

Chapter 1

Introduction

Background

1.1 A New Tax System (Luxury Car Tax) Amendment Bill 2008 and three related bills¹ were introduced as part of the 2008 budget and referred to the Standing Committee on Economics on 18 June 2008, for report not before 26 August 2008.

1.2 The bill increases the rate of luxury cars tax (LCT) from 25 per cent to 33 per cent. The tax only applies to that portion of the price in excess of the LCT threshold, not to the total price. In 2008-09 the threshold will be \$57 180, up slightly from the previous threshold of \$57 123. The bill does not change the vehicles exempt from the tax or the threshold price at which the tax applies.²

Conduct of the inquiry

1.3 The committee advertised the inquiry in the national press and invited written submissions by 7 July 2008. Details of the inquiry were placed on the committee's website and the committee also wrote to a number of organisations and stakeholder groups inviting written submissions.

1.4 The committee received 18 submissions. These are listed in Appendix 1.

1.5 The reference required the committee to hold hearings in Adelaide and Melbourne, and listed some witnesses. The committee held public hearings in Adelaide (22 July), Sydney (31 July) and Melbourne (6 August). The organisations listed as witnesses in the reference appeared at the hearings.³ The reference also referred to hearing evidence from the tourism industry, but no submissions were received from the industry and no representatives from the industry requested to appear as witnesses. The committee was also instructed to take into account the recommendations of the Bracks' *Review of Australia's Automotive Industry*. This review was only publicly released on 15 August, so its conclusions could not be

1 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.

2 Exempt vehicles include emergency vehicles and vehicles specifically fitted out for transporting disabled people seated in wheelchairs.

3 The three Australian vehicle manufacturer/distributors (Ford, Holden and Toyota) appeared as witnesses, as did leading importer/distributors Audi, Mercedes and Toyota. The Federal Chamber of Automotive Industries, the Australian Automobile Association, the Victorian Automobile Chamber of Commerce and the Motor Trades Association of Queensland appeared in their own right, while the Motor Trades Association of Australia was represented by its South Australian, New South Wales and Queensland branches.

discussed at the committee's public hearings. As noted in this report, the review made no recommendations or comments about the LCT.

1.6 The committee thanks those who participated in this inquiry.

Background to the bills

1.7 The bills amend *A New Tax System (Luxury Car Tax) Act 1999* and related acts.⁴ They form part of a package of measures in the 2008-09 Budget to enhance fairness in the tax system, in line with Labor party policy of reducing the tax burden on average wage earners.

1.8 The luxury car tax (LCT) was introduced on 1 July 2000 to replace the 33 per cent wholesale sales tax which had applied to luxury cars before the introduction of the Goods and Services Tax (GST).

1.9 *A New Tax System (Luxury Car Tax) Act 1999* and associated Acts imposed 25 per cent LCT on cars with a GST inclusive value over the LCT threshold, \$55,134.⁵ This threshold is adjusted annually when the CPI's motor vehicle purchase component has increased.

1.10 In 2007, 95 065 cars were sold that were over the LCT threshold, out of a total new car market of 815 153 vehicles, 12 per cent of the total market. Approximately 6 per cent of Australian manufactured vehicles sold in Australia incurred LCT.⁶

1.11 A car is defined as a motor vehicle that is designed to carry a load of less than two tonnes and fewer than nine passengers. Vehicles are exempt from LCT if they are:

- Over two years old at the time of supply,
- prescribed emergency vehicles,
- subject to GST and specially fitted out for carrying wheelchairs,
- a motorhome or campervan, or
- a commercial vehicle not designed for the principle purpose of carrying passengers.

1.12 The impact of the LCT rate increase is placed in some context in Table 1.1.

4 *A New Tax System (Luxury Car Tax Imposition General) Act 1999, A New Tax System (Luxury Car Tax Imposition Customs) Act 1999 and A New Tax System (Luxury Car Tax Imposition Excise) Act 1999.*

5 The Car Depreciation Limit introduced in 1979 was adopted as the threshold for both the wholesale sales tax and the Luxury car tax.

6 VFACTS sales figures for Passenger vehicles and SUVs sold in Australia in 2007.

Table 1.1: LCT increase on selected models

Models	Pre-LCT Price	Sales	Fuel economy	LCT increase	
	\$	Jan - Jul 08	L/100 km	\$	% of overall price
(1) Toyota Corolla Conquest Hatchback	25,500	28,891	7.4	0	0
(2) Holden Commodore Berlina SA	45,290	28,229	11.3	0	0
(3) Mazda 3 MaXX Hatchback	25,500	20,297	8.2	0	0
(4) Ford Falcon FG XT sedan	37,990	18,229	10.5	0	0
(5) Toyota Yaris 5 dr 1.5	18,190	16,105	6.0	0	0
(18) Ford Territory TS Wagon 6sp (4WD)	48,990	8,294	12.2	0	0
(19) Subaru Forrester XT wagon Man 5sp (4WD)	38,990	8,136	9.3	0	0
(47) Nissan Patrol ST-L Wagon 5sp Man (4WD)	58,490	2,883	10.8	\$241	0.4%
(62) Toyota Tarago GLi 6sp 3.5	54,990	1,915	10.2	0	0
Toyota Prius CVT	37,400	2,098	4.4	0	0
Holden Statesman Caprice SA 3.6i	67,990	1,193	12.2	\$932	1.3%
Lexus RX350 Lux Wagon	85,900	1,546	11.2	\$2,234	2.4%
Toyota Landcruiser Sahara Wagon Man (4WD)	94,990	7,119	14.5	\$2,895	2.8%
Porsche 911 997 4S Coupe	243,000	258	11.0	\$13,660	4.8%

Sources: Prices and fuel economy from *Top Gear Australia*, July 2008. Price excludes LCT, dealer delivery and statutory charges. LCT increase calculated as described in paragraph 1.13, assuming \$2000 dealer delivery fee. Sales ranks calculated by Secretariat from Federal Chamber of Automotive Industries, VFACTS data for January – July 2008. Sales include all models for each vehicle type. The final column compares the increase in the LCT to the previous overall (LCT inclusive) price.

1.13 The LCT is calculated on the price of a car pre-GST, not the retail price of the vehicle. Therefore the LCT is calculated on the cost of the vehicle, less the LCT threshold and GST.⁷ For example, a base model Holden Statesman, one of the highest-priced Australian-made cars, with a pre-LCT retail price of \$67 990, with an additional dealer delivery fee of \$2 000 would have incurred LCT of $(69\,990 - 57\,180) \times (10/11) \times 0.25 = \2911 , giving a final all up cost of \$72 901. After the increase, the LCT payable would be $(69\,990 - 57\,180) \times (10/11) \times 0.33 = \3843 , an increase of \$932.

7 Claims, such as by Mr John Chapman, Motor Trades Association of South Australia, *Proof Committee Hansard*, 22 July 2008, p. 16; and Australian Automobile Dealers Association, *Submission 13*, p. 1; that LCT is 'a tax on a tax' are misplaced.