Australian Government

The Treasury

COSTING MINUTE

Date: 30/11/2009
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File:

To: **Katherine Tuck, Australia's Future Tax System**

Cc: **Scott Bartley, Australia's Future Tax System**

TITLE **AFTS proposal - abolish luxury car tax**

SUMMARY OF PROPOSAL

Intent of the proposal

The AFTS Review Panel is considering a recommendation to abolish the Luxury Car Tax. Imposing an additional tax on vehicles above a certain value is inconsistent with the approach to taxing other similar goods.

Current taxation treatment/problem

The LCT applies to the sale or importation of cars whose GST-inclusive value exceeds a threshold ($57,180 for 2008-09), which is reviewed annually. The current tax rate of 33 per cent applies to the GST exclusive value of a car that exceeds the threshold. The threshold is also used to set the maximum amount of depreciation deductions allowed on a car in a particular financial year. In certain circumstances primary producers and tourism operators can claim a refund of 8 per cent of the GST-inclusive value of some 4 wheel drive or all wheel drive vehicles (up to a limit of $3,000).

LCT does not apply to fuel efficient cars with a GST-inclusive value of less than $75,000 (for 2008 09). LCT at the rate of 33 per cent applies to vehicles above this threshold. Some cars are exempt from the tax, regardless of value, including non-passenger commercial vehicles, most second-hand cars, motor homes, campervans and emergency vehicles.

In 2007-08, the LCT raised $464 million in revenue, or 0.1 per cent of total taxation revenue.

Proposed taxation treatment

It is proposed to abolish the luxury car tax.

ELEMENTS AND OPTIONS

Elements

Element ID	Description
A	Abolish luxury car tax

Options examined

Option ID	Option	Assumed start date	Was a Departmental Impact Assessment sought?	Was a Tax Regulation Impact (preliminary assessment) sought?
1	A	01/07/2010	No	No

FINANCIAL IMPLICATIONS

IMPACT ON FISCAL BALANCE - ACCRUAL-BUDGET ($m)

Option ID	Year of Maturity	2009-10	2010-11	2011-12	2012-13	2013-14
1	2013-14	-	-350	-385	-415	-425
	Revenue	-	-350	-385	-415	-425

- Nil

IMPACT ON UNDERLYING CASH BALANCE ($m)

Option ID	Year of Maturity	2009-10	2010-11	2011-12	2012-13	2013-14
1	2013-14	-	-350	-385	-415	-425
	Revenue	-	-350	-385	-415	-425

- Nil

The costing of each option has been undertaken independently from those of other options, meaning that the costs are not necessarily additive.

RELIABILITY

The reliability of this costing is moderate.

COSTING DETAILS

Methodology

*** Due to the input-output tables which form the basis of both PRISMOD I/O and CGE models such as MM900 not disaggregating Motor Vehicles into classes, it was determined that these models were inappropriate for this costing.**

i. All projected luxury car tax collections are removed.

ii. GST pt 1: An "elasticity" of 0.5 was assumed for the additional disposable income gained from the LCT removal. That is, of the reduced car price, it is assumed that 50% of this would be spent on the same transaction, whether through increased prices or the purchase of higher cost motor vehicles.

iii. GST pt 2: The remaining 50% of funds that would have been spend on LCT are refunded to consumers. Of this the remainder would be spent/saved accoding to the assumptions below. A percentage of the saved amount would be on GST liable products according to the assumptions below.

iii. Customs: The methodology mirrors GST pt 1, albeit with the customs rate. For each dollar of LCT not spent, an additional $0.5 of motor vehicle expenditure is incurred. This increases customs expenditure. Given that customs revenue applies to a very narrow range of commodities, a secondary effect similar to the GST ii option above was not calculated.

iv. Fringe Benefits Tax: The percentage of FBT ascribable to cars was calculated using Tax stats. The percentage of LCT revenue as a percentage of total car sales was calculated and the FBT collect was reduced by this percentage.

Data

* Tax forecasts (MYEFO)
* GST ratios (I/O Tables)

Assumptions

- The response of the demand for Motor Vehicles to the removal of LCT is equal to zero. However, it is assumed that for individuals that would pay LCT under the current regime - 50% of LCT expenditure will be spent on the current transaction - this may be through the purchase of a higher cost motor vehicle or through higher prices.

- The remainder of the funds not spent on LCT would be spent according to the following assumptions:
  * MPC = 0.87. ΜΠΣ = 1 − ΜΠΧ = 0.13.
  ∗ Χονσυμπτιον οφ ΓΣΤ λιαβλε ασ α % οφ χονσυμπτιον = 0.72.

ADDITIONAL INFORMATION

Departmental impacts

An assessment of the Departmental Impact has not been requested.

Tax Regulation Impact (preliminary assessment)

A preliminary assessment of the Tax Regulation Impact has not been requested.

All material provided in this minute must be cleared by the Tax Analysis Division incorporated into Executive Minutes, Cabinet Submissions, any other briefing material, or when used for external purposes.

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