression occurring in the market as more brands, more vehicles, move up closer to that threshold. That is certainly having an adverse impact for the local manufacturers and for all brands that operate within those segments and around that price band within the market.

Senator BUSHBY—And what about the disincentive on local manufacturers to innovate and introduce new features into cars?

Mr McKellar—The local manufacturers face intense competitive pressure in the Australian market. The Australian market is now one of the most open and competitive anywhere in the world. We have seen factors like the appreciation of the Australian dollar, rising fuel prices and rising interest rates all adding to the competitive pressure that the local manufacturers face. To the extent that this threshold is now becoming a competitive factor as well, it will adversely impact on the demand for those vehicles. Clearly a range of importers, particularly from those economies that have had the benefit of exchange rate appreciation, are able to bring in a vast array of features in terms of specification which perhaps they could not do a few years ago. So the pressure is on those local manufacturers in terms of pricing and specification. But you either compete in the market or you face the consequences. We have seen in this city earlier this year the consequences of the very tough competitive operating environment that the local manufacturers face, with the exit of Mitsubishi's manufacturing operations here. Mitsubishi are still a strong brand in the Australian market. They are selling more vehicles and probably making more money now than they ever have in the past, but it is as a full import brand and not as a local manufacturer. I question whether or not that is a good thing for the Australian automotive industry.

Senator ABETZ—I have two very quick questions, if I may. First of all, has your organisation made submissions to the Bracks inquiry and the Henry inquiry in relation to the luxury car tax?

Mr McKellar—We have to the Bracks review, and we will be to the Henry review when it calls for submissions.

Senator ABETZ—One of the things I found strange in passing was that the government had asked Mr Bracks to look at the luxury car tax and before he reported they increased it, which makes one wonder about the real purpose of the review. As I understand it, if I were to buy a motor vehicle and then the next day have a few extra options added to it, the tax man would say that that is tax evasion. But if I were to do it—I think the cut-off is three months—after I had purchased the new vehicle and have those extras added to the vehicle, it is no longer tax evasion. Is that right?

Mr McKellar—I would have to check the legal position on that. If it is a dealer-fitted option and it is included in the sale price it will incur luxury tax. There may be circumstances in which people can seek to avoid incurring luxury tax, but I would need to take legal advice on that.

Senator ABETZ—That is fine. I will not pursue that.

CHAIR—Thank you to the members of the Federal Chamber of Automotive Industries for appearing today.

[10.12 am]

BURT, Mr John Lloyd, President, Sporting Car Club SA Inc.

CHAIR—I welcome Mr John Burt from the Sporting Car Club of South Australia and invite you to make a short opening statement.

Mr Burt—Thank you, Chair. It would be really nice if we had, as sporting car automobile type clubs have, an overarching body like the previous speakers but, unfortunately, we do not. One of the dilemmas we have is a passion for vehicles and the way we use them. While the only input we want to make as a club is very much in line with the so-called Association of Motoring Clubs, which is entirely a Victorian organisation of which we are not entitled to be a member of course, we can reflect on the impact that the luxury tax has on our organisation. As one of the bigger car clubs in Australia we are unique in that we cover a diverse range of interests in vehicles, from what we call veteran and vintage through the classic to historic racing and up to and including people who race in V8s. We are going to exclude the V8 part of it because that is really handled separately. We can tell you that since the introduction of the luxury tax we have seen, if you like, a loss of the historic heritage that is very much part of the car club. We are based around motorsport at the local club level and the preservation and restoration of older vehicles. The dilemma for us is that it is now easier for our members to sell those vehicles overseas, and it is much more difficult for people to acquire vehicles from overseas. The ones I am talking about obviously qualify for the luxury tax.

In our organisation, we do not see—and we have also heard this anecdotally from others—as many cars that have played a part in our history coming back to the country; in fact, we are seeing them leave the country. We, as an organisation, do not know about it until it has happened, in which case there is no recourse. One of the very strong points that we would make, particularly in terms of the classic cars, is that the baby boomers—without being too rude, most of us in this room are of that age—are the ones who seem to have fallen in love with those cars of our youth, including those involved in racing. We have seen the advent of the investor acquiring those vehicles substantially above the price paid for them. I would hardly call them luxury: they are mongrels to drive, they are not comfortable, they are certainly not pleasant and they are not enjoyable. But we have a passion for them, and they attract the tax. The reality is that those people who are buying them as an investment are not part of the movement. They want to earn some good money, just as they could on the share market at one stage.

Our position is really a concern about the loss of heritage and the loss of availability of those vehicles. We are already seeing it in our veteran and vintage sections. The people in those sections are much older and are progressively, if I can use the expression, falling off the perch. We are not seeing new, young blood come in. Our plea to the committee is to look at the relaxation of those things as they apply to people who are involved in the preservation and restoration of these vehicles. A very big part of the business that is being affected by this loss is anyone involved in the restoration, refurbishment and rebuilding of those vehicles.

CHAIR—To make it clear: this applies to those vehicles that are imported into Australia at above the luxury car tax rate threshold.

Mr Burt—Yes.

CHAIR—Do you have any idea of how many of those vehicles that tax would apply to in the current year?

Mr Burt—The answer is no. One of the dilemmas we suffer as a car club is that a lot of our members have a number of cars, and for security reasons they do not even let us know exactly how many they have, simply because they might become targets for theft and vandalism. We have a rough idea of the number of vehicles here but we do not know where they originated from. We just do not have access to that information.

CHAIR—Let us talk about South Australia. It would be in only the tens, not in the hundreds, one would imagine?

Mr Burt—Yes.

Senator ABETZ—So that I can fully understand this: your submission says that in the seventies there was no import duty on vehicles or parts more than 30 years old. Is that right?

Mr Burt—One correction: it is not the submission from the Sporting Car Club. It was done by the Association of Motoring Clubs in Victoria, but I can confirm that it is a statement of fact and one that we support.

Senator ABETZ—Are you conversant with the Victorian submission?

Mr Burt—Yes. Fundamentally, we think they summarised the facts as succinctly as we could.

Senator ABETZ—The 30-year rule was something that you guys were happy with, because all the vehicles that you dealt with in general terms were older than 30 years?

Mr Burt—The answer is yes, but we are finding that that 30-year rule applies to a local situation here as well in terms of registration. We in South Australia enjoy what is called 'historic registration', which allows you to register a car for 25 per cent of the normal registration period. You can drive the car on the road legally for 90 days—but logbook it. The issue we have with the 30-year rule is that, as we get older, those cars will need to keep following the 30-year rule rather than just from the seventies.

Senator ABETZ—The luxury car tax only applies to those transactions that come in from overseas.

Mr Burt—Not to my understanding. My understanding is that, if that is done through a dealer process, that is a vehicle that sold over that price and the luxury car tax will apply. That may not always be the situation.

Senator ABETZ—I might be showing my ignorance here. I thought the luxury car tax only applied to new vehicles—

Mr Burt—I am sorry—you are right—and the ones coming in from overseas.

Senator ABETZ—And not second-hand vehicles.

Mr Burt—Yes.

Senator ABETZ—So it would only be the older vehicles coming in from overseas that would attract the LCT.

Mr Burt—Yes, absolutely.

Senator ABETZ—On page 2 of the submission, I think we were told that that represents about 0.4 per cent of the amount taken by Customs; is that right?

Mr Burt—That certainly is the case now simply because a lot of people are not going down that route unless it is an investment vehicle.

Senator ABETZ—So, if your sector were to be excluded, what would be an appropriate threshold? I suppose that is what I am asking. Would it be any vehicle that is more than 30 years old?

Mr Burt—I would think that that is not unreasonable.

Senator ABETZ—In those circumstances, we can ask Treasury, Customs or whoever to see how much that would impact the bottom line. From the figures from the Victorian organisation, it would seem that it would be marginal, minimal.

Mr Burt—Absolutely, yes.

Senator ABETZ—Would it be fair to say—I do not want to be rude about this, but we all have our passions that do not necessarily make economic sense in pursuing certain hobbies or whatever—that your association would have a lot of people who are not millionaires?

Mr Burt—That is a very fair comment. We do not want to be seen to be arguing against the tax per se. The implementation of it in some circumstances may be double dipping, but that is not part of the discussion here. We certainly have, I guess, an overarching club policy that we are part of the community and we need to pay the appropriate dues and taxes that are due as part of that process.

Senator ABETZ—Yes, but you would not say that your membership, socioeconomic cohort, was one which was especially privileged within our community.

Mr Burt—It would be fair to say that we cover a whole range of people in the club but, by and large, you would say that the majority were not underprivileged.

Senator ABETZ—All right, fair enough.

CHAIR—I have to say, Senator Abetz, several prominent people in South Australia are both very wealthy and very avid car collectors, but I think the majority would not be in that category.

Mr Burt—I do not disagree with that. In fairness, we do have some genuine people with passion who are certainly not in that position.

Senator ABETZ—Does capital gains tax apply if you buy motor vehicles for investment purposes?

Mr Burt—On a personal note, can I respond? I would certainly hope so, but I am not sure that in all of those cases that is—

Senator BUSHBY—I think in some states, if you trade more than a certain number of them, you can actually be classified as a dealer. It depends on the frequency of sales and things like that.

Senator ABETZ—What is the totality of vehicles that are being held in Australia? Do you have that in this category?

Mr Burt—I notice that the Association of Motoring Clubs talks about 120,000, but I would think it is significantly higher than that. They are probably talking about only the Victorian situation. But I would add that probably South Australia has a disproportionately higher number of vehicles in that category compared with the rest of Australia.

Senator BUSHBY—Thank you, Mr Burt. Before starting, I should probably declare an interest. I am a member of two equivalent car clubs in Tasmania and I am quite a passionate motor enthusiast myself. I understand that your submission is about the incidence of the tax on the vehicles, the 30-year-old cars, that you are referring to. You have not mentioned the effect that the increase of the LCT would have on decisions to purchase by your members and similar enthusiasts. I understand that you are saying you would like it removed.

Mr Burt—Yes.

Senator BUSHBY—But, if no exemption were given, what effect would the increase in the LCT have? Would it be fair to say that adding another eight per cent would make it even less viable for members to decide to purchase heritage cars from overseas?

Mr Burt—I believe that I need to be honest and I would say that I do not suspect it is going to make an awful lot of difference to that decision, because it is a passionate decision. People who make such a decision will make the sacrifices necessary. It will not be a huge disincentive for the vast majority of people, although some will be affected by it.

Senator BUSHBY—Certainly, as I understand from the submission of the Association of Motoring Clubs and from comments that you have made, the incidence of the LCT acts as a disincentive to Australians who are looking to purchase heritage cars from overseas.

Mr Burt—Yes.

Senator BUSHBY—Presumably then, if that goes from 25 to 33, some people, no matter how passionate they are, will find that that extra cost just pushes purchasing such a car over the edge and makes it unaffordable, even if they would really like to do so. It must increase the disincentive if—

Mr Burt—The short answer is yes, but I do not believe that it is going to be highly significant.

Senator BUSHBY—Why are we talking about cars that are 30 years old? As I understand it, any car overseas prior to 31 December 1989 can be imported personally. There used to be a 15-year rule, but I think a few years ago they stopped that from expanding. There is an opportunity to import cars newer than that under the Specialist and Enthusiast Vehicle Scheme. But why are we talking about cars that are 30 years old when a lot of interesting cars were made before 31 December 1989?

Mr Burt—I think it is simply a matter of what has been used as a classification scenario in this country. The number 30 by itself does not mean terribly much.

Senator BUSHBY—I think what you propose makes a lot of sense. The clear cut-off point of 31 December 1989 was decided, and you can import cars dated prior to that. It would make sense to me that a car that is imported which is over that threshold is going to be a fairly special car. If it is almost 20 years old and is still over that amount, it must be an enthusiast's car of some sort. For people to want to spend that sort of money on a car of that age, it would make sense to also extend what you are asking for to cars up to that point.

Mr Burt—Yes.

CHAIR—Thank you, Mr Burt.

Proceedings suspended from 10.28 am to 11.02 am

CHAPMAN, Mr John Clifford, Executive Director, Motor Trade Association of South Australia

CHENEY, Mr Marc, Board Member, Motor Trade Association of South Australia

CLARIDGE, Mr Michael, Treasurer, Motor Trade Association of South Australia

CHAIR—Mr Chapman, do you have an opening statement?

Mr Chapman—Yes, I do. I am accompanied by Mr Marc Cheney and Mr Michael Claridge. Both gentlemen are longstanding members of the Motor Trade Association of South Australia and are significant car dealers in the Adelaide region. On behalf of the motor trade association I would like to thank the committee for the opportunity to present our submission on what we believe is a fundamentally flawed tax.

The MTA represents 1,000 members, who are predominantly small business and multisite owners in the motor trades in South Australia. Of that membership, nearly 100 are new and used vehicle dealers, covering nearly 136 sites. They are represented by an affiliated trade association, the Australian Automobile Dealers Association. They are a very large employer group in our association, accounting for more than 3,000 full- and part-time employees directly. Approximately half of our membership is regionally based. The role of the association, in brief, is to raise the awareness in the community of the retail motor trade's significant contribution to the South Australian economy and to convey and promote to governments the interests of retail motor trades. We are a large employer in our own right, with a total of 560 staff, including, currently, 521 apprentices and trainees, hosted at more than 280 employers around South Australia.

The motor vehicle is an integral part of the South Australian community, with currently more than 1.15 million vehicles registered in this state. We have the dubious record of having the oldest motor vehicle fleet on the mainland. The growth in vehicles registered has been much lower than in other states. Queensland's average annual growth was 4.4 per cent while South Australia has been of the order of 1.8 per cent. That is between 2003 and 2007.

Our statements today are consistent with those provided to the committee by the AADA nationally and, for the benefit of the record, I seek to table a copy of that submission. We make the following five recommendations to the Senate committee: that the luxury car tax be abolished; failing its abolition, that the luxury car tax threshold be increased to $100,000; that the retrospective application of the additional luxury car tax impost be removed; that consumers be encouraged to purchase vehicles which offer safety, environmental and vehicle security benefits; and that accessories be removed from the luxury car tax valuation calculation.

The AADA considers the LCT to be both discriminatory and unfair, both in its application and through the significant compliance burden placed on dealers. No other goods attract such a tax. Other luxury items such as artwork, boats or jewellery are not similarly penalised. Adding to this unfairness is the inclusion of the GST amount within the luxury car tax threshold, equating to a tax on a tax. AADA believes that, with the introduction of a GST, the imposition of this tax has no place in a fair taxation system, which taxes goods and services across the board at a standard rate. For these reasons, AADA and the MTA continue to seek the abolition of the LCT. Failing that removal, AADA seeks a significant increase in the threshold level of the luxury car tax.

I will turn now to the issue of regulatory burden. Retrospective application of legislation is unfair and places dealers and affected customers under considerable administrative and financial burden. Should the legislation pass the parliament in its current form, dealers will have to collect the additional tax of LCT on all vehicles delivered on or after 1 July 2008. The Australian Taxation Office has advised that moneys can be collected in the following ways: at the time of purchase or delivery and held in trust by the business until such time as the legislation has secured passage; at the time of purchase or delivery and forwarded to the ATO; or after the legislation has secured passage and the customer has already taken receipt of the vehicle. I will just paraphrase that: it is a dog's breakfast.

AADA anticipates that the new arrangements will cause some difficulty for dealers—in fact, they already are, in their attempting to collect the additional impost, as there is no legal requirement for them to do so or for their customers to pay. The AADA understands that the ATO has advised that the 25 per cent should be included in the appropriate BAS and that the additional eight per cent should be held back by the dealer and that, once the legislation has passed, the eight per cent should be included in the next business activity statement, ensuring that dealers will not attract any penalties or general interest charges. However, AADA also understands that, should the legislation fail to secure passage, the eight per cent will need to be remitted to affected customers.

Many of the vehicles captured by the luxury car tax offer additional safety and environmental benefits such as electronic stability control, active traction control, additional airbags, enhanced vehicle security, greater fuel economy and reduced tailpipe emissions. These technologies and accessories are either features of the base vehicle model or purchased as an add-on. In either scenario, these technologies/accessories add to the vehicle's price, potentially capturing it within the LCT threshold or increasing the amount of tax. For example, a Mitsubishi Pajero 3.2-litre manual retails at $56,890. The addition of side and curtain airbags, $850 recommended retail, brings the total cost of the vehicle to $57,740, exclusive of luxury car tax or on-road costs. The luxury car tax on the vehicle, including additional side and curtain airbags, would equate to approximately $184.80.

The AADA notes the following passage from the Parliamentary Library *Bills Digest*:

> The timing of the increase in LCT coincides with the Bracks Review of Australia's automotive industry and the government's efforts to attract R&D for an Australian built hybrid car. As part of the review, current assistance arrangements are being examined as are options for continued support to the industry and a final report is due by—

the end of this month. It continues:

> Funding for the $500 million Green Car Innovation Fund in the 2008-09 Budget and the increase in LCT which will raise $555 million foreshadow the government's intention to take pre-emptive action to support the local industry by increasing the cost of imported luxury cars and investing in production of an Australian hybrid car.

The LCT increase has pre-empted the findings and recommendations of the review of Australia’s automotive industry and the final outcome of the Garnaut climate change review. The proposed increase in the rate of luxury car tax also fails to recognise that consumers who buy vehicles within the LCT threshold often have little choice in what they buy. Rural and regional motorists are impacted by the LCT, as many small or mid-sized passenger vehicles do not suit the terrain in which the vehicle will be driven. For example, the federal member for Kennedy, the Hon. Bob Katter MP, spoke of how his daughter rolled her vehicle travelling from Mount Isa to Charters Towers, an accident he thought could have been avoided had she been driving a vehicle with a wider wheelbase. He went on to say:

> In its wisdom, for the past 20-odd years, the government of Australia has allocated members in rural areas very wide wheelbase vehicles. The reason for that was the tragic death of the wife of the then member for Riverina—a good friend of my father’s—and it was decided that where we were driving great distances in country areas, we needed a bigger and more stable car. The very wide, big cars were made available to us. If we applied those rules to ourselves, for our benefit, it is terribly unfair for us to say that people should be charged a punitive tax for adopting exactly the same principle. It is really bad that we would set one set of rules for ourselves and another set of rules for other people.

The AADA notes that four of the eight vehicles that won their class categories in the 2007 National Motor Vehicle Theft Reduction Council Secure by Design competition are captured by the LCT. These include the Subaru Liberty, the BMW X3, the Audi A8 and the Audi Q7. Whilst it is AADA’s preference that the luxury car tax be abolished, the association has long advocated for a substantial increase to the threshold—since 1991, when the Hawke government increased the luxury vehicle sales tax applied to vehicles above a price of $43,000 from 30 to 50 per cent. Since that time, inflation has pushed the true value of that threshold value to something in the order of $131,000.

The luxury car tax has significantly distorted the vehicle accessories market. Currently, the method by which LCT is calculated includes the value of additional accessories sold with the vehicle, such as roof-racks and tow bars. This inclusion of accessories within the method of valuing vehicles results in market distortion, as customers can reduce or avoid luxury car tax by having such accessories fitted by aftermarket suppliers. As a result of this distortion, customers have a real disincentive to include accessories in their new vehicle purchase, often resulting in lost business and revenue for the dealership. The AADA considers that this distortion in favour of aftermarket suppliers is unfair, and recommends that accessories be excluded from the luxury car tax valuation.

In summary, we believe our arguments for a fairer system of taxation are based on good policy arguments, and we trust that in your deliberations you will come to a conclusion which provides change which is equitable not just to our dealers but also to motorists of South Australia. We welcome the opportunity to answer any questions you may have.

CHAIR—Thank you, Mr Chapman. You and others have talked a lot about safety and environmental initiatives being led by the higher end cars which will now fall into the luxury threshold. You also spoke about the Bracks review and looking at various subsidies and taxes on the car industry. It seems to me that there might be a more efficient way to improve the level of safety and environmentally sound technologies in cars other than allowing people who can afford higher end cars to buy them and then having that drifting down, hopefully, to the bulk of the motoring population. Perhaps it would be a far more efficient way to get the Bracks review to look at how else that might be encouraged?

Mr Chapman—We have certainly made submissions to the Bracks review, but I think one of the issues we would argue is that there is an artificial barrier there. The makers to some degree will try and build a car to a price. What we do find, particularly at the top end of the vehicles, is that they bring in cutting-edge technology in a whole range of areas, be it safety, environment or fuel efficiency. I suppose it is probably an offset from Formula One racing—that absolute top level, which is horrendously expensive. The research and development that go on at those high levels eventually flow through to the lower end. For example, airbags, one of the major safety initiatives, were put in expensive vehicles in the first instance and then, as the value that that technology added to safety was realised, it has filtered down the chain. I think there are a number of ways you can do it. What we see at the moment is an artificial barrier there that we do not believe is appropriate.

CHAIR—Isn't that exactly the point—that, as you say, it filters down the chain to people who cannot afford luxury cars? Why should it be the case that they have to wait? Wouldn't it be better to have incentives at an earlier stage, whereby safety features could go in for everyone, rather than for the high end first?

Mr Chapman—The whole area of innovation is very complex in terms of the incentives that you provide to manufacturers in this country. Ideally everyone should get safety features at the same time, but the reality of the marketplace dictates that, at the high end, people are paying more money, they get more car and they get value for that car. Why should they be taxed? Why should that market be taxed and why should, potentially, Australians be excluded from buying certain vehicles because overseas manufacturers look at the situation and say, 'It is not worth bringing it into that market or modifying it to that extent'?

CHAIR—So you think that, for example, manufacturers of Australian cars—Holden, Ford, Toyota—would not take up technologies that have been proved in higher end cars if they had not filtered down through the luxury cars?

Mr Chapman—I think they are going to have great difficulty taking them up if it is going to push them over the luxury car tax barrier. It is an equation of trying to sell cars. At the moment, there is a psychological barrier. So the manufacturers will mix and match to suit the marketplace.

CHAIR—But there is currently a luxury car tax in place, and that does not seem to have stopped technology being taken up in that low- to mid-range group. Most cars now will have airbags. A lot of cars, even quite cheap cars, will have better braking and stability measures in place.

Mr Chapman—That was all led at the higher end. What we are saying at the moment is that you are creating a further burden on that higher end market, and what you potentially may see is manufacturers withdrawing from that market, thereby denying those technological advances.

CHAIR—Those manufacturers are mostly Japanese, European or American manufacturers for whom the Australian market is a very small percentage. Do you think that is enough—the few thousand cars they might sell here—to stop them bringing in those innovations?

Mr Chapman—If it pushes them into a new taxation range and makes the vehicle less competitive with other offerings then perhaps they may choose not to bring it in.

CHAIR—In terms of the implementation of the tax, you are saying that there is a problem with whether you should or should not charge the additional eight per cent. We are now past 1 July. Have you had any examples of where customers have refused to pay it?

Mr Chapman—I have heard anecdotally of a couple who have said, ‘No, I’m not paying it,’ and have backed out of the sale. They will wait and see what happens in the legislative process.

CHAIR—I am talking about someone who has bought a car and gone through with the contract—they have been asked to pay the additional eight per cent before the bill is passed. Have you heard of anyone not agreeing to pay that additional eight per cent and saying, ‘Take off the eight per cent’?

Mr Chapman—No, I have not.

Mr Cheney—We certainly have had one customer send us a letter from their solicitor setting out how he did not believe he was obligated to pay the extra tax for a vehicle that had been ordered prior to the budget. We have since incurred a fair cost in having some legal agreements drawn up so that we can attempt to collect it retrospectively.

CHAIR—So that was ordered prior to the announcement of the additional tax but was not delivered until after 1 July.

Mr Cheney—That is right.

Senator ABETZ—Do you represent second-hand dealers as well?

Mr Chapman—Yes, we do—not through the AADA, though; it is a separate division of the Motor Trades Association. Generally every one of our new-car dealerships would have a used-vehicle licence.

Senator ABETZ—Have you made a submission to the Bracks review in relation to the luxury car tax?

Mr Chapman—Not as a state body. We have provided a national submission.

Senator ABETZ—Can I pursue the issue that the chair canvassed with you, and that is the difficulties of determining what to charge the purchaser at the moment. Have you had any discussions with the state government in relation to the stamp duty component that you should be charging? I put it in this context: the customer—as Mr Cheney was referring to—may have paid the 25 per cent luxury car tax and you may have some agreement to quarantine the eight per cent extra, but of course the stamp duty is payable on the total price, including the luxury car tax component. How is that going to be worked out with the stamp duty office in South Australia? If you have done a deal on 25 per cent and they have got delivery of the car, stamp duty being paid, an extra eight per cent being paid on the LCT then would have stamp duty implications as well. How is that being managed? Or isn’t the state government alert to it?

Mr Cheney—At this stage, it is the first customer we have had. We did consider that aspect and, at this point, they have just paid the stamp duty on the 25 per cent. But we are well aware that that will need to be dealt with retrospectively and, as such, we have not had any discussions with the state government. It is something that John probably needs to—

Senator ABETZ—The next question, of course, is: in the event that they do pay the 33 per cent, which then flows on to the stamp duty, and the parliament in its wisdom decides to drop or somehow change the increase, the threshold or whatever, the actual tax liability may be decreased, as a result of which the stamp duty liability will have decreased and the purchaser will get a return of some or all of the LCT that they have paid, but what about the extra stamp duty they have paid? Has any arrangement been made whereby that will be reimbursed by the state government?

Mr Claridge—Most of our vehicle contracts have a clause which covers changes in tax regimes and points out the fact that the customer is expected to pay the ruling amount at the time. In the case of stamp duty, it is quite clear in legislation that a dealer cannot profit from stamp duty fees. So in the case of a reduction in the LCT we would be obliged to recalculate stamp duty and refund it.

Senator ABETZ—Yes, but you would not be profiting from the stamp duty; it would be the state government that has got the revenue and was not entitled to that amount. So how is the purchaser of the motor vehicle going to be reimbursed?

Mr Claridge—We would have to apply to the commissioner for a refund and reimburse the customer.

Senator ABETZ—Which is all very confusing and messy.

Mr Claridge—Exactly.

Senator ABETZ—Mr Claridge and Mr Cheney, you both undoubtedly deal with finance companies as well, to assist people to get into these new vehicles.

Mr Claridge—We do.

Senator ABETZ—Some of these finance companies would be prepared to finance the totality of the purchase?

Mr Claridge—That is correct.

Senator ABETZ—And the totality of the purchase, of course, includes all aspects of it, including the GST and the luxury car tax. So that is all built into the monthly payments. In the event that the price is reduced, how is that going to impact or play out in relation to the finance agreements? Will the customer have to keep on paying a percentage on the extra purchase price, if I can use that term, which then no longer applies? Have the finance companies been discussing with you how that can be resolved?

Mr Claridge—We have not actually explored that at this point, but I think it is safe to say that a finance contract is generally quoted in the first instance, and then the documents are drawn up immediately prior to delivery and contracts are signed and agreed to. So one would hope that at some point that the final amount will be known. If a customer is taking delivery from 1 July until such time as the decision is made and it happens that the amount of tax is reduced and the contracts are drawn up on the new amount, I think the only course of action generally available to the customer would be simply to apply the refund that he would get from the dealer to the financed amount in the first instance.

Senator ABETZ—But usually with the finance companies, as I understand it, you cannot in fact reduce your ongoing monthly repayments by making a lump sum payment. You cannot pay off your loan, for example, if you win Tattslotto. You cannot bowl in and say: 'Right. I just want to pay this out and not incur all the interest charges.' As I understand it, that would not necessarily occur.

Mr Claridge—There are prepayment penalties that apply; however, given the amount involved, it would probably be deemed as an additional payment through the cycle of the term of the loan.

Senator ABETZ—It depends, doesn't it, on the vehicle**—**

Mr Claridge—The amount.

Senator ABETZ—If we get into the more expensive vehicles, we could well be talking about thousands of dollars, and that is where it could impact. Mr Claridge, you are a dealer—of what sort of vehicles and brands?

Mr Claridge—We are dealing with Holden.

Senator ABETZ—Mr Cheney?

Mr Cheney—Peugeot, Porsche and Suzuki.

Senator ABETZ—That is a mix from Porsche to Suzuki. There has been some commentary as to the associated demographic that people fall into who buy cars that are in the luxury car tax bracket. It might be fair to say that those that buy, say, Bentleys, Porsches or cars of that nature might fall into the category of being described as millionaires, but I do not know if there are any Suzukis that fall into the luxury car bracket.

Mr Cheney—No.

Senator ABETZ—No, I do not think there would be, but some of the Peugeots undoubtedly would do.

Mr Cheney—Correct.

Senator ABETZ—Would it be fair to describe the whole demographic that walks through your dealerships buying cars that fall into that luxury car threshold—just from your personal knowledge of them—as millionaires?

Mr Claridge—I can definitely say in my case: no. The average Holden purchaser is looking, in our case, to reimburse themselves for generally a lifetime of hard work. They are looking at a vehicle that will give them comfort, safety and security, with a few little luxuries—there is no doubt about that. Would I class them as millionaires? No; they are average people from wide-ranging walks of life.

Senator ABETZ—You mentioned the extras, and I have it in the back of my mind—and correct me if I am wrong—that if I buy a car with, say, a bullbar, tow bar and roof racks as extras that will all be added into the purchase price, which has GST, luxury car tax and stamp duty implications on the purchase.

Mr Claridge—That is correct.

Senator ABETZ—To have those extras fitted afterwards, I would have to go to an outside dealer or a completely separate entity to have that done or wait for a period of three months for those extras to be added on. Is that correct?

Mr Claridge—Those are the two avenues available. On the time span of three months, I have to admit I am not 100 per cent sure.

Senator ABETZ—You are not aware of that. Right.

Mr Claridge—During the negotiation process with a customer the question of where do I stand with the luxury tax on accessories often comes up. Quite often, it becomes a point of negotiation that affects our margin. Clearly, the customer is trying to avoid paying the additional tax. Particularly for those vehicles that are just on the borderline of incurring the tax, it becomes a real negotiation nightmare, I would have to say. It is terribly complicated. Computer systems do not cope with it very well because of the variables that are applied. Consequently, often what will happen is that the either the customer will walk away and decide to think about having the accessories at some later date and probably by some other supplier or we are in a position where we are often pressured to make adjustments on the customer’s behalf. By that I mean hiding the transaction, which does not sit too well with the dealer, but it is a fact of life.

Senator ABETZ—Did the Australian Taxation Office proactively approach the two dealers at the table about how to administer this proposed law or did you, through your association, have to approach the tax office to provide some ideas about how to administer it?

Mr Chapman—I will answer that. When it first came to our attention, we got onto our national body. As we were coming up to 1 July, it was becoming critical. We got a number of excuses back, such as, ‘The draft’s been done, but it’s sitting there waiting for approval.’ So we did not receive the advice until quite late, which made it somewhat difficult to get it out to our dealers. So we have had to be proactive in pushing the tax office on this one.

Senator ABETZ—In relation to those vehicles which fall within the luxury tax threshold, did the two dealers represented at the table experience a spike in sales of those vehicles that were on the floor to get them out of the door by 1 July?

Mr Cheney—We did not.

Senator ABETZ—You did not.

Mr Claridge—No. It was interesting, because after the budget announcement we expected, I suppose, that we would get increased inquiry and demand. But that did not eventuate. The discussions that I have had with industry suggest that it did not seem to have an impact on demand, which is surprising.

Senator ABETZ—Yes. What about after 1 July? Demand—

Mr Claridge—It has ceased—

Senator ABETZ—It has ceased. So while there has been—

Mr Claridge—probably through other factors, though.

Senator ABETZ—As well. Yes, that is quite possible. So neither of you sell Audis or Jaguars. Is that right?

Mr Claridge—Correct.

Senator ABETZ—Are the parent companies of either Holden, Peugeot or Porsche agreeing to absorb this potential increase for a period of time?

Mr Claridge—No.

Mr Cheney—No.

Senator ABETZ—Not for either of you. An advertisement on the front page of the *Australian Financial Review* for Audi which said in the very small print 'to experience the new class of driving for yourself and to take advantage of Audi covering the luxury car tax increase simply contact your nearest dealer'. They are prepared to absorb the extra luxury car tax on any vehicle delivered between 1 July 2008 and the Senate committee meeting on 26 August 2008 inclusive. I wondered how widespread that was. Jaguar are also advertising—albeit with no reference to the Senate committee—that they will cover until 30 September. I was wondering how widespread that might be. But Holden, Peugeot and Porsche, at least, are not offering that to the two dealers represented at the table.

Mr Claridge—At this stage, I have not heard of our marketing arm of Holden using that tactic. I think that it has a negative connation, so I would be happier if they did not.

Senator ABETZ—Thanks for that.

Senator BUSHBY—Thank you for your submission. I will focus on just a couple of points. I note that in your submission you say that many of the vehicles captured by the LCT offer additional safety and environmental benefits, and you have a list of some examples. I might run through each of those and put on the record what those benefits are. What benefits does electronic stability deliver?

Mr Chapman—The electronic stability control is one of the major areas that has gone from the very top end of the market zooming right through to the other end of the market because the technology is so good in terms of safety. It gives the computer the ability to take control of the vehicle and prevent a rollover. When it senses that the vehicle is sliding, it automatically adjusts and almost takes over from the driver. Fortunately, I have not had the experience of it working, but I am told by people who have that it is the most sensational thing.

Senator BUSHBY—It saves lives.

Mr Chapman—Yes.

Senator BUSHBY—What are the benefits of active traction control?

Mr Chapman—It is the same sort of thing. It provides the ability to control wheel spin, which is something that can put a car out of control very quickly. If you put your foot to the floor and the wheels spin, that can sidetrack very quickly, particularly in wet conditions. The active traction control takes over. I have had that experience. You put your foot down, and this takes control and takes it out of the driver's hands for safety.

Senator BUSHBY—What about airbags in general and additional airbags?

Mr Chapman—From the research and my discussions with safety organisations, the additional airbags are again features that save lives and save severe injury. You are seeing more manufacturers incorporating more and more airbags in their vehicles—side and curtain as well as front. The technology does not come cost free, but it is being incorporated because it does save lives.

Senator BUSHBY—What about enhanced vehicle security?

Mr Chapman—Importantly, one of the problems that the industry faces is the theft of vehicles. Through the work of the National Motor Vehicle Theft Reduction Taskforce—and we as an industry association work closely with that group—there has been a lot of work done on vehicle security. It is now very difficult to steal a late model car with the computer key codes and the security fitments fitted. People can still break in, but whether they can move it now short of having a tow truck—

Senator BUSHBY—Presumably, that has an effect on the insurance industry and underwriter's premiums and—

Mr Chapman—Absolutely. There is less theft of vehicles. Indeed, in the areas, the safety aspects mean fewer accidents and that lowers costs in terms of insurance as well as the human aspect.

Senator BUSHBY—Greater fuel economy and reduced tailpipe emissions are pretty obvious benefits, particularly in the context of climate change and issues like that.

Mr Chapman—The environmental aspects are important. The R&D critical to this is important, but it comes at a cost. Technology has now well and truly moved on. Most of our apprentices—520 of them, as I have indicated—at our group training scheme have never seen a carburettor. It is now fuel injection. They are much more efficient, obviously, with the computer control. Again, that has come at a price but it is of great benefit to the environment.

Senator BUSHBY—You note here that many of the vehicles captured by the LCT include these features. My understanding is that most of these features were developed and introduced first in terms of a road-going car in the Mercedes S class, including ABS as well and airbags and so forth. Cars like that were where you would have seen these first on the road.

Mr Chapman—Yes. That is a point that I was making earlier. It is generally at that top end of the market that you see the cutting-edge technology coming through.

Senator BUSHBY—Would the reason for that be because the development of these systems is hugely expensive and the cost per car you put them in is quite significant and it would not be economically initially to put them in low-end cars?

Mr Chapman—That is a fair assessment. It is probably a question best directed to the manufacturers. But if we look at history and where the development has taken place, it has been in the high-end cars.

Senator BUSHBY—Given the huge up-front expense of developing such innovative additions to cars, presumably car manufacturers would only invest that money in the likelihood that they were going to get a return out of it at some point. Would that be a fair comment? They would not be doing it out of the goodness of their hearts. Overall, they would be trying to gain a competitive edge with better safety or to deliver something which, ultimately, would feed into their business.

Mr Chapman—I think it would depend on the manufacturer. Ultimately, business is business, but the different corporate cultures that may be, ‘We are going to be the safest car in the world,’ may be underlying in terms of their overall marketing.

Senator BUSHBY—But ultimately it would be so that they could actually go out there and say, ‘We’ve got the safest car in the world’?

Mr Chapman—Absolutely, yes.

Senator BUSHBY—So, as I see it, the main driver for investing in these things is that it is a business. The market works well. There is an incentive for companies to develop better features, which ultimately they cannot introduce to all cars because, up front, they are expensive, but, once introduced and proven, economies of scale will kick in and make them more cost-effective so that they can filter down into the lower end cars. Would that be a fair summation of how you would see that working?

Mr Chapman—I think so. Perhaps, again, looking at the Australian situation and Australian manufacturers: are they going to continue to invest significantly at that upper end, knowing that they have a market barrier in terms of a tax? We have said we believe that is inequitable and certainly should be raised. I do not know what the views, for example, of Holden as a manufacturer are, but I would say that they would see this as a disincentive to them continually trying to up-spec their vehicles. As to whether that would mean that they would focus at levels under that, I think these are questions that perhaps you might want to direct to the manufacturers.

Senator BUSHBY—I am sure that, when the opportunity arises, we will do that. It has been suggested earlier today to you that there might be more efficient ways of developing such technologies rather than the market doing it on the basis—which we have just discussed—of developing it to be the best in safety or to be the best in whatever, which gives manufacturers a competitive edge in that sense. Can you see any other, more efficient ways where such technologies could be developed, other than through the market?

Mr Chapman—I think there are various ways you can develop technology. It is the commitment and the ability of the manufacturers to commit to R&D. You get back to that R&D issue, which the Bracks review will no doubt be addressing, which is pivotal in terms of incentives. But, at the top end, there are whole different reasons. That is why, I suppose, again you see that the innovation has actually come from the very expensive end of Formula One. That technology—the braking technologies, the whole range of things—has flowed through. Sure, there are some marketing aspects, but, for example, your Hondas and Toyotas of this world would not spend hundreds of millions of dollars in Formula One if they did not think they could get some edge back both from marketing and also from manufacturing and the product they produce.

Senator BUSHBY—It would also be the case, wouldn’t it, that there are a number of ideas of things that could be developed, but those that actually make it into cars in the end would be only a small subset of those—that even some of the stuff that is tried on the top-end cars does not necessarily make it into the lower end cars, because it does not work or it does not work as well as they thought or it is not as good an idea as it initially seemed?

Mr Chapman—I think the world is littered with some great ideas that have never translated through.

Senator BUSHBY—Particularly in terms of features, but the market sorts out which ones are going to appeal and which ones will not in the longer run—

Mr Chapman—Correct.

Senator BUSHBY—rather than it being imposed on people by a policy decision of government or so forth.

Mr Chapman—Exactly, yes.

Senator BUSHBY—One other point, coming back to some stuff that we were talking about earlier as well, is about importing cars that may have some of these features. Would it be fair to say that, in the past, maybe because of the LCT or past levels of import duties on cars, there have been cars imported into Australia of a particular model that have not had features that have been included in other markets?

Mr Chapman—It is my understanding that that has occurred. I could not give you specific examples, but I have heard that some manufacturers have tailored their offerings to the Australian market based on obvious price points, as they do in a whole range of areas, but luxury car tax would be a consideration.

Senator BUSHBY—And that tailoring may at times have included older engine technology, older brakes or things like that for a number of reasons—potentially including the level of import duties—or the LCT itself may have been included when considering whether to include the latest technology.

Mr Chapman—Again, it is probably a question best directed to the manufacturers. I am not sure we can go much further than what I have said on that.

Senator BUSHBY—Thank you.

CHAIR—Could you, Mr Claridge, tell me what would be the price of the medium-volume car that you sell, the medium Holden?

Mr Claridge—Across all model ranges, it probably would fall in the bracket of around $28,000.

CHAIR—Mr Cheney, what about for Suzuki and Peugeot?

Mr Cheney—For Suzuki—and there would be a bit of guesswork in this—it is probably around the $18,000 to $19,000 bracket; Peugeot is probably around the $27,000 to $28,000 bracket; and, on average, Porsche is probably closer to the $140,000 to $150,000 bracket.

CHAIR—So the kinds of cars that families would purchase—those families that can afford new cars—would be well under the luxury car tax.

Mr Chapman—It probably depends where the family is. What we find, particularly in country areas, is the four-wheel drive, for example, is a must because of the distances covered. A reasonable four-wheel drive vehicle is in the price category that now brings it into the luxury car tax, and it is certainly not a luxury car.

CHAIR—So what vehicle would that be?

Mr Chapman—If we are looking for an example: a Toyota LandCruiser or some of the Nissans at the top end.

CHAIR—Is that the base model LandCruiser?

Mr Chapman—I am not a Toyota dealer, but a reasonable model Toyota LandCruiser would go over that luxury car tax level.

CHAIR—But not all models.

Mr Chapman—No, there are different models of Toyota four-wheel drives.

CHAIR—There has been an increase in recent years, hasn't there, in cars that fall into the luxury car tax threshold?

Mr Cheney—Certainly, there has.

CHAIR—That is despite the existing luxury car tax. We have had evidence from the Federal Chamber of Automotive Industries that, because of the increase in the threshold of the luxury car tax, they expect a decrease in sales of luxury cars. Given that sales have been trending upwards, would you nevertheless expect that because of this tax increase there will be a decline in the sales of luxury cars?

Mr Chapman—Based on my feedback from dealers in the last few weeks, there has been a dramatic decline in terms of sales and the market. I think we have touched on whether it is related to this or a whole range of other factors, but you throw this one in and there has certainly been an impact. Probably our point is that the actual current threshold level needs to be reviewed. If the government is going to persist with the luxury car tax, the current level needs to be reviewed because it has not kept pace with changes.

CHAIR—We have just heard that most car sales are well within the luxury car tax threshold in any case.

Mr Claridge—Our current exchange rate and the way it has changed over the last two or three years has enabled manufacturers and importers to market their vehicles at substantially lower price points. So, if we were to incur a change in that rate back to in the order of what we saw five or 10 years ago, the landscape would be vastly different when it came to vehicle sales. That needs to be taken into account when you start thinking about the point at which the tax is implemented.

CHAIR—Mr Cheney, you have a mix in your dealership of luxury and lower end car sales. Would most dealers have that or would there be a substantial number of dealers who are solely in the higher end?

Mr Cheney—There would be a range from those solely in the lower end to those solely in the higher end. When you are talking about the higher end, we can use Porsche as an example. Our four-wheel drive, which is sold to families—albeit families that have worked hard and can afford such a car—is under $100,000. Probably two-thirds of LandCruisers, which I do not think anyone would consider a luxury car, available range between $80,000 and $100,000.

I think some consideration needs to be given to what we are defining as a luxury car. That comes back to the point about the threshold. I think when the threshold was introduced it was designed to capture more of those top end vehicles, where now it is capturing what most people would consider a fairly ordinary vehicle.

CHAIR—So most people would consider a fairly ordinary vehicle—

Mr Cheney—I am not talking about a Porsche; I am talking about a LandCruiser as an example, or a Holden Statesman. I do not believe that people would consider those two vehicles to be top end vehicles.

CHAIR—I would beg to disagree with you there, but perhaps you see a different demographic than I do.

Senator ABETZ—Without picking on the range of vehicles that you sell, is it true that the Holden basically is a five-seater model?

Mr Claridge—That is true.

Senator ABETZ—Moving to you, Mr Cheney, you would not describe the Suzukis, the Peugeots and especially the Porsches—other than possibly the four-wheel drives—as people movers?

Mr Cheney—No.

Senator ABETZ—So, if you have got mum and dad and three or four kids, or you have got mum and dad and two kids and, let us say, an elderly parent living with you and you want to take one friend along with you, you then get into the category of needing a people mover, and that is where the Toyota Prados, LandCruisers, Taragos et cetera all come into their own. Would it be fair to say that, in general terms, the people movers start edging you up into the luxury car bracket, albeit the two representatives at the table do not necessarily represent that section of the market?

Mr Cheney—I think that is a fair comment.

Mr Claridge—I think the interesting thing about this tax is that it does distort the market. A manufacturer may wish to place a vehicle to market at a certain price point based on a certain volume. If, because of the tax, they do not foresee that they can achieve that volume at that price, they simply will not do it. So it could be that there are some models, given there might be different options or features to achieve a particular price point, that we may not even be seeing in this country at the moment because of the luxury car tax, because they fall just around the threshold point, and the volume projections just do not justify the risk involved in bringing them in.

Senator ABETZ—Can I develop an issue that Senator Bushby raised, and that is the issue of innovation. It would be fair to say, wouldn't it, that you would stifle research and development and innovation if you put an extra tax on those motor vehicle builders that enter the game of innovation, and therefore their vehicles are more expensive, but you do not tax those companies that do not bother innovating and just follow the technologies that might be available? You are not going to be encouraging innovation—be it in safety, environmental or any other concerns that there might be within the sector—if those that innovate are taxed higher. That stands to reason, doesn't it?

Mr Chapman—Yes. I do not think we would disagree with that.

CHAIR—Thank you to the Motor Trades Association of South Australia.

Committee adjourned at 11.55 am