RESPONSE TO THE TREASURY LAWS AMENDMENT (FAIRER FOR FAMILIES AND FARMERS) BILL 2024: LUXURY CAR TAX

MTAA SUBMISSION

MOTOR TRADES ASSOCIATION OF AUSTRALIA

SEPTEMBER 2024

INTRODUCTION

Thank you for the opportunity to provide this response to the *Treasury Laws Amendment (Fairer for Families and Farmers) Bill 2024: Luxury Car Tax* (the Bill). The Motor Trades Association of Australia (MTAA) appreciates the opportunity to contribute to this important consultation and ensure that amendments to Australia's taxation framework promote fairness and efficiency, particularly for small businesses, including retail motor traders.

As the national automotive industry body, MTAA represents the unified voice of Australia's automotive industry, identifying and monitoring issues across all sectors, advising governments on industry impacts and trends, and actively participating in the development of sound public policy. Our focus encompasses the retail motor trades, the Australian vehicle fleet, and the mobility of local communities.

We represent over 15,000 businesses ranging from dealers to repairers, tow truck operators to service station businesses and every automotive retail business in between. These organisations make up a critical backbone of the Australian economy, selling, servicing, repairing, refuelling and maintaining Australia's 21.2 million strong motor vehicle fleet. Together, the sector contributes approximately $39.35 billion to Australia's GDP annually (or 2.1%)[1].

We believe that it is important that Australia's taxation arrangements do not impose an unnecessary and unfair compliance burden on small businesses in general; or, more specifically on retail motor traders. Equally important for the MTAA is that taxation arrangements operate effectively and efficiently, not advantaging or disadvantaging one sector of the economy or business over another.

When the LCT was designed the Australian car market was considerably different. Passenger vehicles dominated sales, and the Australian automotive manufacturing sector was still operational. A market comprised entirely of imports coupled with the rising popularity of SUVs, has significantly shifted market dynamics. As a result, the original context of the LCT is at odds with today's automotive landscape, prompting the need for its removal.

Furthermore, it is noteworthy that motor vehicles are the only items in Australia subjected to a luxury tax, while other luxury goods, such as jewellery and yachts, are exempt. This makes the LCT a discriminatory measure, as it targets the Australian automotive industry specifically, without imposing similar taxes on other luxury items.

This tax also disproportionately affects individuals who prefer relatively expensive cars, while those who choose diamonds or watches face no such tax burden. Other high-priced consumer goods, like furniture, antiques or artwork are also not classified as luxuries.

The MTAA challenges the premise that cars should be considered luxury items deserving of such a tax.

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[1] MTAA. (2021). *Directions in Australia's Automotive Industry – An industry report 2021*. Available at: https://vacc.com.au/Portals/0/Publications/Industry%20Report%202021/2021%20Directions%20in%20Australias%20Automotive%20Industry_pp.pdf?ver=2021-05-20-14 (Accessed: 14 October 2024).

This discrepancy creates market distortions and disadvantages consumers and businesses alike. We therefore advocate for the complete abolition of the LCT due to the following reasons:

1. Hinders ZLEV uptake - The LCT is an additional cost borne by consumers who wish to change the vehicle they are driving, including those who would like to make the shift to a zero and low emission vehicle (ZLEV).
2. Market distortion – The LCT acts as a price control mechanism that reduces consumer demand for automotive products and services, ultimately impeding industry growth.
3. Inequitable burden – The tax disproportionately impacts retail motor traders and consumers, particularly those seeking safer and more fuel-efficient vehicles.
4. Redundant tax structure – The LCT is no longer relevant given the cessation of domestic automotive manufacturing.
5. Adverse impact on innovation – The tax discourages the adoption of advanced automotive technologies, including safety systems and fuel-efficient drivetrains.

PROPOSED AMENDMENTS TO THE LCT

The MTAA is mindful that there is little Government support for the removal of the LCT which is estimated to generate revenue of $840 million in 2024-25[2] . Given this, the MTAA advocates that Treasury closely consider the following amendments:

> Increase the LCT threshold – Raise the LCT threshold to at least $100,000 to better reflect the cost of true luxury vehicles. In many instances vehicles exceeding the current limit of $80,567 (2024-25) are not necessarily luxury vehicles – some utilities for example are over $80,000 such as some grades of the Ford Ranger that are work vehicles.

  This creates a dislocation as the LCT limits the availability of trades or work vehicles for trades persons. Additionally, if a vehicle that is priced at just under the $80,567 threshold – for example a Toyota HiLux GR Sport at $75,000 – has additional equipment added (roll bars, towing equipment etc) this can push the price tag over the threshold and incur LCT.

> Exclude accessories from valuation – The LCT calculation should only consider the base vehicle price, excluding accessories that may push the vehicle's price above the threshold.

> Reduce the LCT rate – Lower the current LCT rate from 33% to 25% to alleviate the financial burden on consumers.

[2] Australian Government. (2024). *Budget Paper No. 1*. Available at: https://archive.budget.gov.au/2023-24/bp1/download/bp1_2023-24.pdf (Accessed: 7 October 2024).

- Create a BEV/PHEV category – Establish a distinct category for plug-in hybrid electric vehicles (PHEVs) and battery electric vehicles (BEVs) with its own LCT rate and threshold. This differentiation would allow for a more targeted approach to stimulating the uptake of the technology over time.

FUEL EFFICIENT VEHICLE DEFINITION

The MTAA recognises the significant role the LCT has played in encouraging the uptake of ZLEVs within the Australian market. However, we believe the proposal to halve the maximum fuel consumption threshold for fuel-efficient vehicles to 3.5 litres per 100km will only slow ZLEV uptake, contradicting the intent of the Government's Electric Vehicle Strategy. We believe therefore that the move is premature and should be delayed.

Currently, the Australian new car sector is navigating a complex landscape influenced by several factors:

- Introduction of the New Vehicle Efficiency Standard (NVES) – The NVES will commence in January, bringing with it uncertainty regarding its implications for pricing, vehicle availability, and overall market dynamics. The industry needs time to assess how this new regulation will impact both manufacturers and consumers.

- Growth in hybrid sales – While there is increasing consumer interest in hybrid vehicles, the transition to battery electric vehicles (BEVs) remains gradual. For the first nine months of 2024, 129,895 new hybrids were sold, up 87 per cent on the same period a year prior.[3] This growth indicates a preference for vehicles that offer a blend of fuel efficiency and practicality, highlighting the need for continued supportive measures that recognise this shift.

- Cost differential – There remains a significant cost difference between battery electric vehicles (BEVs) and hybrids/internal combustion engines. This price gap continues to present a barrier to a full market transition, making it essential to consider how changes to the LCT could affect consumer choices.

- Charging infrastructure –Australia's EV charging network is struggling to keep up with the rising demand for EVs. Insufficient charging infrastructure poses a considerable challenge, as it may create consumer hesitancy when it comes to making the switch. Many potential buyers remain cautious about the feasibility of owning an EV without adequate charging options.

Given these factors, we believe Treasury should hold on amending the fuel-efficient vehicle definition. An assessment period is needed to allow evaluation of market conditions, engage with industry stakeholders about potential unintended consequences, and ensure that any alterations to the LCT are executed in a way that effectively encourages the uptake of fuel-efficient vehicles without disrupting the market further.

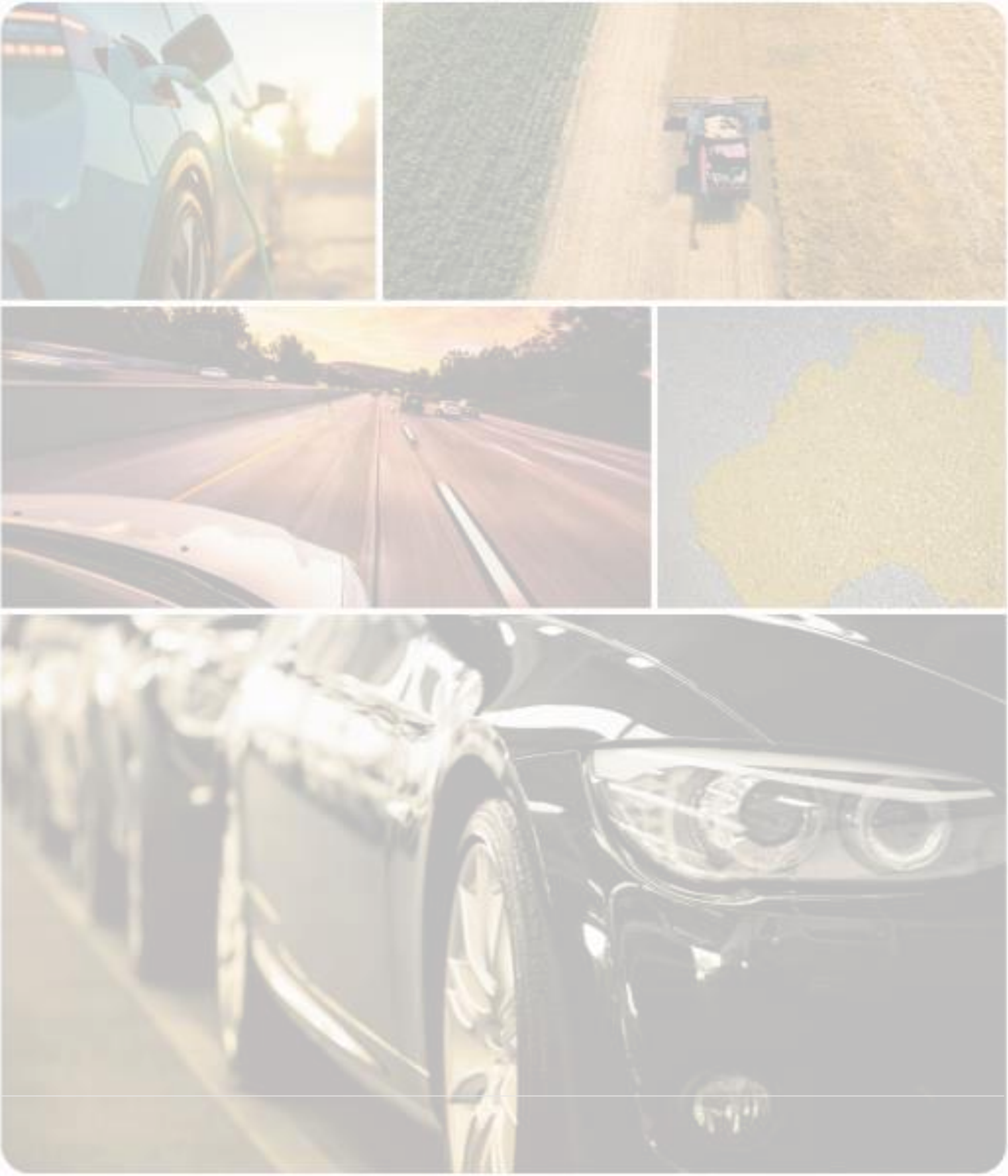
[3] VFACTS data 2024

CONCLUSION

The MTAA advocates for the abolition of the LCT to promote consumer demand for safer, modern and more fuel-efficient vehicles. If the Government proceeds with changes to the LCT, we request a minimum 12-month delay prior to changing the definition of a fuel-efficient vehicle given the current uncertainty in the marketplace.

If Treasury is focused on modernising the LCT to better align with the contemporary automotive landscape, the MTAA would welcome the opportunity to collaborate on redesigning the system. Working together, we can ensure that any changes effectively support the market's evolution while addressing the specific needs and preferences of Australian consumers.

Thank you for considering our submission. We look forward to engaging further on this important issue. Should you have any questions, please do not hesitate to get in touch with Matt Hobbs, CEO on 0419 608 845 or matt.hobbs@mtaa.com.au.



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