TRUCK INDUSTRY COUNCIL
SAFER GREENER ESSENTIAL

Business Tax Working Group Secretariat
The Treasury
Langton Crescent
Parkes ACT 2600

21st September 2012

Dear Sir/Madam

The Truck Industry Council (TIC) wishes to submit its response to the Business Tax Working Group Discussion Paper dated Monday 13th August 2012.

The TIC is an independent organisation representing the united views of truck manufacturers, importers, diesel engine companies and major component suppliers to Governments, fellow industry groups and the general public. Its membership consists of all CEOs of truck manufacturers and importers operating in Australia and is recognised as the primary advocate for the technical and regulatory aspects of the nation's truck fleet.

The TIC acknowledges the objectives of the working group as it relates to improving the Australian business tax system. In particular the TIC's attention is drawn to the Working Group's consideration of measures that broaden the business tax base in order to fully compensate a corporate tax rate cut. The TIC has no specific position on the rate of corporate tax that should be applied other than to say that it has concerns about how such a measure would be funded. The TIC is concerned with the proposed Option B.6. TIC is concerned about the unintended consequences of exercising this option as it relates to removing the statutory effective life for trucks (that is, heavy commercial vehicles with a gross mass greater than 3500 kilograms).

TIC has separately provided submissions to Government since 2008 which highlight the relatively high (by world standard) average age of the Australian truck fleet. The 2012 motor vehicle census from the Australian Bureau of Statistics shows that Australia's truck fleet has an average age approaching 14 years. This compares very unfavourably with OECD countries such as UK, Germany, Japan and the USA where the average fleet age is between 6 and 9 years. This age issue has created a problem for the federal Government in that it does not assist the Government to meet its stated objectives in terms of the environment (reducing emissions), road safety (reducing crashes, deaths and injury), and the economy in terms of improved productivity. Late model trucks are fitted with advanced environmental and safety features that were not available to trucks built as late as 16 years ago (that is 1996 and earlier).

Truck Industry Council Limited
ABN 37 097 387 954
GPO Box 5350, Kingston ACT 2603
T: (02) 6273 3222 E: admin@truck-industry-council.org W: www.truck-industry-council.org

To assist the Government to achieve its objectives the TIC has promoted a policy platform entitled “A National Truck Plan for Australia 2011 - 2020” with the objective being to modernise the truck fleet by providing incentives that encourage the voluntary uptake of newer model trucks through an investment allowance or accelerated depreciation. The proposed Option B.6 removal of the capped effective life of trucks is contrary to the objectives of the truck plan and the objectives of Government. Indeed proposed Option B.6 would result in the opposite effect of that desired and would see a national truck fleet with an average age many years older the current already high fleet age.

The TIC believes that the Working Group should be cognizant of the practical definition of an effective life for a heavy vehicle. The first owner of a long haul interstate vehicle would typically utilise the vehicle for up to approximately one million kilometres over a time period of three to eight years. Other truck classes, typically operating in our cities and interurban areas, while travelling less kilometres share similar initial ownership periods (that is, three to eight years). To extend the life of the trucks beyond these initial ownership periods often requires a major component overhaul or replacement such as an engine. The impact of removing the capped effective life provision based upon an inappropriate practical definition of effective life for a heavy vehicle would adversely affect the average national fleet age and therefore the achievement of the Government’s environmental, safety and productivity objectives.

A second related point for the consideration of the Working Group is that should the effective life cap be removed prospects for a recovery in new heavy vehicle sales would be jeopardised as potential purchasers of new trucks would lose the advantage of being able to depreciate the vehicle asset over 7.5 years. Annualised sales in the Australian truck market are some 20 per cent below those figures achieved in the lead up to the Global Financial Crisis of 2008. Two impacts would flow from the decision to not purchase a new truck. Firstly, the average age of truck fleet would increase with the resultant non achievement of Government objectives and secondly, truck sales in Australia would reduce negatively affecting manufacturing plants at Bayswater (Kenworth); Dandenong (IVECO) and Wacol (Volvo / Mack) as well as the operations of importers who contribute significantly to the Australian economy through employment and product offering.

With regard to the proposed changes to R&D Tax incentives it is the view of the TIC that its member companies conduct the majority of its R&D activities in Australia to develop compliance with new or revised Australian Design Rules (ADRs). These ADRs focus upon vehicle safety and improved environmental performance. The resultant benefits to the community-at-large are experienced through reduced health costs which arise from poor air quality and reduced injury and fatality costs through improved vehicle safety. Accordingly it is reasonable that some Australian truck suppliers would avail themselves of an R&D tax incentive to offset some of these Government imposed local R&D costs. If the R&D tax incentives cease to be available some manufacturers would conduct a higher proportion of R&D activities offshore. This could result in trucks being less suitable for the operational and climatic extremes only experienced in Australia.

Should you have questions about this letter please do not hesitate to call me on phone 02 6273 3222 or email me at tony@truck-industry-council.org.

Yours sincerely

Anthony J McMullan
CEO