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Submission to the  
Senate Economics  
Committee

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

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Mercedes-Benz

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## **Threshold of LCT**

**Adverse impacts on small independent businesses and consumers**

**The LCT is a tax on safety**

**The LCT discriminates against low emission vehicles**

<b>LCT Threshold</b>
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**In 1979 when the LCT was introduced it was set at a threshold that was a few hundred dollars above the price of the most expensive locally produced vehicle at the time a Ford LTD. The stated intent of the LCT was to tax “luxury” motor vehicles, however the reality was and is that the intent of the LCT is to raise revenue and protect the local industry. No other “luxury” item is taxed at the same rate. A personal jet, yacht or diamond jewellery are not subject to any luxury tax yet the second largest purchase any individual will make outside their residence a motor vehicle is. Where initially this very blunt instrument of a tax did protect the local industry to some extent that is clearly no longer the case as in 2007 more than 15,000 locally produced vehicles attracted LCT.**

**Depending on which CPI measure is adopted then the LCT would be somewhere between \$71K (CPI) and \$95K (Average weekly earnings) The Government has used household income as a threshold when ascertaining eligibility for Medicare, family assistance and Solar panel rebates. It makes good public policy sense for the same measure or a variation thereof to apply to the LCT.**

**The threshold is indexed on July 1 each year and has clearly failed to keep pace with vehicle pricing to the extent that when introduced in 1979 less than three per cent of vehicles were impacted as opposed to almost eleven per cent in 2008.**

***At a minimum the LCT threshold should be increased to remove distortions in the market and to ensure that the LCT accurately reflects the policy intention.***

## **Adverse impacts on small independent businesses and consumers**

**Owing to the unrealistic LCT threshold a significant number of larger family station wagons and off road vehicles have become subject to the tax. Those Australians living in rural and regional areas have a requirement for larger more durable, safe off road capable vehicles owing to the climatic and road conditions that they face on a day to day basis.**

**The requirement for increased range and the ability to handle unsealed roads is a prime requirement of these Australians and the LCT adversely impacts on their ability to purchase such vehicles.**

**Additionally many tourism and hospitality operators require large Sports Utility Vehicles to service their clients and meet customer and market expectations from overseas tourists. As the LCT is not a deductible taxation expense the actual cost to the business is actually significantly higher.**

**Those Australians who live and work in rural and regional Australia should not be taxed at an effectively higher rate simply because they or their business have a need for vehicles that are subject to the LCT. The impact on employment and income cannot be underestimated if the current LCT regime continues without modification.**

***The LCT threshold must be adjusted to take into account the impact on tourism, primary producers and those who live and work in rural and regional Australia. Consideration be given to include LCT as a deductible business expense as it is clearly a business cost input.***

## **The LCT is a tax on safety**

**Occupant and crash safety has been a core value of every vehicle Mercedes-Benz have produced since 1886 when we invented the automobile. The safety equipment that is taken for granted in today's vehicles (i.e. ABS brakes, ESC, Airbags, Pre tensioning seatbelts, Crash crumple zones, adaptive cruise control) were all pioneered by Mercedes-Benz. The patents for this technology have been made freely available to other motor vehicle manufactures and have saved the lives of thousands of Australians.**

**More than 80% of vehicles over the LCT threshold have ESC fitted as standard as opposed to just over 30% for those vehicles below the LCT threshold. Vehicle safety technology is expensive and despite a significant commercial cost Mercedes-Benz continues to be at the forefront of safety technology development and implementation. In the past we have pioneered new safety equipment on our more expensive vehicles prior to it becoming more widely available throughout our range.**

**Increasing the tax on safety equipment will delay the introduction of further life saving technology to all vehicles.**

*The road trauma implications of a continuing tax on safety equipment are at odds with Government initiatives to reduce road trauma. To tax the very items that save lives will increase road trauma not reduce it.*

**The LCT discriminates against low emission and low fuel consumption vehicles**

**Low emissions technology whether it be Hybrid, Low emission diesels, high efficiency petrol engines requires significant investment in research and development. This cost is ultimately reflected in the retail price of the vehicles so equipped. In the last 30 years the fuel consumption of an E-Class Mercedes-Benz has been reduced by more than 50% with a corresponding reduction in emissions.**

**Owing to the high cost of the research and development and the bringing to production of this technology it is likely that the introduction of such technology could be delayed to the Australian vehicle market due to the LCT.**

**The community expectation is that vehicle emissions must be reduced and the LCT does not support this community expectation.**

*To meet the community expectation of lower emission vehicles along with lower fuel consumption, Mercedes Benz believes that a carbon tax based on emissions will significantly reduce vehicle emissions and reward low fuel consumption whereas a LCT works against such outcomes.*