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SUBMISSION TO THE SENATE ECONOMICS COMMITTEE

INQUIRY INTO THE TAX LAWS AMENDMENT (LUXURY CAR TAX) BILL 2008

**Australian Finance Conference
Australian Equipment Lessors Association
Australian Fleet Lessors Association**

10 July 2008

SENATE ECONOMICS COMMITTEE INQUIRY INTO THE TAX LAWS AMENDMENT (LUXURY CAR TAX) BILL 2008

Introduction

This submission to the Senate Economics Committee is made on behalf of the Australian Finance Conference, Australian Equipment Lessors Association and Australian Fleet Lessors Association (membership lists attached). Members of these associations are the major providers of finance and leasing facilities in Australia for motor vehicles, including 'luxury' cars.

Luxury car tax threshold

The luxury car tax threshold serves three taxation related purposes:

- firstly, under section 40-230 of the *Income Tax Assessment Act 1997* it is used to limit depreciation claimed for 'luxury cars' to the threshold. This measure was introduced in 1979;
- secondly, the introduction of GST in 2000 was accompanied by the introduction of the luxury car tax (LCT), which imposed an additional tax on the value of a 'luxury' car above the limit;
- thirdly, where the purchase price of a car exceeds the luxury car tax threshold, section 69-10 of the GST Act limits the amount of input tax credits available to 1/11 of the threshold (i.e. \$5198 of the current \$57180 threshold).

When the luxury car tax threshold was introduced in 1979 it was initially set at \$18000, indexed annually in line with movements in the motor vehicle

purchase sub-group of the Consumer Price Index (CPI). When GST and LCT were introduced in 2000 the limit was \$55134.

It is therefore important to recognise that 'luxury' cars are subject to three taxation imposts: they cannot be depreciated beyond the luxury car threshold, an additional tax of 33% applies to their value above the threshold, and input tax credit entitlements are limited to 1/11 of the threshold. No other goods or services within the income tax/GST regimes are subject to this combination of tax imposts.

Rationale for LCT

The *Explanatory Memorandum* to the LCT Bill states that:

'The main objective (of LCT) is to ensure that the price of luxury cars will fall under the new arrangements by about the same amount as a car just below the luxury car tax threshold'.

However, whilst this may be the objective of LCT, we do not regard it as a rationale, but more a statement of the fact that these goods would continue to be additionally taxed at an approximately equivalent rate as they were under the former sales tax regime.

A fundamental objective of GST was to replace the inefficient sales tax regime, with its multiplicity of rates and thresholds, and which failed the fundamental principles that characterise an efficient and equitable tax system.

We believe that LCT should not have accompanied the introduction of GST. Sufficient taxation imposts for 'luxury' cars were already in place in the form of the limitations on depreciation and input tax credit entitlements.

Accordingly, it is our view that it is now appropriate to abolish LCT; the remaining depreciation and input tax credit limitations would continue to constitute tax disincentives not placed on other goods and services.

The luxury car threshold

Abolition of the LCT would not of itself resolve the issue of whether the current limit of \$57180 is reasonable. The threshold is linked to the motor vehicle purchase sub-group of the CPI. This mechanism worked reasonably well in the early period following its introduction, with for example the limit increasing from \$18000 in 1979 to \$55134 in 1996; in the space of these seventeen years it more than tripled. However, in the last 12 years it has increased by less than 4 percent. It is noted that this recent period has been one of substantially reduced inflation, but this alone does not satisfactorily explain the snail-like movement in the limit. It is more a reflection of a change in the composition of Australia's motor vehicle fleet, with a growing proportion of smaller and significantly cheaper vehicles, often with lower equipment and safety standards. It is this change in the composition of the fleet which has significantly contributed to the very small increase in the luxury car threshold.

The movement in the luxury car threshold over the last decade bears little resemblance to prices of 'luxury' cars over this period. This is well illustrated by research undertaken for the Federal Chamber of Automotive Industries by Australian Automotive Intelligence. This analysis indicates:

- initially 2.5% of all vehicles sold in Australia were above the luxury car threshold, whereas it is now around 11 percent;
- this trend is more marked in the SUV market. In 1979 there were only two SUV models with variants above the luxury car threshold, in total less than 1000 vehicles. Some 38000 SUV were above the threshold in 2007. These vehicles are commonly used in rural and regional communities;
- sales of 'luxury' variants of the locally made models in 1979 numbered 2615 units, but in 2007 numbered 11500 units;

- the inadequacy of the current indexation methodology is demonstrated by outcomes using other indices. The 'luxury vehicle' index constructed by Australian Automotive Intelligence suggests that the appropriate indexation methodology would result in a luxury car threshold in 2008 of \$70431. Other methodologies produce outcomes generally in the \$65000 to \$80000 bracket. We note the CPI All Groups Index result is \$71552, and suggest that consideration be given to using the overall CPI due to its general availability and acceptability. We suggest also that the luxury car threshold be increased to \$75000 to reflect the true movement in luxury car prices since 1979.

Other Issues

i) Hire cars, vehicles used by tour operators, etc

Our members believe that vehicles such as hire cars, limousines and those used by tour operators should not be subject to luxury car tax, the depreciation limit, nor the input tax credit entitlement limit. These vehicles are not a 'luxury' to the operators, and these taxpayers should not be faced with taxation imposts which are not applied to business inputs used by other taxpayers for producing assessable income.

ii) Commissioner's advice of threshold for new financial year

The Commissioner of Taxation issues advice each year of the luxury car tax threshold to apply for the new financial year. It is a source of much industry frustration that this advice is usually provided at a very late date (this year on 30 June), giving taxpayers very little time to adjust their systems and provide accurate information to customers. The relevant threshold can be calculated when the Australian Bureau of Statistics releases the March quarter CPI, which is usually early to mid May.

Our members request that the Commissioner of Taxation undertake to advise the luxury car tax threshold for the coming financial year no more than three weeks after publication of the ABS March quarter CPI.

Summary of recommendations

1. The luxury car tax be abolished; a similar tax does not apply to other 'luxury' goods and services. Furthermore, 'luxury' cars used for business purposes cannot be depreciated beyond the luxury car threshold, and input tax credit entitlements are limited to 1/11th of the threshold; no other goods and services are subject to these additional tax imposts, which would still represent a taxation 'surcharge' for luxury cars.
2. As the luxury car tax threshold would remain relevant for calculating these other tax imposts, it should be adjusted to realistically reflect movements in the price of 'luxury' cars. The threshold should be moved to \$75,000, and adjusted annually in line with movements in the general CPI and not the motor vehicle purchase sub-group.
3. Vehicles such as hire cars, limousines and vehicles used by tour operators should be excluded from the depreciation and input tax credit limitations.
4. The Commissioner of Taxation undertake to advise of the adjusted luxury car tax threshold for the coming financial year no later than three weeks after publication of the ABS March quarter Consumer Price Index.

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AFC MEMBER COMPANIES

Adelaide Bank
AllCommercial Finance
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American Express
Australian Finance Direct
Australian Motor Finance
Bank of Queensland
BankWest
Bidgee Finance
BMW Australia Finance
Capital Finance Australia
Caterpillar Finance Australia
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Macquarie Equipment Rentals
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Max Recovery Australia
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Professional Associate Members:

Allens Arthur Robinson
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CHP Consulting
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FCS Online
Finzsoft Solutions
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Adelaide Bank	Key Equipment Finance
Allens Arthur Robinson	Komatsu Corporate Finance
Alleasing Group	KPMG
Alliance e-finance	Lanier (Australia)
ANZ Investment Bank	Lease Underwriting
Australasian Asset Residual Management	Macquarie Leasing
Australian Structured Finance	Malleons Stephen Jaques
Babcock & Brown	Medfin Australia
BMW Australia Finance	Members Equity Bank
Baker & McKenzie	Mercer (Australia)
Bendigo Bank Leasing Division	Meridian International Capital
Blake Dawson	Minter Ellison
BOQ Equipment Finance	Musgrave Peach
Bynx Australia	National Australia Bank
Canon Finance Australia	NLC
Capital Finance Australia	PACCAR Financial
Caterpillar Financial Australia	Pitney Bowes Credit Australia
CBFC	Protecsure
CHP Consulting	Queensland Treasury Corporation
CIT Financial	Realtime Computing
Clayton Utz	RentSmart
Colin Biggers & Paisley	Rhodium Asset Solutions
CNH Australia	Ricoh Finance
Commercial Asset Finance Brokers Assoc.	Service Finance Corporation
Corrs Chambers Westgarth	SG Equipment Finance
Commonwealth Bank of Australia	Sharp Finance
De Lage Landen	Sofico Services Australia
Deacons	Solutions Asset Management
DaimlerChrysler Financial Services	Southern Finance Group
Dibbs Abbott Stillman	Spectra Financial Services
Experien	St. George Bank
equigroup	Suncorp Metway
Esanda Finance	SunGard Asia Pacific
Flexirent Capital	Technology Leasing
Freehills	The Leasing Centre (Australia)
GE Commercial Finance	Toyota Finance Australia
Fuji Xerox (Finance) Australia	Trace Personnel
Henry Davis York	Traction Group
HP Financial Services	United Financial Services Capital
IBM Global Financing	Upstream Print Solutions
Insyston	Volvo Finance
Innovation Group (Sureplan)	Westlawn Finance
Integrated Asset Management	Westpac Institutional Banking
International Decision Systems	White Clarke Asia Pacific
ISIS Capital	Yamaha Motor Finance
John Deere Credit	



Australian Fleet Lessors Association

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AFLA MEMBER COMPANIES

Custom Fleet

Fleet Partners

Interleasing (Australia)

LeasePlan Australia

NLC

ORIX Australia

sgfleet

State Fleet Services

Summit Auto Lease Australia

Toyota Fleet Management