

NALSPA

National Automotive Leasing &
Salary Packaging Association

FEBRUARY 2018

THE CONTRIBUTION OF THE STATUTORY FORMULA METHOD TO THE AUSTRALIAN ECONOMY

This report summarises the purpose of the Statutory Formula Method, and the estimated benefits that the policy provides to the Australian economy.

Many aspects of this report draw upon detailed analysis and modelling performed by PwC to better understand the wider economic contribution of the SFM. This involved estimating the financial and economic impacts of a theoretical change to the current SFM policy. This analysis is an update of work undertaken by PwC in 2014, in particular in light of changes in the structural nature of the Australian automotive sector.

WWW.NALSPA.ORG.AU



The Statutory Formula Method (SFM) is a means of assessing the tax on the private use component of employer provided vehicles.

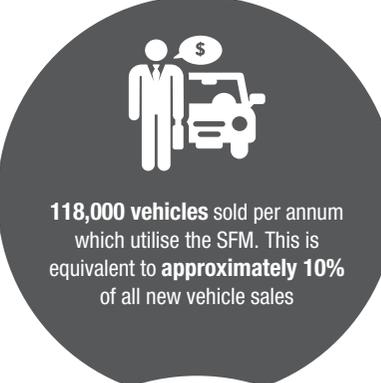
$$\text{Taxable value} = \frac{\text{FBT capital value} \times \text{statutory rate} \times \text{days of private use}}{365} - \text{Employee contributions}$$



USER PROFILE

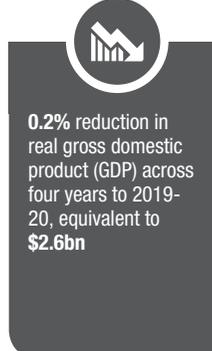
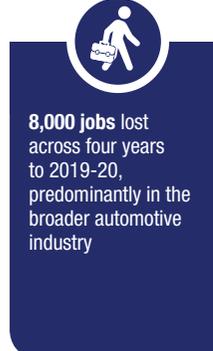
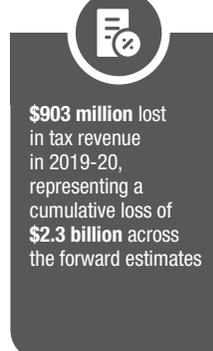
-  SFM users are most likely to fall in the annual salary band of **\$80,000-\$89,999**
-  SFM users most commonly purchase either Mazda or Toyota.
The average purchase price of an SFM vehicle is **\$37,334**
-  **70% of SFM users** teach our children, keep us healthy, respond to emergencies, look after the less fortunate or serve us in Government
-  The distribution of SFM users approximates the general population. Employee participation is broadly spread across all segments of the market.

EXISTING CONTRIBUTION

-  **118,000 vehicles** sold per annum which utilise the SFM. This is equivalent to **approximately 10%** of all new vehicle sales
-  **365,000 people** are using SFM annually (2016-17). This supports the Australian motor vehicle industry, an industry with **\$172.8bn** in turnover

IMPACT OF THE REMOVAL OF THE SFM

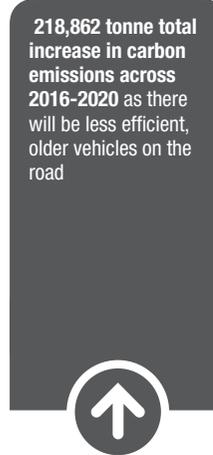
Economy-wide impacts

-  **\$7.8bn** lost in motor vehicle sales over four years, equivalent to **196,588 vehicle sales**
-  **0.2%** reduction in real gross domestic product (GDP) across four years to 2019-20, equivalent to **\$2.6bn**
-  **8,000 jobs** lost across four years to 2019-20, predominantly in the broader automotive industry
-  **\$903 million** lost in tax revenue in 2019-20, representing a cumulative loss of **\$2.3 billion** across the forward estimates

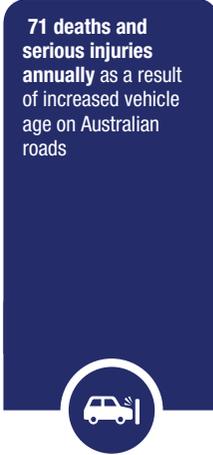
Employer and employee impacts

-  **\$144m** in additional compliance and productivity costs for Australian businesses through to 2019-20
-  The SFM helps alleviate the burden of transport costs for many Australians, which account for **13.4% of household expenditure**. The removal of SFM results in a **\$3,106 decrease** in annual average household disposable income for SFM users

Social impacts

-  **218,862 tonne total increase in carbon emissions** across 2016-2020 as there will be less efficient, older vehicles on the road

Motor vehicle

-  **71 deaths and serious injuries** annually as a result of increased vehicle age on Australian roads

WHAT IS THE STATUTORY FORMULA METHOD (SFM)?

Employers that provide their employees with cars available for private use (a car fringe benefit) may incur fringe benefits tax (FBT).

The Statutory Formula Method (SFM) was created as a means of assessing the tax on the private use component of employer provided vehicles. Specifically, the taxable value of the benefit provided to the employee is based on the cost of the car multiplied by a single statutory rate of 20 per cent, taking into account the number of days per year the car fringe benefit was provided by the employer.

The SFM was created as an alternative to the more complex Operating Cost Method (OCM) – commonly called the ‘logbook method’ – to provide administrative efficiency and increased compliance to employers providing vehicles.

WHO RELIES ON THE SFM?

With an estimated 118,000 SFM vehicles sold in Australia in 2016, the SFM supports approximately 10 per cent of all new vehicles sales.

Analysis of NALSPA member data reveals the following profile of an average SFM user:

- Users of salary packaging are generally earning around the average wage in Australia. The majority of people relying on the SFM earn less than \$100,000, and 70 per cent earn less than \$115,000. SFM users were most likely to fall in an annual salary band of \$80,000 to \$89,999
- 61 per cent of SFM users are from metropolitan areas, while 39 per cent came from regional or remote areas
- Only 5 per cent of NALSPA vehicles being subject to the Luxury Car Tax (LCT). The average purchase price of an SFM vehicle was \$37,334 and were most likely to be a Mazda or Toyota. A quarter of vehicles using the SFM were tool-of-trade (ToT) vehicles



THE IMPLICATIONS OF REMOVING THE SFM

Removal of the SFM would result in a projected **196,588 lost vehicle sales** in the economy over four years, equivalent to \$7.8 billion in lost revenue for the industry. This has a series of impacts across a range of parties, including:

- **The Australian economy** – with the removal of the SFM and the subsequent loss of motor vehicle sales, the demand for services provided by those who support the sale, marketing and distribution of vehicles (including the fleet leasing, salary packaging sector, multiple financiers and car retailers) will reduce, flowing through to other areas of the economy. This will result in:
 - › A 0.2 per cent reduction in real gross domestic product (GDP) by the end of 2019-20, translating into a **loss of \$2.6 billion in GDP** by the end of 2019-20
 - › The **loss of 8,000 jobs** across the four years to 2019-20. These would predominantly be lost in the broader automotive industry (motor vehicle parts, retailers, wholesalers and business services, including finance)
 - › A net reduction in total Commonwealth and State/Territory tax revenue (income tax, GST, and payroll tax) of **\$903 million** in tax revenue in 2019-20, translating into a cumulative loss in tax revenue of **\$2.3 billion** across the forward estimates.
- **Employees** – the ability for employees to utilise SFM to support the purchase of motor vehicles currently provides significant cost of living benefits for many Australian households. The design of the current salary sacrificing policy provides employees with a method of repayment dependent on the timing of their income stream. If such a policy is unavailable, motor vehicles are likely to be less affordable to employees as the alternative payment options will be less flexible to their incomes. For example, an average employee who is an SFM user is likely to have their **take home pay reduced by \$3,106 a year** as a result of the SFM being removed in favour of the OCM.

- **Employers** – the removal of the SFM would trigger:
 - › A requirement to maintain logbooks under the OCM. This would mean **additional compliance costs of \$144 million for Australian businesses** through to 2019-20 if forced to use the alternative OCM method to track and report car benefits
 - › Additional FBT obligations for NFP employers, including, through to 2019-20, **additional FBT payable** of:
 - › **\$163.6 million for employers offering employee entitled vehicles (EEVs)**
 - › **\$69.8 million for employers offering tool-of-trade (ToT) arrangements.**

- **The average age of the Australian fleet** – the use of the SFM for the purchase of motor vehicles has led to a higher frequency in the replacement of motor vehicles, reflected in a greater proportion of newer vehicles on Australian roads than would otherwise have been the case. We calculate the average age of an SFM vehicle to be 3.1 years compared to the average age of the total Australian fleet of 10.1 years. The abolition of the SFM is forecast to result in:
 - › Serious motor vehicle injuries over the four years to 2020 would be over 283 persons, with a **productivity cost of \$135 million** over the four years
 - › **218,862 tonne total increase in carbon emissions** across 2016-2020 as less efficient, older vehicles will be replaced at a lower pace.

TABLE 1: MACROECONOMIC IMPACTS

	2016-17	2017-18	2018-19	2019-20	Total	
Change in total tax revenue (\$m)	-256	-486	-694	-903	-2,339	↓
Real GDP (\$m)	-594	-677	-645	-670	-2,587	↓
Employment (persons average)	-8,011	-9,513	-7,838	-7,375	-8,184 (annual average)	↓