



Toyota Motor Corporation Australia

**Submission
to the
Senate Economics Committee**

**Inquiry into the *Tax Laws Amendment
(Luxury Car Tax) Bill 2008***

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1.0 Foreword

This submission is made in relation to the Senate Economics Committee Inquiry relating to *Tax Laws Amendment (Luxury Car Tax) Bill 2008* which would amend 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 matters indicated for examination by the inquiry are listed in Appendix A.

2.0 Toyota Australia Background

Toyota Australia is one of three local manufacturers, having produced cars in Australia for more than four decades. In 1995 Toyota commissioned a new state of the art plant in Altona at a cost of over \$400m, which is now the base for all Toyota Australia vehicle manufacturing operations with both Camry and Aurion models produced on a single production line.

In the 2007 year, Toyota Australia produced 148,931 vehicles, making the company one of Australia's largest manufacturing enterprises. Toyota Australia's total spend for the year was around \$3billion. Further, more than 97,000 vehicles were exported to more than 20 overseas destinations which, together with parts and accessories, earned around \$1.7 billion in export revenue.

Toyota is the market leader in the domestic market with a current market share of around 24% (Toyota and Lexus brands). In 2007 total sales (local and imported cars) totalled 236,647 for the Toyota brand and 8,199 for the Lexus brand. The product range covers a broad array of market sectors including family sedan, four wheel drives, luxury vehicles, small hatches and small buses. A large range of imported passenger, 4WD and commercial vehicles complement locally produced vehicles.

Toyota Australia employs over 4,700 staff Australia wide. In terms of the dealer network, there are 229 dealers (211 Toyota and 18 Lexus) employing approximately 11,300 dealer employees.

3.0 Summary Of Position

Toyota Australia is of the view that:

1. LCT should be abolished and not increased
 - 1.1. The most appropriate mechanisms for review and consideration of the LCT would arguably be the forthcoming review of Australia's Future Tax System supported by the Bracks review of the Automotive Industry; and
2. If the LCT is retained, hybrid vehicles should be exempt (on environmental grounds).

The following discussion supports this position and includes a note on concerns regarding impact on the industry and consumers of inappropriate timing of changes to the LCT.

4.0 Discussion

Toyota Australia's position is based on factors including, but not limited to, the following:

1. there is no other good in Australia that is subject to a separate tax simply because its price exceeds an arbitrary threshold
2. LCT distorts the market and may impact the adoption of safer or new environmental technologies
3. incidence of LCT has increased over time (ie proportion of vehicles captured has increased from 2.5% in 1979 to 11% in 2007).

4.1 Taxation of Vehicles

Toyota Australia is of the view that there is no rationale for taxing luxury cars at different rates to other cars. No other consumer product has an additional tax applied simply because the value of a product exceeds an arbitrary threshold.

Further, it has already been indicated that the Bracks review of the Australian Automotive Industry would consider LCT and, furthermore, that there will be a comprehensive review of Australia's tax system later in 2008 (ie Australia's "Future Tax System"). To increase the LCT before any appropriate consideration of the tax has been undertaken via both of these activities would arguably be inappropriate.

LCT applies to all vehicles with a GST inclusive value of more than \$57,180 from 1 July 2008. If the Bill is passed, LCT will occur at the rate of 33% instead of the current 25%.

Purchasing and owning a motor vehicle in Australia already involves a significant level of taxation including:

- o GST (10%)
- o Registration (varies by State)
- o Stamp duties (varies by State but quite significant (refer Appendix B))
- o Excise tax (on fuel).

It is also worth noting that our research has not identified a similar tax in any key developed nation (including the US, UK, Germany, France, Italy & Spain). The UK abolished its LCT many years ago. In fact, the only similar tax we have identified is in the Philippines.

4.2 Market Distortion

The LCT impacts and distorts the automotive market in a number of ways including potentially impacting the take up of safer or environmentally friendly technologies and distorting prices of options.

4.2.1 Safety and Environmental Factors

Toyota Australia is specifically concerned that many new safety and environmentally friendly technologies (such as hybrid technology) can add to the cost of a passenger motor vehicle and may result in consumers paying a tax because they purchase a safer or more environmentally friendly vehicle. Conversely, in seeking to avoid LCT, consumers may make a choice to *not* purchase safety extras or a new environmentally friendly vehicle. Therefore the impact of the LCT can be to penalise safer and environmentally conscious consumers. This is arguably contradictory to Government (Federal and State) objectives to improve road safety and increase the number of 'greener' cars in Australia.

New safety technologies have traditionally been introduced through the upper end of the automotive market and therefore the LCT disadvantages those consumers who choose to be early adopters of safety features.

For Lexus branded vehicles, we estimate that approximately 1400 vehicles per year would become subject to LCT if an enhancement pack which includes safety items such as reverse park assist with camera were ordered by a customer.

Regarding hybrid technology, Toyota (with Toyota and Lexus brands) is widely considered a global pioneer in the development and volume production of vehicle hybrid technology. We are proud of our contribution to the reduction of Co2 emissions through the introduction of vehicles such as the Toyota Prius, Lexus RX400h, GS450h and LS600HL models in Australia. This line up will include the locally produced hybrid Camry from 2010.

A measure of how these vehicles are positively contributing to a better environment is found on the government website www.greenvehicleguide.gov.au. Vehicles in this guide are evaluated based on greenhouse and air pollution emissions: the Toyota Prius has Air Pollution and Greenhouse Ratings of 8.5 (out of 10), while the Lexus RX400h & GS450h both have an Air Pollution Rating of 8.5 (out of 10). The recently added LS600HL provides ratings of 6 and 5.5 respectively. Prius does not attract the LCT whilst the Lexus hybrids do attract LCT.

We consider that, if the LCT is retained, an exemption for hybrid-electric vehicles should be introduced as an incentive to promoting and

encouraging the uptake of this fuel-efficient and environmentally-friendly technology. Our view is that this change would recognise environmentally driven purchasing decisions made by both private and commercial buyers. For a business, for instance, the return on their investment may be measured in both the level of LCT saved and the positive profile attributed to environmentally-conscious organisations.

Most hybrid sales to date have been for vehicles such as the Toyota Prius and Honda Civic which fall below the LCT threshold in any case, so such an exemption should have minimal impact on revenue. Our analysis of total hybrid sales (source: VFACTS) for the 2007 year shows that 4,948 hybrid vehicles were sold, the vast majority of which were Prius¹ and Honda hybrid sales (ie those below the LCT threshold): indicating that the number of vehicles to which such an exemption would apply would be very limited on an annual basis.

4.2.2 Price Distortion Effects

Finally, there are also price distortion effects associated with the LCT which should be noted. The price of options offered on cars subject to LCT is increased by the amount of the LCT. That is, the same option can have two prices depending on the vehicle to which it is added. Metallic paint, for example, may cost \$300 on a 4 cylinder Tarago but may cost \$390 on a top of the range Tarago. The distortion also happens with options made standard on cars with different prices but is less obvious (eg satellite navigation may be standard on some vehicles and, to the extent that a vehicle is subject to LCT, then LCT must be factored on such an option in the overall pricing of the vehicle).

Another factor for consideration is the issue of work-related vehicles, such as Landcruisers used by farmers, construction workers, miners etc. These vehicles are often fitted with safety and job related equipment which attract LCT. The impost of such costs on business does not assist our international competitiveness in such markets.

4.3 Incidence of LCT

FCAI research indicates that, in general terms, the incidence of the LCT has not kept pace with price changes. As a result the range of vehicles captured by the tax has expanded greatly since its introduction in 1979.

This is evidenced by the fact that the CPIMV (ie the motor vehicle purchase price subgroup of the CPI) which is used as the reference point for determining the LCT threshold, is adjusted for 'quality' improvements in vehicles (ie including changes in specifications). Given that vehicle specifications are generally increasing in the very competitive automotive market, the result is that CPIMV does not reflect the increases in prices actually paid for cars. Further, if any number of alternative methods were used

¹ 3,176 Prius vehicles were sold in the 2007 year per VFACTS.

to index the threshold, they would have resulted in dramatic increases in the threshold.

It is worth considering the size of (and change in) average weekly earnings relative to the LCT threshold. In this respect, on introduction the LCT threshold represented more than 18 months of average weekly earnings, whilst currently the threshold equates to around 12 months in terms of average weekly earnings. The FCAI's research shows that on introduction of the LCT (in 1979) it captured 2.5% of vehicle sales and was meant to target *expensive* luxury cars, whereas it is currently capturing around 11% of vehicle sales (per 2007 data). Our analysis indicates that at around 12% of Toyota Australia's sales attract LCT (refer Appendix C).

5.0 Impact on Industry and Consumers of Inappropriate Timing of LCT Changes

The timing of the proposed LCT increase has not allowed industry reasonable time to adjust pricing to customers. Furthermore, the expected retrospective application of the increase (ie application from 1 July 2008) has created unfortunate and unnecessary administrative difficulties. This should be addressed and suitable amendments put into place to ease any transition.

In terms of threshold changes, current practice is to release the threshold very close to the date of application (via a Determination issued by the ATO). In practice this causes unacceptable problems in that it would usually take several days to update price lists for threshold changes. Furthermore, dealers then require additional time to update their systems. The late release of the Determination therefore does not allow reasonable administration time for changes. By way of an indicative suitable timing, Toyota Australia's usual practice for general price increases is to provide dealers with at least 30 days notice.

Accordingly, late announcement of rate or threshold changes makes it difficult to ensure dealers have correct pricing by 1 July of each year. Pricing accuracy is critical to ensure Trade Practices compliance (ie a threshold increase reduces the price, risking customer complaint of overcharging for a car, whilst a rate increase results in price increases, risking the dealer not charging enough to cover the increased LCT).

Further, as dealers make many of their sales several months in advance of delivery, late changes to rate or threshold mean dealers are not able to accurately quote pricing to customers (impacting customer satisfaction as well as Trade Practices compliance).

Toyota Australia requests that the Senate ask that changes to LCT threshold be issued with 30 days notice, and any changes to the LCT rate be issued with say 90 days (3 months) notice to allow industry reasonable administration time.

6.0 Conclusion

Toyota Australia is of the view that the LCT should be abolished as there is no rationale for taxing luxury cars at different rates to other cars. No other consumer product has an additional tax applied simply because the value of a product exceeds an arbitrary threshold.

If the LCT is retained, Toyota Australia is concerned that must not create a disincentive to the purchase of environmentally friendly vehicles and, in this regard, requests that hybrid vehicles be exempt from LCT.

LCT Senate Inquiry – Matters for Examination

It has been indicated that the inquiry will examine:

1. 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;
2. 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);
3. 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;
4. 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;
5. the rationale for taxing 'luxury' cars at a higher rate than other goods and services;
6. the effect of the LCT and the proposed increase in the LCT rate on Australian vehicle manufacturers and vehicle importers and distributors;
7. the overall taxation burden on ownership and operation of motor vehicles including customs duty, GST, LCT stamp duty and excise on fuel;
8. the effect of the LCT and the proposed increase in the LCT rate on the adoption of vehicle safety features and environmental technologies; and
9. the extent to which the LCT is viewed as a non-tariff barrier by other car exporting countries.

Appendix B

Car Stamp Duty in Australia

State	Rate	Market Value or Actual Purchase Price
ACT	3% 5%	\$0-\$45,000, <i>plus</i> over \$45,000
NSW	3% 5%	\$0-\$45,000, <i>plus</i> over \$45,000
VIC	2.50% 5%	\$0-\$57,009 <i>or</i> over \$57,009
QLD	2%	All sales
SA	\$60 4%	for the first \$3,000, <i>plus</i> over \$3,000
TAS	3% \$1050 + 11% 4%	\$600-\$35,000, <i>or</i> \$35,000-\$40,000 <i>or</i> over \$40,000
WA	2.75% (see below) 2.75% plus additional percentage based on a sliding scale for each particular purchase price ie: Market Value - 20,000 % of ----- of Market value 6,666.66 6.50%	\$0-\$20,000, <i>or</i> \$25,001-\$45,000, <i>or</i> over \$45,000

Appendix C

Toyota Sales Subject to LCT (indicative estimate) Based on 12 months ended June 2008

		July 07-Jun 08
Toyota	Landcruiser (LC100/200)	9,000 ²
	Prado GXL (auto), VX, Grande	10,158
	Kluger Grande	3,719
	Tarago 6cyl Ultima	243
	Aurion TRD 3500SL	160
Lexus	All variants except Base Model IS250	7,696
Total sales subject to LCT		30,976
Total sales all vehicles (Toyota + Lexus) ³		255,177
% of sales subject to LCT (estimate)		12%

² Due to model change (LC100 to LC200) the actual sales for Landcruiser for the period were a low 8,408. As the 2008 full year estimate is 9,520 units, conservatively 9,000 units has been used for the purposes of this exercise. Note that Kluger was also subject to model change (ie affecting sales for the period) but there has been no adjustment to this number.

³ Per VFACTS