



Submission by the Motor Trades  
Association of Australia Limited  
(MTAA) into Removing the Luxury Car  
Tax on Re-imported Cars Refurbished  
Overseas

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## Summary of Recommendations

- *Government considers the challenges faced by Australian automotive business* when developing policy and introducing legislation. These challenges include the luxury car tax (LCT), skills shortages, high labour costs, high levels of competition, structural adjustment, advancing technology, high capital investment costs, low levels of profitability etc.
- *Abolish the Luxury Car Tax* as it reduces consumer demand for automotive products and services, distorts the market, is discriminatory, acts a price control mechanism, impedes automotive innovation (including adoption of safety systems and fuel efficient drive systems), adversely impacts consumer buying decisions, is at odds with level playing field concepts of international trade policy and acts against the intention of the Government to reduce red tape and Government intervention.
- *Do not remove the LCT on re-imported cars refurbished overseas* as it promotes importers to refurbish or modify cars overseas rather than using Australian automotive businesses.
- Rather than piecemeal amendments to the LCT, MTAA advocates a holistic change to LCT through its abolition or:
  - *Raise the LCT threshold to \$100,000 to better reflect the cost of actual luxury cars;*
  - *Remove the costs of accessories in relation to the LCT threshold; and*
  - *Reduce the level of LCT payable.*
  - Replace any reduction in revenue by applying a luxury tax to other luxurious items such as private boats above a threshold, private planes or jewelry or artworks etc.

## The Motor Trades Association of Australia

- The Motor Trades Association of Australia (MTAA) is the peak Australian automotive trades association and represents the interests of its State and Territory jurisdictional associations which include: the Motor Traders Association of New South Wales, the Victorian Automobile Chamber of Commerce (incorporating the Tasmanian Automobile Chamber of Commerce), the Motor Trade Association of South Australia, the Motor Trade Association of Western Australia, the Motor Trades Association of the ACT and the Motor Trades Association of the Northern Territory.

- MTAA represents the interests of automotive businesses across 95% of the automotive supply chain including businesses involved in the modification and refurbishment of motor vehicles and the businesses that supply automotive parts and services to these businesses.
- MTAA also represents the interests of businesses in other key automotive sectors including automotive repair and maintenance, motor vehicle retailing, motor vehicle and parts wholesaling, motor vehicle parts and tyre retailing, fuel retailing, towing services, passenger car rental and hiring, agricultural and industrial machinery retailing and repair, automotive dismantling and recycling and associated sectors.

## The Australian Automotive Industry

- MTAA represents many of the 69,365 retail motor trades businesses which employ over 379,365 Australians and contributed \$37.1 billion to the Australian economy in 2015/16; which equates to 2.2% of Australia's GDP<sup>1</sup>.
- The Australian economy relies extensively on the Australian automotive industry with over 91% of all Australian industries utilizing the goods and services of the automotive industry as intermediate inputs towards the value of their own production<sup>2</sup>.
- The Australian automotive industry plays a key role in retailing, servicing, repairing and disposing of the 18.4 million vehicles registered for Australian Roads (January 2016). The national fleet is currently growing at approximately 2.1% annually which equates to approximately 380,000 vehicles with many of these vehicles considered luxury vehicles as they exceed the LCT threshold of \$66,331 and \$75,526 for fuel efficient vehicles<sup>3</sup>.
- Currently the profitability of automotive businesses is challenged by:
  - *A luxury car tax (LCT):* The LCT reduces consumer demand for vehicles (see below for more details).

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<sup>1</sup> Motor Trades Association of Australia (2017) Directions in Australia's Automotive industry: An industry report 2017, Victoria Automotive Chamber of Commerce, Melbourne Victoria (p. 16)

<sup>2</sup> Motor Trades Association of Australia (2017) Directions in Australia's Automotive industry: An industry report 2017, Victoria Automotive Chamber of Commerce, Melbourne Victoria (p. 16)

<sup>3</sup> Australian Taxation Office (2018) Luxury tax rate and thresholds. Accessed 7 August 2018 at <https://www.ato.gov.au/rates/luxury-car-tax-rate-and-thresholds/>

- *Skills shortages:* A shortage of over 35,000 skilled workers<sup>4</sup>.
- *High costs of labour:* Due to skills shortages, skilled workers are able to demand high wages.
- *High levels of competition:* The Australian automotive industry is the most competitive right-hand-drive market in the world with over 60 makes and 400 model variants on offer.
- *Structural adjustment:* The structure of the Australian automotive industry is changing as Australian manufacturing has ceased and all passenger cars (including luxury cars) are imported.
- *Advancing technology:* The introduction of rapidly advancing automotive technology (i.e. electric vehicles, autonomous driving aids, composite and plastic manufacturing methods, etc.) has increased requirements for businesses to invest and evolve to service and repair these products.
- *Retailing models:* Unfair franchising arrangements often favour manufacturers to the detriment of dealers and the introduction innovative retail models (i.e. shop front sales agents) are gaining market share.
- *High capital investment costs:* High levels of capital investment are required (e.g. the purchase of floor stock, need for specialised diagnostic equipment, specialised training requirements, etc.).
- *Low levels of profitability:* In comparison to other industries, the automotive industry has a low return on investment (commonly between 0.5 and 4.0%) and profitability.
- *Small capital base:* 96.5% of Australia's automotive businesses are small and family owned enterprises with almost half having a reported turnover of between \$200,000 to less than \$2 million and have limited ability to grow their business.

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<sup>4</sup> Motor Trades Association of Australia (2017) Directions in Australia's Automotive industry: An industry report 2017, Victoria Automotive Chamber of Commerce, Melbourne Victoria (p. 5)

- As a result of the above (and other automotive industry sector specific challenges) many automotive businesses are seeking business opportunities. For example, vehicle modification and refurbishment provide opportunity to employ some of the 43,627 Australian automotive manufacturing workers<sup>5</sup> now that passenger vehicle manufacturing has ceased in Australia.
- The following table<sup>6</sup> is an economic summary of the value of Australian automotive industry (and its specific sectors) in 2015/16. It illustrates the scope of the Australian automotive industry, the financial contribution of the Australian automotive industry and the employment it provides.

ANZSIC CODE	INDUSTRY SECTOR	EMPLOYMENT (No.)	BUSINESSES (No.)	INDUSTRY VALUE ADDED (\$m)
941	Automotive Repair and Maintenance	142,632	37,406	9,452.7
391	Motor Vehicle Retailing	66,002	5,752	7,707.1
2311,2312, 2313, 2319	Motor Vehicle & Parts Manufacturing	43,627	3,054	3,826.1
400	Fuel Retailing	34,728	4,136	2,851
392	Motor Vehicle Parts & Tyre Retailing	28,295	4,288	2,211.9
350	Motor Vehicle & Parts Wholesaling	22,081	5,282	5,871
2399, 2462, 2491, 2461	Other Specialised Machinery and Equipment Manufacturing	11,500	849	1,900
6611	Passenger Car Rental & Hiring	7,997	1,624	1,705
4231, 9429	Outdoor Power Equipment	4,670	1,290	250
4245, 9429	Marine Equipment Retailing	3,365	829	219
4241	Bicycle Retailing	4,500	987	950
4610	Towing Services	3,052	2,465	203.8
9429	Agricultural Machinery Retailing and Repair	6,916	1,403	N/A
	<b>TOTAL</b>	<b>379,365</b>	<b>69,365</b>	<b>37,148</b>

<sup>5</sup> Motor Trades Association of Australia (2017) Directions in Australia's Automotive industry: An industry report 2017, Victoria Automotive Chamber of Commerce, Melbourne Victoria (p. 18)

<sup>6</sup> Motor Trades Association of Australia (2017) Directions in Australia's Automotive industry: An industry report 2017, Victoria Automotive Chamber of Commerce, Melbourne Victoria (p. 18)

- In summary, the Australian automotive industry is critical to the Australian economy and the mobility of Australians. Regardless of the essential services that the automotive industry provides, many automotive businesses are struggling to survive due to the challenges they face. MTAA advocates that increased Government support is required to ensure the sustainability of the industry and that public policy must be used to stimulate demand for automotive products and services, rather than constrain demand (which is a consequence of the LCT).

## Luxury Car Tax

- MTAA opposes the LCT for the negative impacts it has on the Australian automotive industry and Australian automotive businesses and consumers. More specifically, MTAA opposes the LCT for the following reasons:
  - *LCT distorts the market:* The LCT artificially increases the price of certain vehicles that is not indicative of manufacturing and importation costs and thus constrains the sale of these products on merit.
  - *LCT is discriminatory:* The LCT discriminates against the automotive industry and consumers of some of its goods and services. For example, MTAA questions why the automotive industry is targeted by Government for providing vehicles considered as 'luxury' goods particularly as many vehicles that exceed the LCT threshold can be considered 'normal' or 'regular' passenger vehicles. They may also be considered 'essential' vehicles due to their safety systems or their operational parameters (e.g. 4WD vehicles operating in rural areas). In comparison, MTAA questions Government as to why more obvious luxury goods such as watches, jewelry and yachts are not targeted for discriminatory taxation.
  - *LCT is a price control mechanism:* MTAA considers that the LCT is an artificial price control mechanism. MTAA advocates that the LCT contrasts with concepts of fairness of competition which are supported by the Commonwealth Government, for example, principles of fair competition promoted and protected within Australian Competition and Consumer Law and by the Australian Competition and Consumer Commission (ACCC).
  - *LCT impedes innovation:* By providing a disincentive for manufacturers to retail cars that exceed the LCT threshold, MTAA argues that manufacturers are less likely to include innovative automotive systems such as;

- systems designed to improve fuel economy of vehicles including electric and hybrid drive systems (noting the increased LCT threshold for fuel efficient vehicles);
  - systems designed to improve the safety of vehicles including camera and radar systems, autonomous driving systems, tyre monitoring systems etc.; and
  - other innovative automotive systems including GPS and traffic congestion alert systems and improved telecommunication and entertainment systems.
- *LCT adversely impacts consumer buying decisions:* The LCT tax impedes consumer demand by increasing the price of vehicles. This is detrimental to vehicle retailers and consumers as consumers may opt for cheaper vehicles that do not suit their requirements or alternately the consumer delays purchasing a new vehicle or doesn't make a purchase at all.
  - *LCT is at odds with level playing field concepts of international trade policy:* As passenger car manufacturing has ceased in Australia and all passenger vehicles are now imported from overseas, MTAA advocates that as a result of the LCT, Australian automotive businesses and consumers are unfairly disadvantaged as compared to international markets. In fact, MTAA advocates that the imposition of the LCT directly contradicts Treasury's rationale for removing the LCT on re-imported cars refurbished overseas which is to align with the trade obligations Australia has to its foreign trading partners.
  - *LCT acts against the intention of the Government to reduce red tape and Government intervention:* The current Government has promoted the benefits of reduced red tape and Government intervention. However, it imposes a LCT that contravenes these objectives and imposes unfair conditions on the automotive industry that currently requires Government support and assistance due (see the above information on challenges to the Australia automotive industry).
- As a consequence of the above, MTAA opposes the LCT and therefore opposes piecemeal amendments to a tax that should not exist or requires extensive recasting. MTAA considers that automotive businesses, the Australian economy and consumers are disadvantaged by the LCT and considers the LCT a tax to increase consolidated Government revenue and is a political ploy by Government based on ideology and political point scoring.



## Removing the Luxury Car Tax on Re-imported Cars Refurbished Overseas

- In addition to opposing the imposition of the LCT, MTAA opposes the proposed legislative amendments to remove the LCT on re-imported cars refurbished overseas.
- MTAA advocates for a tax system that promotes the use of services provided by the Australian automotive industry including vehicle modification and refurbishment. MTAA opposes any tax concessions (such as the LCT concessions proposed) that may promote vehicle importers to use automotive modification and refurbishment services provided overseas.
- MTAA opposes the proposed amendments as it promotes the interests of international businesses modifying and refurbishing vehicles overseas at the expense of Australian automotive businesses providing the same services.
- MTAA also opposes amendments to an unconscionable tax, when the work that should be undertaken is a review of whole Luxury Car Tax regime.
- MTAA advocates that the proposed amendment to the LCT will provide incentives for vehicle importers to modify and refurbish vehicles overseas in order to take advantage of the lower costs (i.e. reduced labour and equipment rates and the myriad of tax concessions provided by Governments to automotive businesses in foreign jurisdictions).

## MTAA Proposed Policy Solutions

- MTAA is mindful that there is little Government support for removal of the LCT that provided in excess of \$650 million in tax revenue in 2016/17<sup>7</sup>.
- As the abolition of the LCT is not currently considered by Government, MTAA advocates that Treasury's efforts investigating the proposed amendments should be directed at introducing the following changes:
  - *Raising the LCT threshold.* For example, MTAA proposes that a LCT threshold should be at least \$100,000 to better reflect the monetary value of cars that truly represent luxury cars.

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<sup>7</sup> Australian Government (2018) Budget 2017/18- Budget paper No, 1 – Statement 5: Revenue accessed 8 August 2018 at [https://www.budget.gov.au/2017-18/content/bp1/download/bp1\\_bs5.pdf](https://www.budget.gov.au/2017-18/content/bp1/download/bp1_bs5.pdf) (p. 5-17)

- *Removing cost of accessories:* The LCT should be calculated on the actual base vehicle price. Currently, the value of a car includes the value of any parts, accessories or attachments supplied, or imported, at the same time as the car is originally sold.
- *Reducing the level of tax payable:* MTAA advocates that the current LCT rate of 33%<sup>8</sup> for vehicles over the LCT threshold should be reduced to at least 25%.
- *Replace revenue lost by including other clear private luxury items such as boats above \$100,000, planes, jewelry and art to prescribed thresholds.*

## Conclusion

- MTAA campaigns for Government to abolish the LCT to increase consumer demand for safer modern vehicles and promote Australian automotive business activity.
- MTAA opposes Treasury's proposal to remove the LCT on re-imported cars refurbished overseas as it promotes importers to refurbish or modify cars overseas rather than using the Australian automotive businesses and it devotes scarce resources to amendments to a tax that should not exist and resources that should be better utilised reviewing, removing or recasting the LCT.

END OF SUBMISSION

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<sup>8</sup> Australian Taxation Office (2018) Luxury Car Tax accessed 8 August 2018 on <https://www.ato.gov.au/Business/Luxury-car-tax/>