AUSTRALIAN AUTOMOTIVE DEALER ASSOCIATION

2022-2023 PRE-BUDGET SUBMISSION

31 JANUARY 2022

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Section 1

FOREWORD

AADA is pleased to respond to the invitation from the Minister for Housing and Assistant Treasurer, the Hon. Michael Sukkar MP, to make a submission for consideration by the Government in the preparation of its 2022-2023 Budget.

The AADA is the peak automotive industry advocacy body and is the only industry association which exclusively represents new car Dealers in every Australian state and territory. There are approximately 1,500 new car Dealers in Australia that operate some 3,100 new vehicle Dealerships. Franchised new car Dealers employ more than 59,000 people directly and generate in excess of $59 Billion in turnover and sales with a total economic contribution of over $14 Billion.

In addition, many people are employed by Dealers indirectly in dedicated business which provide Dealer products and services such as automotive advertising and media, Dealer management software, logistics and other local businesses in the communities in which Dealerships are based. Across Australia, Dealers also sponsor countless local sporting clubs, community groups and charities.

Since our previous Pre-Budget submission, there has been relatively strong demand for new cars as reflected in increased sales figures for the 2021 calendar year.

In 2021, we saw an annual increase in new car sales of 14.5 per cent, although this is compared to sales in 2020 which were the lowest since 2003. While sales lifted across the 12 months, the final quarter of the year saw a concerning trend of three consecutive months of falling sales as the industry navigated a global semi-conductor shortage which has cruelled the supply of new cars to the Australian market.

Franchised new car Dealers have faced a very challenging operating environment in recent months navigating lockdowns, COVID-19 staff absences, chronic skills shortages, and consumers impatient with ongoing supply challenges and associated lengthy delivery timeframes. Furthermore, some automotive Manufacturers to which Dealers are franchised continue to change the structure of their retailing arrangements and consolidation among Manufacturers is continuing at a rapid pace.

Dealers contribute tens of billions of dollars in tax and duties to the Federal and State Governments every year. Dealers do not object to paying their fair share of tax, but we believe that customers are being penalised unfairly through a number of inefficient and antiquated taxes, such as the Luxury Car Tax (LCT) and Vehicle Tariffs applied to cars sourced from non-FTA countries, while Dealers are unfairly burdened by red tape and the administration associated with tax collecting on behalf of state and Federal governments.

Our submission has elaborated on the need for automotive taxation reform, the need for a truly national low emissions vehicle strategy, the need for a focus on skills and the need for continued and enhanced promotion of business investment.

James Voortman
Chief Executive Officer

Australia

3,118 Dealerships

Economic Contribution

59,667
Dealer Employees

$5.38 billion
Dealer Wages

$2.74 billion
Tax Contribution

$14.12 billion
Total Economic Contribution

AADA KEY BUDGETARY RECOMMENDATIONS

1 MODERNISE AUTOMOTIVE TAXATION

- Review the Automotive Taxation Regime
- Abolish or reform the Luxury Car Tax
- Abolish the Passenger Vehicle Tariff

2 PROVIDE LEADERSHIP ON LOW EMISSIONS VEHICLES

- Expand the Future Fuels and Vehicles Strategy
- Exempt LCT, Tariff, FBT, Car Limit from low emissions vehicles
- Increase Fuel Efficient LCT threshold indexation

3 PRIORITISE SKILLS

- Temporarily uncap the skilled stream of the Migration Program planning levels
- Abolish or reduce the Skilling Australia Fund levy

4 ENCOURAGE INVESTMENT

- Extend the Temporary Full Expensing measure to 1 July 2025
- Remove the $5 Billion eligibility threshold on the Temporary Full Expensing measure

MODERNISE AUTOMOTIVE TAXATION

Australia needs an urgent review of its Automotive taxation regime. Each year, Australians pay tens of billions in motoring taxes and charges to governments. According to the Bureau of Infrastructure, Transport and Regional Economics in the 2019-20 financial year, more than $32 billion in such charges were paid.

As fuel-efficient vehicles are increasingly adopted and trends such as ridesharing accelerate, Australia needs to consider the way in which we tax motorists and create a system which is fit for purpose for the future.

At the federal level, a considerable part of that tax revenue has been drawn from the Luxury Car Tax (LCT) and the vehicle tariffs that are applied to new cars sourced from countries with which Australia has no Free Trade Agreement (FTA).

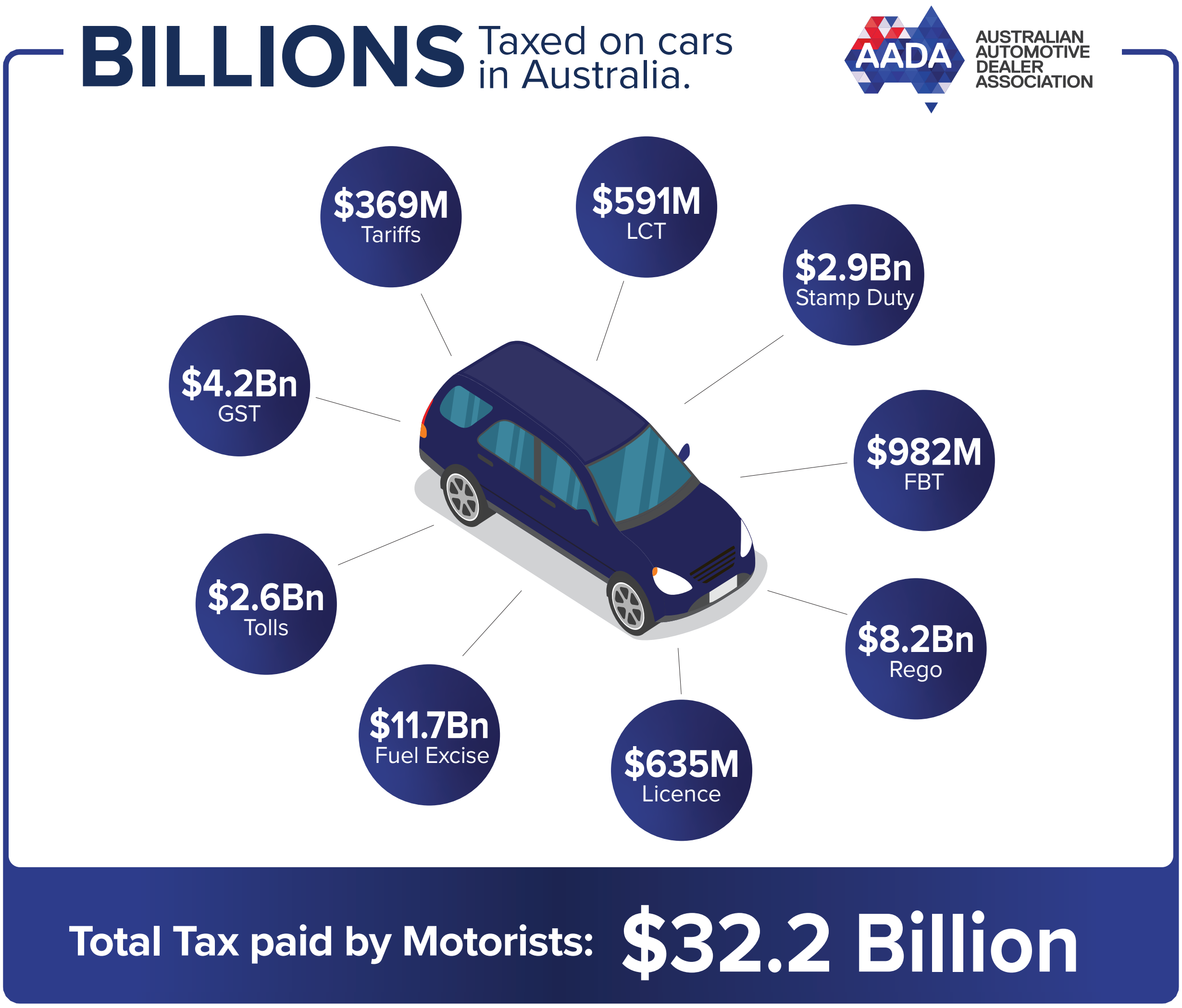
These taxes are outdated and have been discredited by various independent taxation reviews. The Government should abolish or restructure these taxes to provide consumers and local Dealers with some relief, particularly as the new car market faces an uncertain future and supply remains severely constrained.

Federal taxes on new cars, such as the import tariff and the LCT highlighted above disadvantage consumers seeking to buy new cars which deliver greater safety as well as environmental and fuel efficiency benefits.

These legacy taxes were introduced in an era when Australia still manufactured passenger cars and maintaining them only disadvantages consumers and local businesses.

Domestic passenger vehicle manufacturing no longer exists, but the tax structures that were there to support it continue to make passenger vehicles in Australia more expensive than they should be. Australia needs to modernise its automotive taxation regime to encourage affordable safe, clean and efficient new cars. The Government has identified road safety, lower energy costs and emissions reduction as priorities – renewing the national fleet by selling new cars supports these priorities.

The AADA notes that technological and societal changes to our personal modes of transport, whether it be the increased uptake of fuel-efficient vehicles or autonomous vehicles in the longer term, will undercut current Commonwealth, State and Local Government taxation revenue streams. We urge the Federal Government to commence a program of consultation and establish a comprehensive automotive taxation regime that is fit-for-purpose for these new realities.



Source: BITRE, Australian Infrastructure Statistics Yearbook 2019, Table T 3.3a Selected road-related taxes and charges, Financial Year 2019-20, p. 71.

LUXURY CAR TAX (LCT)

The LCT is a poorly structured tax and acts as a barrier to the renewal of the passenger vehicle fleet at a time when technological improvements continue to make new car models safer, more energy-efficient and more environmentally friendly. The threshold for the tax currently applies to vehicles such as the Toyota Landcruiser rather than only the truly luxury vehicles for which it was intended. Furthermore, it is disappointing that the LCT applies to optional features which discourage consumer uptake of safety features due to concerns it will push their new vehicle over the threshold.

Individuals purchasing expensive vehicles are already paying more by virtue of the GST contribution they make on the final sale price. Furthermore, it is not clear why luxury new vehicles attract a tax when other luxury products such as yachts, private jets and jewellery attract no such charge.

The LCT is also a hurdle to good relations with our trading partners. In particular, the EU and the UK are disproportionately affected and have repeatedly criticised the Australian Government's application of the tax at various trade forums and negotiations.

If the total abolition of the LCT cannot be contemplated within the next Budget cycle, then we propose the adoption of one or more of the following options:

Option 1: Raise the threshold to target truly luxury vehicles and stage a sunset period for LCT

As it stands, the LCT is set at a level above that of the premium models of cars that were once manufactured in Australia, such as the Holden Statesman and the Ford Fairlane. A slightly higher threshold exists for cars that claim a fuel consumption of less than seven litres per 100km. As car manufacturing no longer takes place in Australia, it is unclear why the thresholds remain at current levels, particularly when they capture vehicles such as the Toyota Landcruiser.

The Government should consider escalating the threshold upon which the LCT is payable until only cars that truly meet the definition of luxurious are left in the market.

Our review of car prices and models indicates that a nominal threshold of $100,000 would meet the above definition. Interestingly, this is the level at which the Queensland and Victorian Governments' state luxury car taxes also applies.

While the AADA is strongly opposed to the Queensland and Victorian Governments' recent introduction of a state tax on luxury cars we acknowledge that the threshold has been set at a level that more accurately reflects the luxury status of the motor vehicles at, and above, that price point.

Increasing the threshold of the LCT to target true luxury vehicles should in our view, be the prelude to the eventual abolition of the LCT.

The AADA understands that forgoing the revenue raised by the LCT is challenging, so our proposal is for a staged abolition, where the rate at which the tax is paid is progressively diminished over a period of five years until it is no longer collected. This approach would show the Government's good faith while allowing a progressive adaptation to the loss of revenue and preventing a consumer boycott to avoid the LCT until it was removed.

Adopting Option one would both restrict the tax to cars that are more appropriately labelled as luxury vehicles and lead to the eventual abolition of the tax in a staged and controlled fashion.

Option 2: Exclude accessories from the calculation of whether a vehicle hits the threshold for paying the LCT

Adopting this option would modify the calculation of the LCT to ensure that it is calculated solely on the price of the base-level variant of a vehicle, rather than including all of the accessories available in other variants. This is of particular importance for vehicles that are marginally below the LCT threshold, that mostly only cross it because their new owners have chosen a variant with greater safety features. This situation is particularly problematic for many 4WD vehicles, where aftermarket safety or work-related accessories (winches, lights, bull bars, etc) are added to the price of the vehicle and thus take it above the LCT threshold. The result is that consumers will still get their accessories, but source them after they have purchased their vehicle, and potentially not use genuine parts, with associated effects on the safety of the vehicle's driver and passengers.

Alternatively, we would offer the suggestion that, if the base version of a vehicle does not breach the LCT threshold, then none of the versions featuring more extensive options, would breach the threshold either.

PASSENGER VEHICLE TARIFFS

Currently, import tariffs are applied on motor vehicles that are manufactured in, or imported from countries with which Australia does not have a Free Trade Agreement (FTA). Given the growing number of FTAs, including the prospective trade agreement with the EU, we believe that the Australian public would be best served by the Government removing existing tariffs from all passenger vehicles imported into Australia.

Trade policy experts say that the vehicle tariff will naturally fall away as part of the inevitable FTA with the EU. However, FTAs can drag on and motorists should not be asked to hold their breath in the case of the EU where Australia is negotiating with a Union of 28-member states.

Consumers deserve immediate relief for new vehicles and so does industry, particularly those new car Dealerships which have a disproportionate amount of product on their showroom floor which just happens to be manufactured in a non-FTA country.

PROVIDE LEADERSHIP ON LOW EMISSIONS VEHICLES

The world is currently experiencing significant growth in low emissions vehicles (LEVs). As increasingly stringent emissions standards and internal combustion engine bans take effect in industrialised countries, jurisdictions and cities, global car Manufacturers will continue the trend of dedicating a growing share of investment towards the development and production of LEVs. As a right-hand drive country with a relatively small market for new vehicles, Australia will have no choice but to accept the vehicles being developed for other like-minded markets and electric vehicles and other LEVs will gradually become a larger part of our fleet.

Dealers speak to car buyers every day and interest in LEVs among the buying public is undoubtedly growing as reflected in the recent outstanding growth of hybrid vehicles, plug-in hybrid vehicles and battery electric vehicles. While Internal Combustion Engine (ICE) vehicles will remain a part of Australia's fleet for decades to come, we will need to prepare for the emergence of LEVs.

The challenges will be immense and cut across state and territory borders and government departments. It is crucial that the Federal Government plays the leading role in this stream of work alongside the states and territories.

Unfortunately, the transition to LEVs is taking place in an uncoordinated fashion with the Federal, state and territory governments all doing their own thing. We are seeing some states offering rebates while others are not. For those that do offer rebates, there are variances in which types of cars get the rebate. Some are implementing a per kilometre charge while others are not. For those that are developing a per kilometre charge, the rate, commencement, and method for calculating usage is different. Rates of stamp duties are different as are registration rates. See page 12.

Aside from taxation, rebates and usage charges, the emergence of LEVs will affect so many elements of society and will have implications for our electricity grid, our skills required in the automotive industry, our emergency services, our building standards, our infrastructure requirements, our vehicle standards, and the list goes on. The Future Fuels and Vehicle Strategy is a step in the right direction, but it doesn't come close to addressing the many changes that will emerge.

The Federal Government needs to urgently set aside funds to significantly expand the Future Fuels and Vehicle Strategy. The development of a truly national plan should seek to strongly encourage states and territories to adopt a consistent approach to the emergence of LEVs. It should also play a leading and proactive role in preparing all sectors of society that will be profoundly influenced by the shift to LEVs.

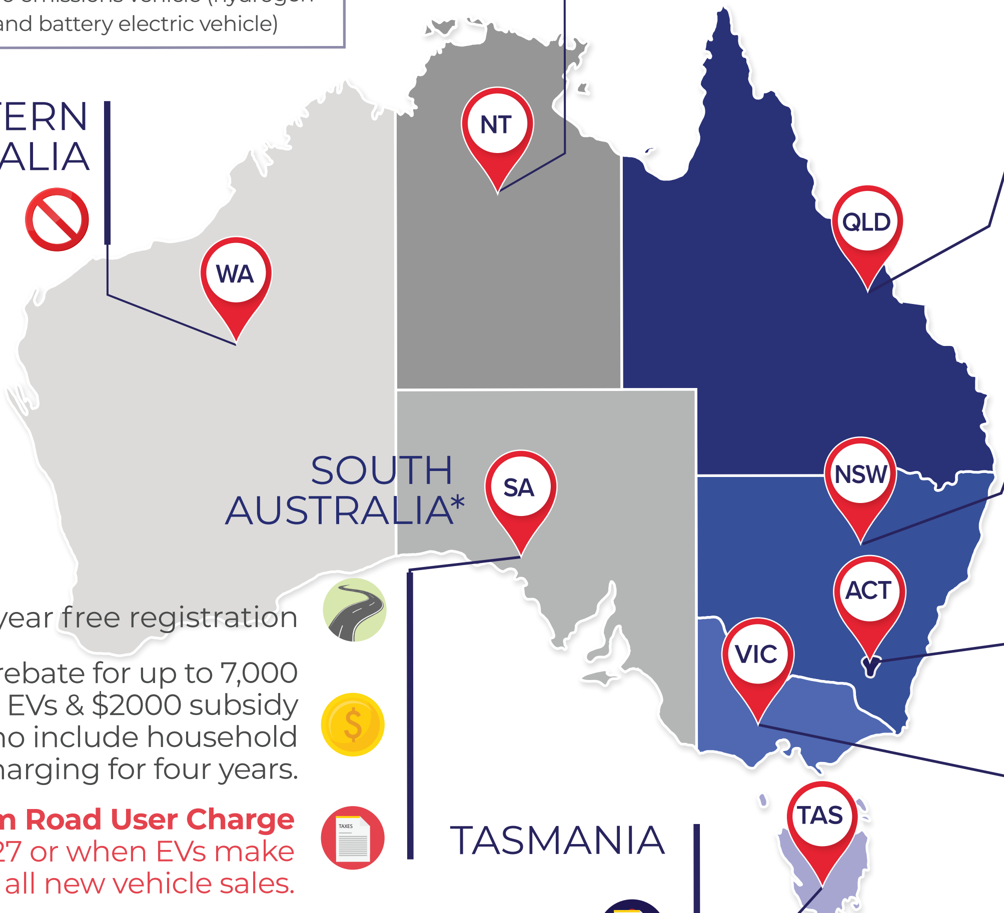
While the AADA understands the reluctance to provide subsidies for LEVs, there are several low-cost measures the Government can take to stimulate the sales of these vehicles which will in turn give global manufacturers the confidence to send those vehicles to Australia.

ELECTRIC VEHICLE INCENTIVES & CHARGES PER STATE

INCENTIVES | REGISTRATION | STAMP DUTY | TAX | NONE

Nationally, Australia has introduced a higher Luxury Car Tax (LCT) threshold for some Battery Electric Vehicles.

EV – electric vehicle
BEV – battery electric vehicle
ZEV – zero emissions vehicle (hydrogen fuel cell and battery electric vehicle)



NORTHERN TERRITORY

- $1,500 stamp duty reduction for 5 years from July 2022.
- 5 years free registration from 2022 for new ZEVs.

QUEENSLAND

- Stamp duty reductions:
  - $2 per $100 up to $100,000 or;
  - $4 per $100 above $100,000

NEW SOUTH WALES*

- Stamp duty exemption for EVs priced under $78,000.
- $3,000 rebate for first 25,000 buyers of EVs priced under $68,750.
- **2.5 cents/km Road User Charge** from 1 July 2027 or when EVs make up 30% of all new vehicle sales.

AUSTRALIAN CAPITAL TERRITORY

- Stamp duty exemption for new ZEVs.
- 2 years free registration for new and used ZEVs. Up to 20% annual vehicle registration discount.
- $15,000 interest free loans through the Sustainable Household Scheme.

WESTERN AUSTRALIA

None

SOUTH AUSTRALIA*

- 3 year free registration
- $3,000 rebate for up to 7,000 buyers of new EVs & $2000 subsidy for buyers who include household smart charging for four years.
- **2.5 cents/km Road User Charge** from 1 July 2027 or when EVs make up 30% of all new vehicle sales.

TASMANIA

- 2 years stamp duty exemption for new & used EVs.
- 2 years free registration for EVs purchased by car rental companies & coach operators.

VICTORIA

- Exemption from luxury vehicle rate of stamp duty.
- $100 annual discount on registration.
- $3,000 subsidy for first 20,000 eligible new or demo ZEVs priced under $68,740.
- **2.5 cents Road User Charge** per km/year, from 1 July 2021

*NSW/SA subject to passage of legislation

AADA AUSTRALIAN AUTOMOTIVE DEALER ASSOCIATION

Exempt Low Emissions Vehicles (LEVs) from the Luxury Car Tax (LCT) and Import Tariffs

Both the LCT and the passenger vehicle Import Tariff are legacy taxes which were put in place to protect a local manufacturing industry.

That industry no longer exists and while the AADA's primary position is the abolition of these taxes, the Government could as a secondary option exempt LEVs from paying these taxes. The cost to the Budget would not be significant given the relatively small number of LEVs being sold in Australia.

Exempt LEVs from the car limit and Fringe Benefits Tax (FBT)

Businesses seeking to depreciate vehicles are subject to a car limit of $59,136. Vehicles provided by employers to their employees for private use are subject to FBT on the taxable value of the vehicle. The FBT rate is currently 47 per cent, equal to the highest marginal tax rate, including the Medicare levy. Temporarily exempting low emissions vehicles from the car limit and FBT would encourage employers and employees to purchase these vehicles.

Increase the Luxury Car Tax (LCT) Threshold for fuel-efficient vehicles

In 2008 a higher LCT threshold was introduced for fuel-efficient vehicles which consumed less than seven litres of fuel per 100km driven. The threshold was set at $75,000 for fuel-efficient vehicles, significantly higher than the threshold of $57,180 for all other vehicles. Both thresholds were indexed, but differing methodologies were applied which has resulted in the threshold for fuel-efficient cars increasing at a slower rate – it is now $79,659. The threshold for non-fuel-efficient vehicles meanwhile has gone up almost 20 per cent to $69,152.

Since 2008, the fuel efficiency threshold has increased by around $4,500 while the threshold for non-efficient vehicles has increased by over $10,000. If the fuel efficiency threshold had increased by the same proportion as the regular threshold it would be over $90,000.

This is one example of how the LCT has in effect disincentivised the uptake of fuel-efficient vehicles. Without a doubt the biggest factor constraining demand for low emission vehicles (that is those with fuel economies better than 3 litres/100 Kilometres) particularly Electric Vehicles (EVs) in Australia is the high up-front cost of purchase.

Many of the EVs sold in Australia are paying a tariff due to the fact that they have been manufactured in non-FTA countries, mainly within the EU.

PRIORITISE SKILLS

There is a critical skills shortage in the automotive industry which has been severely exacerbated by the lack of migrants entering Australia over the past two years. A report conducted by the Motor Traders Association of Australia (MTAA) in 2020/21 estimated a total shortage of 31,143 skilled personnel. The deficit is estimated to grow to 38,700 positions by 2022/23. There is a shortage of vehicle technicians, a critical cohort of workers responsible for servicing, repairing, and maintaining the fleet of 20 million vehicles on our roads.

The impact of skills shortages includes loss of productivity, increased labour costs to retain skilled technicians, and use of sub-standard labour requiring greater supervision particularly in regional areas. There is also a huge risk to road safety as motorists experience longer wait times to have their cars serviced and maintained and a massive economic impact on businesses who depend on roadworthy vehicles to provide and obtain goods and services.

The AADA fully supports the training of Australian apprentices and commends the significant investment the Government has provided for apprentices over the past two years. However, it is evident that demand for skilled labour in automotive repair services is outstripping supply which is a threat to our transport needs and we need to utilise skilled migration to provide the industry with the skills it desperately needs.

In our discussions with Franchised Dealer representative bodies in other countries they are all experiencing similar shortages which will result in global competition for talent. We need to take measures which puts Australia in a good position to attract the automotive talent we will need to maintain a safe vehicle fleet and simultaneously transition the workforce to a future in which low emissions vehicles will make up a growing proportion of the fleet.

The Government should consider several initiatives to stimulate the intake of skilled migrants including temporarily uncapping the skilled stream of the Migration Program planning levels. There should also be some consideration of removing or reducing Skilling Australia Fund levy.

ENCOURAGE INVESTMENT

The value that investments by franchised new car Dealers bring to communities across Australia cannot be overemphasised. Dealers often make major investments in facilities, machinery and equipment which have flow-on effects in the communities in which they operate as they use local builders, contractors, and other service providers.

Furthermore, Dealerships are located all over the country and these investments benefit country towns, suburban areas, and cities. There is a much higher likelihood that these investments will occur if all Dealers have access to investment incentives.

The Government has done a good job of encouraging investment during the pandemic with the original expanded instant asset write-off and the current temporary full expensing measure. These measures came after several years of anaemic business investment activity and were effective in driving investment during periods of the pandemic. The Temporary Full Expensing measure is set to expire on 30 June 2023 and while the measure has been very successful, its momentum has been thwarted by the lockdowns in the second half of 2021 and the difficult business environment brought about by the effects of the Omicron variant of the virus. Business confidence has sunk over the past six months, and it is likely that investment decisions have been put off as businesses traverse some very challenging circumstances.

The Government should extend the Temporary Full Expensing measure for a further 24 months. The Government should also make Temporary Full Expensing available to all businesses as investment activity by the firms with a turnover of more than $5 Billion can only benefit the Australian economy.

CONCLUSION

We would be happy to meet with you to discuss our submission and participate in the budget lockup. If you require further information or clarification in respect of any matters raised, please do not hesitate to contact me.

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