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The Hon Steve Bracks
c/- Automotive Review Secretariat
Department of Innovation, Industry, Science and Research
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Dear Mr Bracks

LUXURY CAR TAX

Earlier this week we forwarded our Submission to your Review of the Automotive Industry, which dealt with a number of issues, including the luxury car tax, in relation to which we want to comment further.

Selective and Discriminatory

VACC is opposed to this tax which we believe is both selective and discriminatory.

Other high priced consumer goods which fall into the luxury category (such as plasma TVs, holidays, and jet-skis) are not encumbered with a luxury tax and, therefore, one has to query why motor vehicles should be singled out.

In our view, the luxury car tax is a remnant of the old, and outdated, sales tax era when products were taxed at differing rates with a complex and unwieldy regime of formulas and calculations.

This mess, you will remember, was replaced by the GST.

It makes no sense, and is totally unjustifiable, that so-called “luxury cars” attract a unique additional tax, when other “luxury” items do not.

Damaging to local manufacturers (in particular Holden and Ford)

The additional tax disincentive hits a segment of the local vehicle manufacturing industry that has been growing sales, while sales in other segments have been falling.

For instance, while sales of the Holden Commodore in the $35k-$45k price bracket have fallen from 60,658 in 2005, to 41,331 in 2007, sales of models above $55k have doubled from 6073 in 2005 to 11,990 in 2007.

Similarly, while Ford has seen a fall of 25% in sales in the $35k-$45k bracket, sales in the $55k bracket have remained constant. For Ford Australia, with a new premium Falcon brand (its new G6E models) spearheading its new Falcon range, the announced increase in the Luxury Car Tax will be a double blow to its Australian design and manufacturing operations.

Inequitable

The luxury car tax is also inequitable, in our view, because it focuses on an erroneous, and no longer justifiable, threshold of $57,123 as a “luxury” threshold.

But ‘bracket creep’ has ensured that the ‘middle segment’ of locally-built family cars, when fully optioned, can now reach into this threshold. Hardly “luxury”.

As you are aware, the Federal government proposes to increase the current tax from 25% to 33% and while this is a Budget decision, it clearly pre-empts your Review. Our view is that if the luxury car tax is not abolished, which VACC is calling for, at the very least, the threshold should be increased to $75,000 to shift it away from volume selling top-end locally produced models.

Penalising “Pacesetters”

Imposing a luxury tax on the “best featured” vehicles (including safety and environmental features) will slow the introduction of such features into other “non luxury” motor vehicles. These best featured vehicles have been the “pacesetters” for safety and environmental improvements that have ultimately been incorporated into other vehicles, and to encumber such pacesetters with a luxury tax is simply to unfairly discriminate against such vehicles. All of this is at odds with Government objectives to make motor vehicles safer and more environmentally friendly.

Increased Dealer Overheads

The majority of Dealers who sell “luxury” vehicles also sell non-luxury and used vehicles. If their sales of luxury vehicles slump because of the continuation of the luxury car tax and/or the increase therein proposed in the Rudd Government’s first Budget, then the Dealers’ income will reduce and overheads (the cost of doing business across the Dealership) will increase.

Fall in Sales could Negate Luxury Car Tax Revenue

The Rudd Government’s expectations for raising extra revenue by increasing the luxury car tax may not be achieved if the market for luxury cars falls, albeit marginally. According to advice we have received, sales of luxury cars need fall by only 12,000 units for the expected gains to be lost.

It would seem that the Federal Government has assumed that sales of luxury cars will not be affected by the new tax of 33% and it has based its revenue calculations on the assumption that the number of luxury cars that will be sold in 2008/09 will not be less than the number of luxury cars sold in 2006/07 – that may well prove to be a false assumption and, as noted above, a slump in sales of only 12,000 cars would offset any extra tax take.

If the increase in the luxury car tax deters buyers above the luxury car tax threshold, this tax move will not only fail to achieve the anticipated revenue from the luxury car tax, but GST revenue will also be lost.

The combined effect means that there will be no gain at all for the Federal Government, just a local industry further damaged.

Kind regards

David Purchase

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