NALSPA

National Automotive Leasing
and Salary Packaging Association
ACN 169 223 161

URGENT

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To All Members of the Legislative Council

Via Email

Dear Member

Proposed "Super-luxury" Motor Vehicle Duty

I am writing on behalf of the National Automotive Leasing and Salary Packaging Association (NALSPA), to express our concerns in relation to the State Taxation Acts Amendment Bill 2019 (the Bill) which proposes to introduce a new "super-luxury" motor vehicle duty in Victoria.

By way of background, NALSPA is the representative body for Australia's major providers of tool-of-trade motor vehicle management services and salary packaged motor vehicles. We strongly support government decision-making that is informed by in-depth and rigorous analysis and is underpinned by active and ongoing stakeholder engagement.

NALPSA is concerned that such attributes are missing from the proposed amendments to the *Duties Act* 2000 contained in the Bill which, if passed, will introduce increased rates of duty imposed on new and used passenger motor vehicles, with almost immediate effect.

Under existing Victorian law, a duty of approximately 5.2 percent applies to vehicles costing more than the federal luxury car tax (LCT) threshold (currently $66,331 and moving to $67,525 from 1 July 2019).

We believe the proposal to impose more tax on the Victorian motor vehicle industry and consumers, by way of a **new 7 percent tax** on "super-luxury" motor vehicles costing between $100,000 and $150,000 and a **new 9 percent tax** on "super-luxury" vehicles above $150,000, is not in the interests of:

- the Victorian economy
- the automotive and related sectors
- consumers
- road safety
- the environment; nor
- the longer-term sovereign interests of the State.

Whilst only a very small number of vehicles managed by NALSPA members – about 5% of total vehicles under management attract the current federal LCT - as a key participant and driver in the automotive sector we are concerned about the precedent of such measures proposed by the Victorian Government and their ability to cause harm to the automotive sector, particularly at a time when the sector is experiencing soft consumer demand and material Commonwealth regulatory reform.

Comparison of cost – new vehicles

The table below highlights NALSPA's estimated impact on consumers of the Government's proposed "super-luxury" car tax (Additional Vic MV Duty) if it is introduced with effect from 1 July 2019.

	Pre-1 July 2019	**Post-1 July 2019**	**Additional Vic MV Duty Payable Post 1 July 2019**
Base car price ex GST	**$85,000**	**$85,000**	
GST	$8,500	$8,500	
Federal LCT of 33%*	$8,151	$7,793	
Victorian MV Duty	**$5,293.60**	**$7,098**	**$1,804.40**
Total Federal & State taxes	$21,944.60	$23,391	
Total price	**$106,944.60**	**$108,391**	
Base car price ex GST	**$100,000**	**$100,000**	
GST	$10,000	$10,000	
Federal LCT of 33%*	$13,101	$12,743	
Victorian MV Duty	**$6,406.40**	**$8,596**	**$2,189.60**
Total Federal & State taxes	$29,507.40	$31,339	
Total price	**$129,507.40**	**$131,339**	
Base car price ex GST	**$150,000**	**$150,000**	
GST	$15,000	$15,000	
Federal LCT of 33%*	$29,601	$29,243	
Victorian MV Duty	**$10,129.60**	**$17,496**	**$7,366.40**
Total Federal & State taxes	$54,730.60	**$61,739**	
Total price	**$204,730.60**	**$211,739**	

*calculation based on a vehicle with a fuel consumption greater than 7L/100 kms

As can be seen from the table, existing state and federal taxes on a car with a base price of $85,000 – well below the proposed super-luxury tax threshold – already adds **$21,944.60** to the cost of a new vehicle.

Under the Government's proposal, the buyer of that car or any other car (excluding low emission vehicles) with a base price in the order of $85,000, will be hit with a Victorian tax (MV Duty) increase of **34%** if the Bill is allowed to pass. Vehicles with a value of $150,000, will be hit with Victorian tax (MV Duty) increase of **73%** if the Bill is allowed to pass, and be forced to pay an additional **$7,366.40** in State duty.

Importance to the economy

Whilst facing recent transformative structural change, the Australian automotive industry remains a major contributor to economic activity and growth. It consists of nearly 65,000 businesses employing over 365,000 people nationally and training 30,000 apprentices annually. In 2015/16, the industry contributed $38.3 billion towards Australia's Gross Domestic Product.

In 2016/17, the motor vehicle sales and retailing sector employed 90,300 people nationally. In Victoria, new car dealers alone employ almost 14,000 people, thus making a significant contribution to the state and federal tax bases.

When announcing, in December 2015, the Victorian Government's $46 million package to assist the Victorian motor vehicle industry in its transition after car manufacturing was to end, then Minister for Industry Lily D'Ambrosio acknowledged that "*the automotive industry has played a major part in Victoria's economic success for much of the state's history*."

Lack of consultation

Just prior to Victoria's state election in November 2018, the Treasurer released the Government's financial plan for the next four years, and stated that it contained "*no new taxes whatsoever, no tax increases, no extra charges, it's all there in black and white* …"

It is the Government's prerogative as to how it manages its finances, but the proposed tax increases contained in the Bill and already passed by the Legislative Assembly were only announced days ago in the 2019-20 State Budget. There has been no time allowed for stakeholder consultation, and NALSPA believes this should not be the case.

A consultation process would allow time for some important issues to be considered, for example:

- What is the measure of a vehicle's dutiable value? For new vehicles impacted by the Government's proposed new tax, does it include such things as delivery costs? Will consumers be paying Victorian motor vehicle duty on top of federal LCT and GST?

- How has the Government calculated that the proposed increase in motor vehicle duty will generate an extra $246 million over the forward estimates period? In particular, how has the Government determined that revenue from the new tax will increase every year in that period, from $61 million in 2019-20 to $69.1 million in 2022-23?

- What are the likely downstream effects of making cars more expensive to buy in Victoria? What is the potential impact upon jobs and investment in the automotive sector? What are the potential impacts upon road safety and our environment?

An easy target?

According to VFACTS, which is a record of vehicle sales compiled by the Federal Chamber of Automotive Industries (FCAI), 324,384 new motor vehicles were sold in Victoria in the period 1 April 2018 to 31 March 2019, and of those, **20,256 (6.24 percent)** were in excess of a recommended retail price of $85,000, and therefore would, as we understand, likely attract the new Victorian "super-luxury" tax once GST and the federal LCT are added.

We are unable to obtain data on the specific number of **used vehicles** sold in Victoria annually with sale prices in excess of $100,000.

In short, the Government is targeting a segment of the market that is perceived to be more capable of affording the extra cost of buying a car, whilst failing to adequately consider, in our opinion the adverse consequences of such a decision.

The timing is ill conceived

NALSPA fully concurs with AADA's CEO David Blackhall, who said in response to the proposed hike in motor vehicle duty "now is not the time for a tax grab, with people's businesses and jobs at stake."

These figures underpin that concern:

- The new vehicle retail industry in Victoria has already contracted by more than **10 percent** this calendar year alone, the severest of any state in Australia (AADA, "Victoria's Car Tax Will Hurt Industry", 26 May 2019).

- Total new vehicle sales in April 2019 were **8.9 percent lower** than in April 2018, continuing a trend that has seen year-to-date sales to May 2019 **8.1 percent less** than the same period last year (FCAI, 3 May 2019).

- In 2018, Australian prestige car dealers' selling **gross** profit averaged only **$1,246 per new vehicle**, producing a margin between 2.6 and 3 percent. In the same period, luxury car dealers averaged only $1,151 profit per vehicle with a margin between 2.1 and 2.5 percent. Both sectors' results represented falls from 2017 (*2019 Deloitte Motor Industry Dealership Benchmarks Report*).

- In 2018, there were only 91,642 luxury vehicles sold in Australia – **a 3 ½-year low** – with sales falling nearly **15 percent** over the 2017 and 2018 calendar years (Commsec's *Economic Insights Report*, 10 January 2019).

NALSPA's concern is that the Government's proposed super-luxury car tax will only serve to exacerbate those downward trends in an environment where consumer demand is weak (led by a range of factors including the shrinking availability of credit, a weak housing market and flat to weak wage growth) and a number of businesses in the automotive sector are struggling.

Jobs are already at risk, further to the many thousands of jobs which have been recently lost in Victoria alone as a result of the transformation of automotive manufacturing. Further small movements in consumer demand have the ability to move beyond an irrevocable tipping point.

The proposed increase in the Victorian motor vehicle duty also comes at a time when the Federal Government is under increasing pressure to do the opposite – to scrap its LCT. Introduced in 2001, the federal LCT replaced the 45 percent Wholesale Sales Tax that previously applied to imported luxury motor vehicles as a protection measure for the Australian motor vehicle manufacturing industry.

Since Australia – in particular, Victoria – no longer has a motor vehicle manufacturing industry, there is no economic justification for the LCT. NALSPA therefore supports, in principle, its repeal, and notes with agreement the recent comments of Tony Weber, CEO of the FCAI:

> *"Generally accepted guiding principles of a "good" tax system include neutrality, equity, fairness, and simplicity – and the LCT meets none of these. The LCT has become redundant in the Australian automotive market and the time has come to cease the charade that this is a justifiable, sensible or even a necessary tax … The EU regards it as a false tariff and there is no doubt that it is a tax on technology and safety, preventing consumers from accessing the newest and safest vehicles."*

NALSPA also notes the FCAI believes the Victorian Government's proposal to target what it describes as "super-luxury" vehicles with higher taxes could stand in the way of the development of a **European Free Trade Agreement**.

Sending the wrong message and heightening Victoria's sovereign risk

As Victoria seeks to recover from both the shutdown of the motor vehicle manufacturing sector and softness in new motor vehicle sales, NALSPA believes that imposing a new and substantial tax on vehicles over $100,000 is sending the wrong message to potential and existing entrepreneurs and investors in the Victorian automotive and downstream industries.

NALSPA notes that the Premier of Victoria, Daniel Andrews, said the Government was "*helping businesses in the supply chain gain a foothold in overseas markets and emerging industries*." That was in 2015 when he announced the $46 million assistance package for the Victorian automotive industry. We would like to ask, how does that accord with the $246 million in tax the State Government now wants the industry and consumers to provide?

An immediate example of what we believe to be the wrong message to investors is BMW. At the launch of its **new $65 million** company-owned dealership in Rushcutters Bay just last Thursday – a sizable investment in Australia – BMW Australia CEO Vikram Pawah noted that Victorian motor industry sales were down 10 percent across the board, and said

> *"If anything, we expect the* (Victorian) *Government to scrap the luxury car tax instead of adding more on top of the Federal Government's. We are very disappointed the Victorian Government is looking at this, we are encouraging them to review it and revive the industry by providing some stimulus in the economy."*

Consumers in the upper car market are likely to look elsewhere than Victoria for procuring their vehicles if local dealers attempt to pass on Victorian LCT in their pricing. This will create an uneconomic distortion of the car market and place pressure on dealers' margins which are already at historical lows and under pressure.

Furthermore, the Victorian LCT will also impose an additional compliance and administration burden on the automotive sector and NALSPA members who procure and manage such vehicles on behalf of their customers.

Missing the target

Much debate of the Bill last week in the Legislative Assembly was prompted by the Treasurer's comment at a Victorian Chamber of Commerce luncheon on 28 May that Victorians who spend years saving up to afford a Toyota Land Cruiser should "*get a life*".

We note that comment accords with the Government's view that passenger vehicles worth more than $100,000 are *luxury vehicles*, as expressed by several ALP Members of the Legislative Assembly during debate of the Bill on 29 May.

Addendum "A" contains a sample of vehicles with a recommended retail price of $85,000 or more which would, as we understand, be burdened with this new "Super-luxury" tax. This list does not include a number of so called luxury marques/models which will attract the new Victorian tax, and is provided here to simply demonstrate that the impost will, if passed, apply to many vehicles which are <u>not</u> **Ferrari's or Lamborghini's.**

Concerning Toyota Land Cruisers, they entered the debate because it is the vehicle which attracts the most Federal LCT despite the view of many that they are not a "luxury" vehicle.

Instead, NALSPA supports the view expressed by the FCAI that the Victorian Government's proposed hike in motor vehicle duty "targets vehicles that introduce innovative safety and technical features to the market."

Research undertaken by PwC and commissioned by NALSPA in 2014, and updated in 2018, demonstrated two key benefits of newer cars: reduced emissions of greenhouse emissions and much-improved passenger and pedestrian safety - (report available at https://nalspa.org.au/news/).

Targeting new 'luxury' vehicles places those advances at a measure of risk – why would we as a society want to discourage Victorians from buying the most technologically advanced motor vehicles available on the market in terms of safety and emissions?

The need for the safest possible vehicles on Victorian roads is highlighted by the sad fact that <u>140 people have lost their lives on Victorian roads this year to date</u>, compared with 88 at the same time in 2018. Surely, this is the time to do everything we can to encourage, not discourage, the purchase of the safest possible newer vehicles available in the marketplace.

To illustrate, Australasia's authority on vehicle safety, ANCAP has explored possible reasons for the upwards movement in the number of lives lost on our roads. Its recent analysis of the Australian registered light vehicle fleet revealed:

- older vehicles are over-represented in fatal vehicle crashes, and
- the average age of a vehicle involved in a fatal crash is increasing.

ANCAP also found that the rate of fatal crashes per registered vehicle for the oldest vehicles is four times higher than that of the newest vehicles.

Apart from those impacts, should the Government's proposed hike in motor vehicle duty be passed into law, the following tax outcomes would arise:

- A consumer buying a new Toyota Land Cruiser LC200 Sahara 4x4, 4.5L Diesel, 6-speed automatic, ($119,000) would pay $8,330 in Victorian motor vehicle duty.

- The same consumer buying instead a Toyota Land Cruiser LC200 VX 4x4, 4.5L Diesel, 6-speed automatic ($98,510) would pay $5,122 in duty – nearly 40 percent less.

Normal consumer behaviour would see buying decisions influenced by such opportunity costs.

If our concerns about consumer behaviour in response to the new motor vehicle taxes prove to be valid, this places in question the extent of revenue to be gained from the measure and, consequently, whether it will outweigh the adverse impacts discussed above.

Where to now?

Given the concerns I have raised in this letter, we are asking Members of the Legislative Council to reject the specific motor vehicle duty amendments contained within the Bill, or at the very minimum to refer the duty amendments to Committee for examination.

NALSPA believes it is in the best interests of Victorians and the Victorian economy for the Government to at the least undertake a consultative process with stakeholders concerning these amendments.

Further information about NALSPA is available at www.nalspa.org.au. I can be contacted at mreinehr@nalspa.org.au or on mob. 0417 533 320.

Yours sincerely

pp.
Matt Reinehr
Chairman

ADDENDUM 1

Sample of New Motor Vehicles with a RRP of $85,000* or more

Alfa Romeo 4C

Alfa Romeo Stelvio Quadrifoglio

Chevrolet Camaro

Infiniti Q70

Infiniti QX80

Jaguar F-Pace

Jaguar XE

Jaguar XF

Jeep Grand Cherokee - SRT

Landrover Discovery

Mercedes Benz X-class Edition 1 350 power

Nissan Patrol Ti-L

Toyota Landcruiser

Volkswagen Multivan T6 Highline

Volkswagen Touareg

Volvo XC60 – T8 R-Design

Volvo XC90

*actual price will depend on model selected, specifications and options

Source: www.redbook.com.au