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Senate Economics Legislation Committee

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Dear Committee

Thank you for the invitation to make a submission to the inquiry into Treasury Laws Amendment (Tax Incentives and Integrity) Bill 2024. I have attached a short report that might help the committee.

Thrower, J. (2024) *Luxury Car Tax and the ute loophole (relating to Schedule 1 of the Bill)*

This report criticises the exemption of big utility vehicles (utes) from Luxury Car Tax. This incentivisation has meant that over the last twenty years, the number of utes on Australian roads has grown much faster than the number of passenger vehicles.

While utes are necessary for a range of occupations, their proliferation, particularly of larger, heavier models, damages the environment, damages roads, and incurs a range of other costs on society. Every dual-cab ute on the market in 2024 was exempt from Luxury Car Tax, with no requirement for the owner to demonstrate that the car was being purchased or used for primarily commercial rather than personal use.

We estimate that the utility vehicle exemption from Luxury Car Tax cost over \$250 million in foregone revenue in 2023. This revenue could be used to further subsidise or encourage fuel-efficient vehicles and incentivise the uptake of electric vehicles.

The Institute would welcome the opportunity to discuss research findings in further detail at any committee hearing, should there be one.

Regards,

Greg Jericho
Chief Economist
The Australia Institute

Luxury Car Tax and the ute loophole

Expensive utes are exempt from Luxury Car Tax, which cost more than \$250 million in forgone revenue in 2023 and incentivises bigger and more harmful cars on our roads.

Jack Thrower

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Introduction

Even though the transport sector is the third largest source of Australian emissions and accounted for 21% of national emissions in 2023, the Australian Government continues to incentivise the sale of big utility vehicles (utes) relative to other car options.ⁱ Over the last twenty years, the number of utes on our roads has grown much faster than the number of passenger vehicles.

While utes are necessary to a range of occupations, their proliferation, particularly of larger heavier models, damages the environment, damages roads, and incurs a range of other costs on society.ⁱⁱ A key example of this incentivisation is an exemption from Luxury Car Tax (LCT), which applies to essentially all utes.

What is Luxury car tax?

Luxury Car Tax (LCT) was introduced in the year 2000 under the Howard Government, replacing similar taxes on luxury cars that were abolished as part of the introduction of the Goods and Services Tax (GST). The LCT and its predecessors have been justified on various grounds, such as helping promote an Australian car industry, generating revenue from wealthier people, and curbing consumption of luxury goods.

How does it work?

In simple terms, LCT must be paid on the sale or importation of a car that is valued above the LCT threshold. These thresholds are updated every year by the Australian Tax Office (ATO). For the financial year 2024-25, the standard threshold is \$80,576. A higher threshold is applied for fuel efficient vehicles, such as electric vehicles and hybrids, this threshold is \$91,387 for 2024-25.ⁱⁱⁱ The rate of the tax is 33%, this is applied to the value of the car above the LCT threshold, and a formula is applied to subtract the value of GST from the car's price.

How much does it raise?

In 2023-24 the LCT is estimated to raise about \$1.3 billion. While this does not constitute one of Australia's major taxes, it is a considerable amount of revenue, about as much as the Commonwealth Government annually spends on the ABC (\$1.25 billion in 2023-24).^{iv}

The ute loophole

Unfortunately, there is a large loophole in the LCT system, as written by one of Australia's most popular automotive news websites (drive.com.au):

Does LCT apply to utes? No, every ute available in Australia – including dual-cab utes – is exempt from paying LCT due to a loophole in how a vehicle's "principal purpose" is determined.^v

This is because LCT does not apply if the car is “a commercial vehicle designed mainly for carrying goods and not passengers”.^{vi} This exemption is defined broadly, so if a ute can carry twice the weight in payload that it can carry in people, it is exempt from paying LCT. As reported by drive.com.au, this test is easy to pass, meaning that “[e]ssentially every dual-cab ute on the market in 2024 has this tax-exempt payload, including the Jeep Gladiator, which has a low 693kg payload.”^{vii} There is no requirement to demonstrate that the car is being purchased or used for primarily commercial rather than personal use.

How does this incentivise buying utes?

This difference in tax treatment incentivises people to buy utes because it significantly affects the relative price of utes compared to other expensive cars. For instance, take an example of two similarly priced cars:

- 2024 Mercedes-Benz E350 EQ (Hybrid), rear wheel drive 4 Door Sedan:
 - Starting cost \$133,370, before on-road costs.^{viii}
- 2024 Chevrolet Silverado 1500 ZR2, four-wheel drive Crew Cab Pick Up:
 - Starting cost \$138,000, before on-road costs.^{ix}

The Mercedes hybrid has a starting cost nearly \$5,000 lower than the Chevrolet ute. However, a buyer of the Mercedes will incur an additional \$15,841 in LCT, bringing its total cost to \$149,211, or \$11,211 more than the ute.^x This underestimates the impact of the LCT, as LCT would also apply to additional costs such as dealer delivery charges.

Even if the purchaser chose an electric alternative, making it eligible for the higher fuel efficiency threshold, the LCT would still likely make the ute cheaper. For instance, if the purchaser chose the 2024 Mercedes-Benz EQE 300 (costing \$133,575 before on-road costs),^{xi} the ute would still be at least \$8,231.40 cheaper.

This loophole incentivises people to buy expensive utes instead of expensive smaller cars, including fuel efficient and electric cars. Notably in the above example, the Chevrolet's fuel economy is 14.5 litres per 100km,^{xii} more than double the current fuel-efficient car definition (7 litres per 100 kilometres^{xiii}), which is itself already generous and is currently being tightened. This is also considerably higher than other cheaper and more fuel-efficient utes.^{xiv} Additionally, as the size and weight of utes generally correlates with their price, this exemption provides greater incentives for larger and heavier vehicles.

What impact does this have?

How much does this loophole cost?

While the Treasury annually calculates the cost of other tax exemptions, such as the exemption of fresh fruit and vegetables from GST, there is no government measure of the cost or distributional impact of the ute exemption. Publicly available data indicates that a considerable number of utes are likely exempt from LCT each year, notably many of the 2023 best-selling utes have model variants whose cost exceeds the LCT threshold (such as the Ford Ranger and Toyota HiLux).^{xv}

Most of the cost of this exemption will relate to large, expensive utes, such as those produced by Ram and Chevrolet.^{xvi} The price of these vehicles magnifies the impact of their exemption from LCT. For instance, the 2024 Ram 1500 TRX Final Edition (4x4) is priced at \$249,950 before on-road costs, and avoids more than \$50k in tax due to its exemption from LCT.^{xvii} According to our estimates, based on simplifying assumptions outlined in the appendix, the LCT ute exemption led to over \$250 million in foregone revenue in 2023, almost three-quarters of which was due to sales of Ram and Chevrolet vehicles. Notably these huge vehicles, categorised as ‘full-size 4X4 utes’, are one of the fastest growing market segments, growing by 21.4% in 2023.^{xviii}

Non-luxury utes, used by most tradies, sit below the LCT threshold. This means that removal of the LCT ute exemption would not affect most ute drivers, while discouraging non-work related purchases of more expensive, damaging vehicles.

Which other policies have encouraged these vehicles?

Government policies have facilitated an explosion in the prevalence of utes over recent decades. From 2001 to 2021 the number of passenger vehicles grew by half, while the number of light commercial vehicles (a category that overwhelmingly represents utes) doubled.^{xix} In 1999, there were about 5.6 passenger vehicles for every light commercial vehicle, whereas in 2023, there were only 3.9.^{xx}

In addition to the LCT exemption, a range of policies have encouraged the growth of large, expensive utes. These have included ongoing exemptions from Fringe Benefits Tax, road and parking regulations, and the under-pricing of road damage and carbon emissions and the now-expired Morrison Government’s “Temporary Full Expensing” and the “Loss Carry Back” tax offset.^{xxi} These policies sit alongside general disregard for investment in public or active transport and varied state and territory approaches to taxing or incentivising the purchase of electric or hybrid vehicles.

Reforming these policies would not only curb the growth in polluting utes, but would free up resources to help decarbonise transport. For instance, the \$250 million of foregone LCT revenue in 2023, is ten times greater than the cost of the Commonwealth Government’s *Active Transport Fund* for 2025-26, designed to assist the states and territories to construct or upgrade bicycle paths. The cost of this fund is projected at \$80 million over three financial years from 2025-26 to 2027-28 with \$25 million earmarked for the first year.^{xxii} More sensible government policies would properly tax what we want less of, larger and more harmful vehicles, and subsidise what we want more of: measures to accelerate the climate transition.

Conclusion

Large vehicles impose considerable costs on society, from their higher carbon emissions and rates of road damage to serious safety concerns. The Australian Government should ensure that these costs are accounted for by properly taxing and regulating these vehicles, starting with removing the LCT exemption for utes. These policies would curb the growth in expensive and damaging vehicles in Australia and limit the use of utes to legitimate commercial purposes rather than personal luxuries.

Appendix: LCT cost methodology

The estimate of \$250 million in foregone LCT revenue was calculated as follows.

Data sources

- **2023 ute sales numbers:** are sourced from VFACTS, as quoted by CarExpert,^{xxiii} this broke down the best 20 selling utes by make and model. Data is not available on sales numbers by variant/trim.
- **Car prices:** the price of each is taken from CarsGuide,^{xxiv} prices are assumed to equal the currently listed prices for the 2024 model, as using current data on 2023 models leads to less reliable and consistent data.

Adjustment to prices

- \$2,000 of on-road costs is added to each vehicle as prices listed are Manufacturer's Suggested Retail Price, which does not include fees such as dealer delivery charges which are included in the value for LCT purposes.

Calculation

- LCT theoretically payable on each sale is calculated using the ATO formula.^{xxv}
- Total LCT payable is calculated by multiplying the total sale numbers of each trim by the LCT payable on each trim.
- This results in total LCT payable of about \$321 million, this is adjusted down to 'over \$250 million' to ensure figures are highly conservative and to account for lack of data on proportion of sales of each variant/trim, which would affect the cost of the car.

Assumptions

- As data is not available on specific sales of each variant/trim, each variant/trim is assumed to sell equal numbers of units.
- LCT threshold assumed to be \$74,399.50, the average of the rates for 2022-23 and 2023-24, this is conservative as the first half of the year usually includes disproportionate sales as it includes end of financial year.

ⁱ Department of Infrastructure, Transport, Regional Development, Communications and the Arts (n.d.) *Towards net zero for transport and infrastructure*, <https://www.infrastructure.gov.au/infrastructure-transport-vehicles/towards-net-zero-transport-and-infrastructure#:~:text=Australia's%20transport%20sector%20is%20the,largest%20in%20Australia%20by%202030>.

ⁱⁱ Thrower (2024) *SUVs and utes are no longer just work vehicles, but tax-subsidised behemoths*, <https://australiainstitute.org.au/post/suvs-and-utes-are-no-longer-just-work-vehicles-but-tax-subsidised-behemoths/>

ⁱⁱⁱ The Government's definition of a fuel-efficient vehicles will be tightened from 7 litres to 3.5 litres per 100km.

^{iv} Australian Government, *Budget 2024-25: Budget strategy and outlook: Budget paper no. 1*, https://budget.gov.au/content/bp1/download/bp1_2024-25.pdf

^v Drive (2024) *Does the luxury car tax apply to utes?*, <https://www.drive.com.au/caradvice/does-lct-apply-to-utes/>

^{vi} Australian Tax Office (2024) *When luxury car tax doesn't apply*, <https://www.ato.gov.au/businesses-and-organisations/gst-excise-and-indirect-taxes/luxury-car-tax/when-lct-doesn-t-apply>

^{vii} Drive (2024) *Does the luxury car tax apply to utes?*

^{viii} CarExpert (2024) *Mercedes-Benz E350 EQ (HYBRID) Price and Spec*,
<https://web.archive.org/web/20240711012119/https://www.carexpert.com.au/mercedes-benz/e-class/2024-eq-hybrid-1514806d>

^{ix} CarExpert (2024) *2024 Chevrolet Silverado 1500 ZR2*,
<https://web.archive.org/web/20240711012942/https://www.carexpert.com.au/chevrolet/silverado/2024-1500-zr2-6a95b9e1>

^x Rounded to the nearest dollar.

^{xi} CarExpert (2024) *Mercedes-Benz EQE 300 Price and Spec*,
<https://web.archive.org/web/20240711013045/https://www.carexpert.com.au/mercedes-benz/e-class/2024-300-e7c60eec>

^{xii} CarExpert (2024) *2024 Chevrolet Silverado 1500 price and specs*, <https://www.carexpert.com.au/car-news/2024-chevrolet-silverado-1500-price-and-specs>

^{xiii} Green Vehicle Guide (2024) *Frequently Asked Questions*, The Australian Government,
<https://www.greenvehicleguide.gov.au/pages/About/FAQ>

^{xiv} Drive (2024) *The 10 most fuel-efficient dual-cab utes in Australia*,
<https://www.drive.com.au/caradvice/most-fuel-efficient-ute-in-australia-2024/>

^{xv} CarExpert (2024) *VFACTS: The best-selling utes in Australia in 2023*, <https://www.carexpert.com.au/car-news/vfacts-the-best-selling-utes-in-australia-in-2023>

^{xvi} CarExpert (2024) *VFACTS: The best-selling utes in Australia in 2023*

^{xvii} CarSales (2024) *2024 RAM 1500 TRX Final Edition priced at a premium*,
<https://www.carsales.com.au/editorial/details/2024-ram-1500-trx-final-edition-priced-at-a-premium-145638/>

^{xviii} CarSales (2024) *VFACTS 2023: Car industry breaks all-time sales record*,
<https://www.carsales.com.au/editorial/details/vfacts-2023-car-industry-breaks-all-time-sales-record-143992/>

^{xix} Australian Bureau of Statistics (2001) *Motor Vehicle Census, Australia, March 2001*
<https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/9309.0Mar%202001?OpenDocument>; Australian Bureau of Statistics (2021) *Motor Vehicle Census, Australia, January 2021*
<https://www.abs.gov.au/statistics/industry/tourism-and-transport/motor-vehicle-census-australia/31-jan-2021>

^{xx} Australian Bureau of Statistics (2001) *Motor Vehicle Census, Australia, March 2001*; Department of Infrastructure, Transport, Regional Development, Communications and the Arts (2023) *Road Vehicles, Australia, January 2023*, <https://www.bitre.gov.au/publications/2023/road-vehicles-australia-january-2023>

^{xxi} Saunders and Grudnoff (2023) *In reverse: The wrong way to fuel savings and falling transport emissions*,
<https://australiainstitute.org.au/post/suvs-driving-substantial-transport-pollution-research-report/>

^{xxii} Australian Government, *Budget 2024-25: Federal Financial Relations: Budget paper no. 3*,
https://budget.gov.au/content/bp3/download/bp3_2024-25.pdf

^{xxiii} CarExpert (2024) *VFACTS: The best-selling utes in Australia in 2023*

^{xxiv} CarsGuide (n.d.) *Homepage*, <https://www.carsguide.com.au/>

^{xxv} Australian Taxation Office (2024) *Working out the LCT on a sale*, <https://www.ato.gov.au/businesses-and-organisations/gst-excise-and-indirect-taxes/luxury-car-tax/working-out-the-lct-amount/working-out-the-lct-on-a-sale>