
Supplementary Submission to the Senate Economics Committee

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

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The Federal Chamber of Automotive Industries (FCAI) provided a submission to the Senate Economics Committee Inquiry into the Tax Laws Amendment (Luxury Car Tax) Bills 2008. FCAI also appeared before the committee on 22 July 2008. At this hearing the Committee sought additional information from the FCAI.

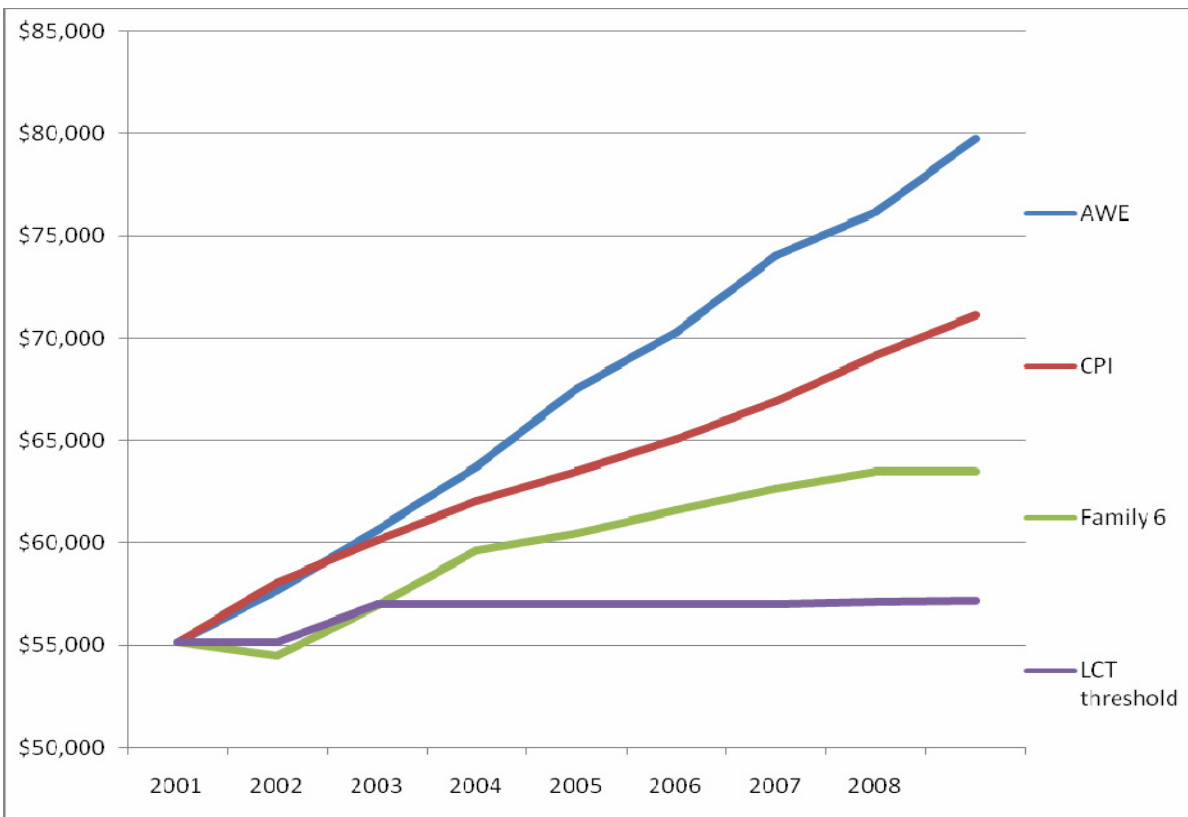
This submissions responds to the request for additional information from Committee members.

Comparative Measures of Indexation

1. *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, which the LCT as being zero in 2001, then the CPI, the cost of a 'family six' and then the average week earnings comparisons, which I found very helpful?*

The chart below shows the the LCT threshold since 2001 and what the LCT would be in 2008 based upon alternative methods of indexation.

Indexation of the LCT Threshold



Since 2001 the LCT threshold has increased from \$55,134 to \$57,180.

If the LCT threshold had been indexed by the CPI since 2001 it would have risen to over \$71,000.

Similarly if it had been indexed in accordance with Average Weekly Earnings or the average price of the cheapest Commodore and Falcon then the LCT would have risen to \$79,750 and \$63,504 respectively.

The indexation of the LCT threshold has not kept pace with the CPI, wages or the price of vehicles as a consequence the incidence of the tax is increasing.

LCT Threshold and Vehicle Specification

2. *Senator Bushby: 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?*

Whilst it is difficult to quantify the impact of the LCT on the price of vehicles below the LCT threshold economic theory suggest that it does have an impact on the price of vehicles below the LCT threshold.

Two part (or multi-part) pricing policy is a common tool used in many industries to price products. It consists of a fee to buy a product and then an additional fee for each additional unit or service provided thereafter.

A common academic example provided by economists is the pricing of cinema tickets. A customer visiting a movie cinema can purchase a ticket to see a movie for a set price and in addition they can purchase refreshments whilst at the cinema. The margin for the cinema owner on the price of refreshments will be considerably higher than the margin on the cinema ticket.

The cinema owner therefore prices the cost of cinema tickets at the lowest price point to ensure they maximise the number of patrons and therefore maximise the number of patrons that will purchase refreshments. Therefore the cost of refreshments lower the price at which the cinema owner can charge for the Cinema tickets.

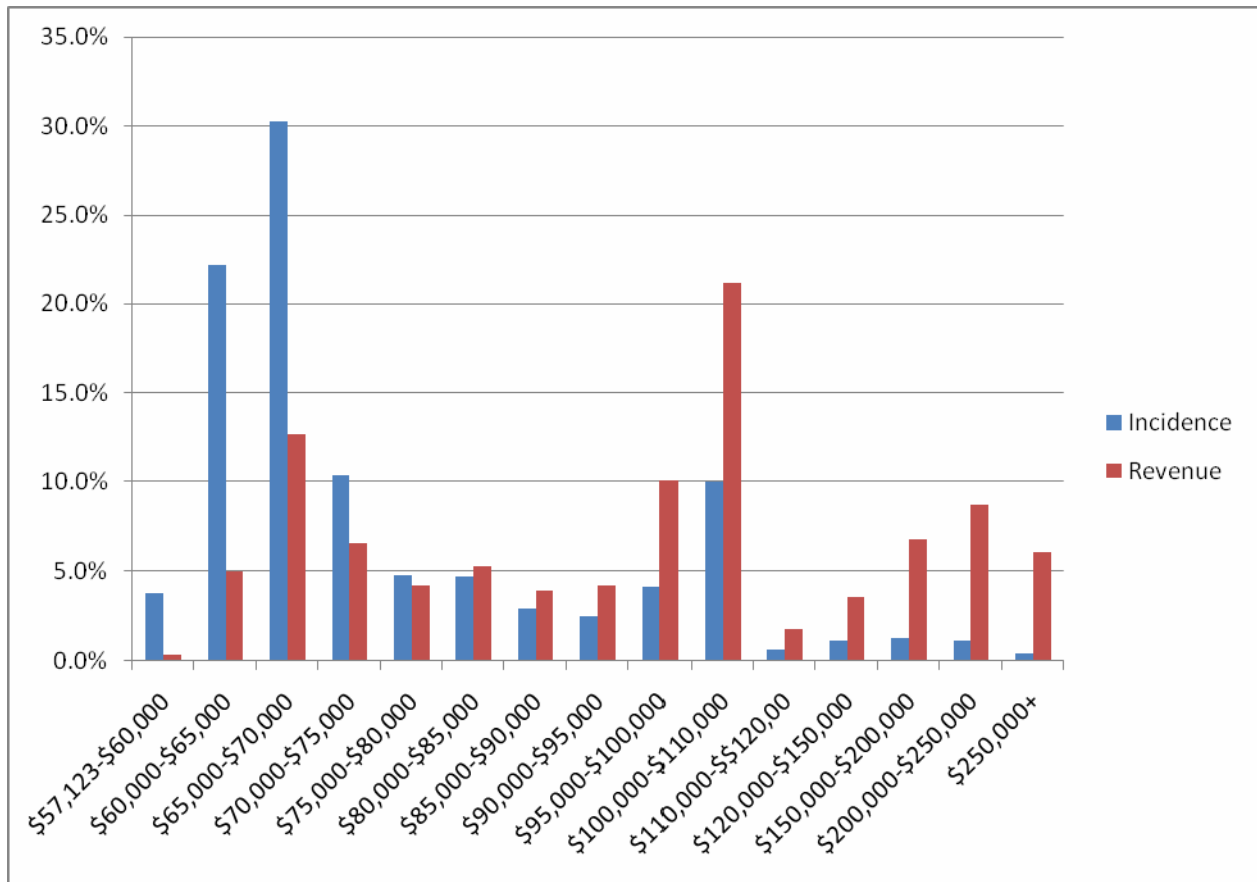
Similarly in the automotive industry the manufacturer margin on premium vehicles is expected to be higher than on low priced vehicles. Therefore a reduction in the sale of premium vehicles will result in upward pressure on the price of low priced vehicles to ensure that the manufacturers overall margin remains constant.

LCT Incidence and Revenue

3. In responding to a question Andrew Mc Kellar (CEO of FCAI) referred to the number of vehicles priced between the LCT threshold and \$70,000 and undertook to provide additional information to the Committee.

The graph below shows the incidence of the LCT as a percentage of vehicles captured by the LCT and the percentage of revenue gained from the LCT in each price bracket.

Incidence and Revenue from the LCT



This graph shows that the over 55% of vehicles captured by the LCT are priced under \$70,000 yet they account for only 18% of revenue.

The graph also shows that largest percentage of revenue is gained from vehicles which are priced between \$95,000 and \$110,000 which account for over 30% of total LCT revenue.

An increase in the LCT threshold to \$70,000 would therefore reduce the number of vehicles over the LCT threshold by 55% whilst still capturing vehicles priced over \$95,000.

Whilst the image of the LCT is that it captures significant revenue from Rolls Royce and Lamborghini in fact only 5% of LCT revenue is from vehicles priced over \$250,000 due to the relatively low number of vehicles sold in this category.