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# Statement to the Tax Forum

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## INTRODUCTION

The FCAI is the peak industry organisation representing vehicle manufacturers and importers of passenger vehicles, light commercial vehicles and motor cycles in Australia.

The Australian automotive industry has made a significant contribution to Australian Government revenue, over the past year with:

- \$800 million saving from the abolition of the Green Car Innovation Fund;
- \$400 million saving from the scrapping of the Cleaner Car Rebate;
- \$30 million saving from capping the LPG Vehicle scheme;
- \$500 million per year in additional revenue from changes to FBT for motor vehicles.

This does not include other policy changes announced by the Australian Government over the past four years, including increased rate of taxation on the Luxury Car Tax (\$150 million per year), proposed impact of a Carbon Tax (\$30 m - \$50 m per year) and a reduction in net assistance to the industry through the ACIS/ATS programs announced in 2008.

## LUXURY CAR TAX (LCF) BACKGROUND

The LCT was introduced on 1 July 2000 when the GST came into effect, replacing the wholesale sales tax which had applied to luxury vehicles since the 1980's.

A luxury car is defined as a car with a GST inclusive price above the LCT threshold. There are two LCT thresholds:

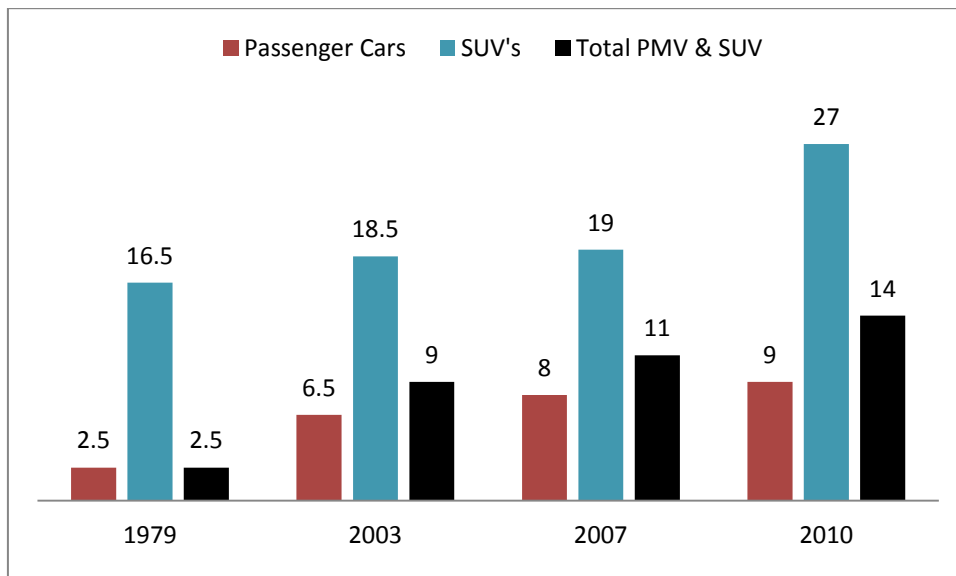
1. The general LCT threshold for the 2009-10 year is \$57,466 including GST, therefore the LCT applies to vehicles with a base price over \$52,209.
2. Low fuel consumption threshold of \$75,375 is applied to vehicles with fuel consumption of 7 litres or less per 100kms.

The LCT is a unique feature of the Australian taxation system and in effect is a tax on the introduction of advanced safety and environmental features into the Australian market. The Henry Tax Review recommended the abolition of the LCT.

## INCREASING INCIDENCE OF THE LUXURY CAR TAX

The FCAI is particularly concerned by the growing incidence of the LCT both on imported and locally manufactured vehicles. Analysis undertaken by the FCAI shows a substantial multiplication of vehicles exceeding the LCT threshold from around 2.5 per cent in 1979 to 14 per cent in 2007 (see Figure 1).

*Figure 1: Percentage of Vehicles that Exceed the LCT Threshold*



As a result, the LCT is now applied to many vehicles which are popular family vehicles and/or vehicles which are predominantly relied upon by people living in rural and regional areas of Australia. This observation is reinforced by analysis of the top-selling models (see Figure 2).

**Figure 2: Vehicle Sales Exceeding LCT Threshold – 2010**

Rank	Model Group	Sales
1.	Toyota Prado	15,423
2.	Toyota Landcruiser Wagon	7,273
3.	Holden Commodore	6,749
4.	Mercedes-Benz C-Class	6,658
5.	Mitsubishi Pajero	5,065
6.	BMW 3 Series	4,943
7.	BMW X5	3,105
8.	Toyota Kluger	2,731
9.	Audi A4	2,652
10.	Mercedes-Benz M-Class	2,589
11.	Lexus RX	2,534
12.	Audi Q5	2,341
13.	Mercedes-Benz E-Class	2,224
14.	Mazda CX-9	2,171
15.	Lexus IS250	1,954
16.	Mercedes-Benz E-Class Cpe/Conv	1,918
17.	Ford Falcon	1,843
18.	BMW 1 Series Coupe/Conv	1,805
19.	Land Rover Discovery	1,728
20.	Holden Caprice	1,715

Source: FCAI VFACTS

When the threshold was first introduced in 1979, only two Australian-made models were priced above this threshold - the Holden Caprice and the Ford LTD - despite the significantly higher market share that local manufacturers held at that time.

## THE LUXURY CAR TAX THRESHOLD AND INDEXATION

The LCT threshold is currently indexed on 1 July each year, based upon the increase in the motor vehicle purchase sub group for the Consumer Price Index (CPI-MV) for the March quarter of each year.

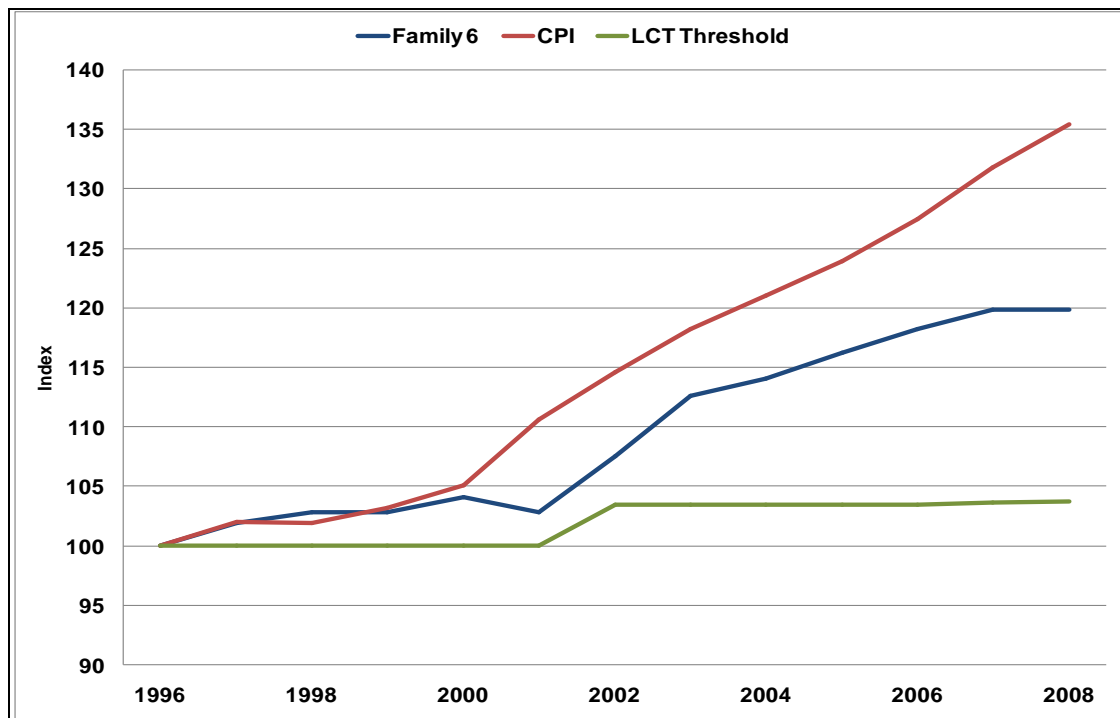
The CPI-MV measures change in the price of motor vehicles over time, however, adjustments are made to the index to remove the impact of 'quality' improvements in vehicles that affect motoring performance, economy, comfort level, safety or durability.

Therefore, the CPI- MV seeks to provide a measure of the changing price of motor vehicles without any allowance for the impact of the introduction of features such as electronic fuel injection, ABS brakes, CD players, air-conditioning, air bags or electronic stability control.

The implication is that changes in the CPI-MV bear little or no resemblance to actual vehicle price changes in the market and, as a result, the current approach to indexation of the LCT threshold is deeply flawed.

Since 1996, the LCT threshold has increased from \$55,134 to only \$57,180, or by just 3.6 per cent. In contrast, over the same period, the all groups CPI has increased by 35 per cent and the average price of a 'Family 6' sedan has increased by almost 20 per cent (see Figure 3).

**Figure 3: LCT Threshold has not Reflected Other Measures of Price Change**



Source: Australian Automotive Intelligence

Amendments to the LCT (*A New Tax System (Luxury Car Tax) Act 1999 – Sect 12.1*), which were introduced in 2008, will result in the LCT threshold being indexed by the Consumer Price Index (All Groups) from 1 July 2012 unless Parliament determines an alternative method of indexation.

*(3A) On and from 1 July 2012 the [luxury car tax threshold](#) is the [luxury car tax threshold](#) as at 30 June 2012 indexed according to a factor to be determined by the Parliament and to apply from 1 July 2012 or, if such a factor is not determined by the Parliament, indexed annually in accordance with the CPI indexation method provided for by Subdivision 960-M of the \*ITAA 1997, calculated using the index number referred to in subsection 960-280(1) of that Act.*

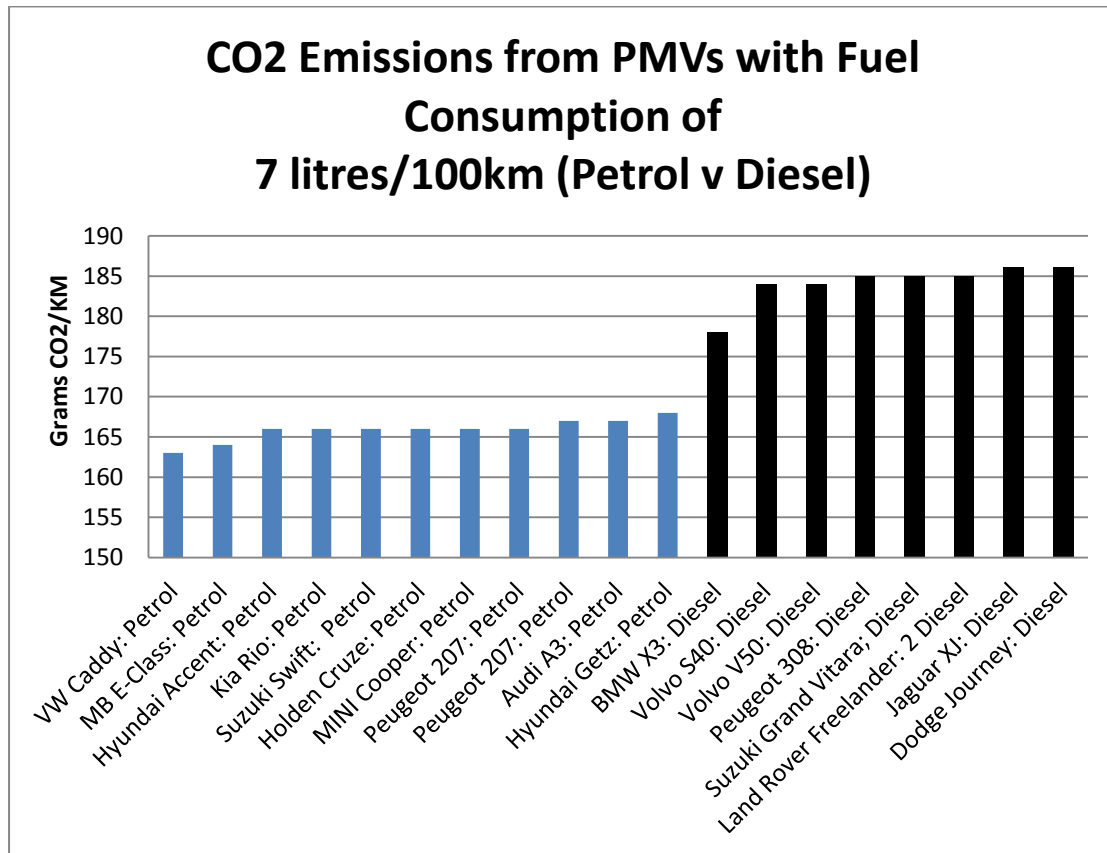
## LOW FUEL ECONOMY THRESHOLD

The distortionary nature of the LCT has been further exacerbated with amendments to the LCT in 2008 which provided two exemptions from the LCT:

1. Vehicles with fuel consumption of less than 7 litres/100km have a separate LCT threshold of \$75,000 above which the LCT applies;
2. Certain primary producers and tourism operators do not incur the LCT.

Figure 4 below shows all vehicle models sold in 2010 which had a fuel consumption of 7 litres per 100 km. The figure demonstrates that, for the same fuel consumption, diesel powered vehicles have considerably higher CO2 emissions.

Figure 4: Low Fuel Economy Threshold



Petrol engines with fuel consumption of 7 litres per 100 Kms produce around 167 grams of CO2 per 100km on average, while diesel-engined vehicles with the same fuel consumption produce on average 184 grams of CO2 per 100km.

A more equitable approach would be to target the LCT at high emission vehicles, rather than low fuel consumption, as currently occurs.

## CONCLUSION

The Luxury Car Tax is an inefficient, punitive and poorly designed tax, which gives rise to a significant distortion in the Australian vehicle market. LCT can also lead to an adverse environmental impact when applied to vehicles which contain leading edge environmental and safety features.

Existing measures to exempt vehicles with low fuel consumption are inadequate and poorly designed.

The LCT should be abolished or, at the very least, the tax should be overhauled to ensure that the focus of the tax is on reducing CO2 emissions from genuine luxury vehicles rather than acting as a tax on environmental features.