This replaces the 12 June 2008 version of this Digest to include some technical amendments.

**Tax Laws Amendment (Luxury Car Tax) Bill 2008**

**A New Tax System (Luxury Car Tax Imposition—General) Amendment Bill 2008**

**A New Tax System (Luxury Car Tax Imposition—Customs) Amendment Bill 2008**

**A New Tax System (Luxury Car Tax Imposition—Excise) Amendment Bill 2008**

Michael Priestley  
Economics Section  

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A New Tax System (Luxury Car Tax Imposition—General) Amendment Bill 2008

A New Tax System (Luxury Car Tax Imposition—Customs) Amendment Bill 2008

A New Tax System (Luxury Car Tax Imposition—Excise) Amendment Bill 2008

Date introduced: 26 May 2008
House: House of Representatives
Portfolio: Treasury

Commencement: On Royal Assent. In the case of measures imposing the luxury car tax, Schedule 1 in each Bill will commence immediately after the Tax Laws Amendment (Luxury Car Tax) Act 2008.

Links: The relevant links to the Bills, Explanatory Memorandum and second reading speech can be accessed via BillsNet, which is at http://www.aph.gov.au/bills/. When Bills have been passed they can be found at ComLaw, which is at http://www.comlaw.gov.au/.

Purpose


Background

Since 1979, successive governments have imposed a form of additional tax on luxury cars. The luxury car tax (LCT) was introduced on 1 July 2000 when the GST was introduced, replacing the 33 per cent wholesale sales tax which applied to luxury cars.

A New Tax System (Luxury Car Tax) Act 1999 and associated Acts imposed LCT on luxury cars whose value exceeded the LCT threshold. The LCT threshold in 2000-01 was $55,134.

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Basis of policy commitment

The increase in LCT was announced in the 2008-09 Budget as part of a package of measures to enhance fairness in the tax system. Budget Paper No. 1, Statement 5: Revenue states:

Policy decisions since the 2007 PEFO [Pre-election Economic and Fiscal Outlook] are expected to increase taxation revenue by $2.4 billion in 2008-09 and $19.7 billion over the forward years.

These policy decisions are targeted at improving productivity and the fairness and integrity of the tax system. The decisions build on election commitments to defer income tax cuts for higher income earners and improve funding for ATO compliance activity which lead to savings of over $6 billion.

As part of its examination of expenditures, the Government has decided to abolish or improve the operation of a range of tax expenditures generating savings of $8.7 billion by 2011-12. Together, these measures will contribute to a fairer tax system, a more productive economy and a fairer return for the use of Australia's non-renewable resources.

Luxury car tax

The luxury car tax currently applies at a rate of 25 per cent for every dollar over the luxury car threshold; however this rate will increase to 33 per cent with effect from 1 July 2008. The current luxury car threshold is $57,123. The threshold is indexed annually using the motor vehicle purchase component of the CPI, which is composed of observed price movements for new vehicles sold in Australia. If the change in the motor vehicle purchase component of the CPI is negative, the threshold is not reduced.1

Some luxury cars whose LCT value exceeds the LCT threshold are LCT exempt, pursuant to sections 7(10) of the A New Tax System (Luxury Car Tax) Act 1999 (the Act).

The definition of luxury car in section 25(1) of the Act excludes certain vehicles, including prescribed emergency vehicles, motor homes, campervans, commercial vehicles and providing they are not GST-free, vehicles that are specifically fitted out for transporting disabled people seated in wheelchairs. The exemptions to LCT contained in the Act remain unchanged.2

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Financial implications

According to the Explanatory Memorandum accompanying the Bills, revenue raised from LCT is estimated at $555 million:

<table>
<thead>
<tr>
<th></th>
<th>2008-09</th>
<th>2009-10</th>
<th>2010-11</th>
<th>2011-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>$130m</td>
<td>$140m</td>
<td>$140m</td>
<td>$145m</td>
<td></td>
</tr>
</tbody>
</table>

The revenue estimates for the financial years 2010-11 and 2011-12 take account of the scheduled tariff reduction on all imported passenger cars from 10 per cent to 5 percent on 1 January 2010.

Key issues

Overview of the Australian motor vehicle market

Total new vehicle sales for 2007 were 1,049,982 units. This was a new record for the industry and the first time more than one million unit sales had been achieved. Total vehicle sales represent an increase of 87,316 units or 9.1 per cent on volume achieved in 2006. All segments in the market achieved record full year volume sales in 2007 as detailed in the Table 1 below.

<table>
<thead>
<tr>
<th></th>
<th>VOLUME</th>
<th>DIFFERENCE</th>
<th></th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
<td>2007</td>
<td>VOLUME</td>
<td>%</td>
</tr>
<tr>
<td>Passenger</td>
<td>598,394</td>
<td>637,019</td>
<td>38,625</td>
<td>6.5</td>
</tr>
<tr>
<td>SUV (4WD)</td>
<td>170,847</td>
<td>198,176</td>
<td>27,329</td>
<td>16.0</td>
</tr>
<tr>
<td>Light commercial</td>
<td>161,791</td>
<td>177,556</td>
<td>15,765</td>
<td>9.7</td>
</tr>
<tr>
<td>Trucks</td>
<td>31,634</td>
<td>37,231</td>
<td>5,597</td>
<td>17.7</td>
</tr>
<tr>
<td>Total</td>
<td>962,666</td>
<td>1,049,982</td>
<td>87,316</td>
<td>9.1</td>
</tr>
</tbody>
</table>

Source: Australian Automotive Intelligence Yearbook 2008.

Locally produced vehicles accounted for 19.1 per cent of total vehicle sales in 2007, a fall of 1.8 per cent from the previous year. Locally produced vehicles, with the exception of the Toyota Camry, are all 6/8 cylinder vehicles and with the rising price of fuel and changing consumer preferences for smaller, more fuel efficient vehicles, continue to lose share. In addition, traditional buyers have moved to Sports Utility Vehicles (or 4WD

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vehicles) away from the passenger car. The market for locally produced vehicles is sustained primarily by fleet sales which account for more than 50 per cent of sales.

Another significant factor in the volume reduction of locally produced vehicles is the strength of the Australian dollar. Since 2002, imported vehicles have either been reduced or remain at their price levels, while new fuel and safety features have been added to the vehicles. The price competitiveness of locally produced vehicles has suffered as a result. While tariffs have remained at 10 per cent since 2005, the strength of the Australian dollar provides imported vehicles with a price advantage.

**Luxury car market**

In his Second Reading speech introducing the Bills to the House, the Treasurer provided a summary of the luxury car market in Australia:

> It is estimated that around ten per cent or around 100,000 of all new car sales made in Australia in 2007 were subject to luxury car tax. The tax is applied to both imported vehicles as well as domestically manufactured cars.

> Of the top 20 selling cars in 2007, which covers more than fifty per cent of the car market, less than four per cent of those sold are subject to luxury car tax. At the lower end, the increase is in hundreds, not thousands, of dollars. The increase in the increase in the luxury car tax for the lowest cost Toyota Prado models are $38 and $98. For the Ford Territory Ghia, the increase is $496.

> Of the five Toyota Tarago models, only one attracts the luxury car tax. Of the three largest selling people mover brands, this is the only model that will be impacted by the tax increase. The price increase is just over one percent.³

Around 105,000 new luxury cars are sold each year. Luxury cars which cost $100,000 or more are currently taxed around $8000. Under the proposed LCT rate of 33 per cent, they will be taxed almost $10,500. The LCT applies only to the portion of the motor vehicle cost above the $57,123 threshold.

It should be noted, however, that most, if not all, of the increase in LCT on imported luxury cars will be cancelled out when tariffs on imported passenger motor vehicles are reduced from 10 per cent to 5 per cent on 1 January 2010. The 5 per cent tariff is an ad valorem tariff and applies to the motor vehicle cost on entry to Australia.


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Table 1 below shows the best selling luxury cars in 2007 as well as those with significant sales in preceding years.

Table 2: Best selling luxury cars

<table>
<thead>
<tr>
<th>Segment and Model</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>BMW 3 Series 4 &amp; 6 cyl</td>
<td>5,401</td>
<td>5,783</td>
<td>4,917</td>
<td>5,164</td>
<td>5,003</td>
<td>5,513</td>
<td>6,035</td>
<td>5,795</td>
</tr>
<tr>
<td>Lexus IS</td>
<td>1,498</td>
<td>1,211</td>
<td>1,639</td>
<td>1,407</td>
<td>1,419</td>
<td>1,809</td>
<td>3,381</td>
<td>4,096</td>
</tr>
<tr>
<td>Mercedes-Benz C Class</td>
<td>2,176</td>
<td>4,695</td>
<td>6,387</td>
<td>5,943</td>
<td>5,085</td>
<td>4,827</td>
<td>3,849</td>
<td>4,745</td>
</tr>
<tr>
<td>BMW 5 Series</td>
<td>1,374</td>
<td>1,664</td>
<td>1,281</td>
<td>1,235</td>
<td>1,982</td>
<td>1,750</td>
<td>1,813</td>
<td>1,552</td>
</tr>
<tr>
<td>Mercedes-Benz E Class</td>
<td>1,451</td>
<td>1,497</td>
<td>1,380</td>
<td>2,787</td>
<td>2,520</td>
<td>2,148</td>
<td>1,704</td>
<td>2,008</td>
</tr>
<tr>
<td>Chrysler 300C</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>363</td>
<td>1,864</td>
<td>1,645</td>
</tr>
<tr>
<td>Ford Fairlane/LTD</td>
<td>3,076</td>
<td>2,455</td>
<td>2,101</td>
<td>2,535</td>
<td>2,190</td>
<td>1,980</td>
<td>1,158</td>
<td>1,780</td>
</tr>
<tr>
<td>Holden Statesman/Caprice</td>
<td>6,370</td>
<td>5,518</td>
<td>4,958</td>
<td>5,424</td>
<td>4,651</td>
<td>3,573</td>
<td>3,076</td>
<td>4,754</td>
</tr>
<tr>
<td>Toyota Tarago</td>
<td>2,726</td>
<td>2,561</td>
<td>2,925</td>
<td>2,736</td>
<td>2,930</td>
<td>2,794</td>
<td>3,161</td>
<td>3,920</td>
</tr>
<tr>
<td>BMW 3 Series Coupe/Cab</td>
<td>1,754</td>
<td>2,352</td>
<td>2,538</td>
<td>2,395</td>
<td>1,990</td>
<td>1,322</td>
<td>1,278</td>
<td>2,921</td>
</tr>
<tr>
<td>Mercedes-Benz CLK</td>
<td>1,068</td>
<td>904</td>
<td>774</td>
<td>1,952</td>
<td>1,954</td>
<td>1,717</td>
<td>1,459</td>
<td>1,228</td>
</tr>
<tr>
<td>Porsche 911</td>
<td>251</td>
<td>403</td>
<td>364</td>
<td>417</td>
<td>380</td>
<td>470</td>
<td>389</td>
<td>522</td>
</tr>
</tbody>
</table>

Source: Australian Automotive Intelligence Yearbook 2008.

Australian luxury cars and imported hybrid cars affected by LCT

Although the government aims to target luxury imported cars, which are predominantly European, the increase in LCT will impact on locally produced cars which exceed the $57,123 threshold. Sales of these models account for a small but significant share of the luxury car market. The models affected are the Holden Caprice and Statesman, HSV (Holden Special Vehicles), Ford’s Falcon G6E, Territory Ghia Turbo and FPV (Ford Performance Vehicles).

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The increase in LCT will also impact imported hybrid and biofuel cars, and imported luxury cars with a diesel option, which exceed the threshold. The models include the Lexus GS450 Hybrid and LS600 Hybrid, the SAAB Vector Bio Power and Volvo S80.

**Large 4WD vehicles and luxury 4WD vehicles**

Sales of large 4WD vehicles and luxury 4WD vehicles were more than 30,000 in 2007. Large 4WD sales were 13,370 and luxury 4WD sales 20,042 in 2007.

Typically, luxury 4WD vehicles are priced between $70,000 and $100,000. Higher priced 4WD vehicles which include the Toyota Landcruiser and Nissan Patrol, and luxury 4WD vehicles, such as the Audi Q7, BMW X5, Range Rover Sport are subject to LCT.

**Main provisions**

**Schedule 1 – Calculation of LCT**

*A New Tax System (Luxury Car Tax) Act 1999*

The amount of LCT is: Rate x 10/11 x [LCT value - LCT threshold]

**Schedule 1 – Applicable rate**

*A New Tax System (Luxury Car Tax Imposition–General) Act 1999*

*A New Tax System (Luxury Car Tax Imposition–Customs) Act 1999*

*A New Tax System (Luxury Car Tax Imposition–Excise) Act 1999*

The “25%” rate is omitted and substituted by “33%”.

**Commentary on LCT**

Industry and media commentary on the increase in LCT has been critical with the Federal Chamber of Automotive Industries describing the increase as unnecessary and a distortion within the tax system.5

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Concluding comments

The timing of the increase in LCT coincides with the Bracks Review of Australia’s automotive industry and the government’s efforts to attract R&D for an Australian built hybrid car. As part of the review, current assistance arrangements are being examined as are options for continued support to the industry and a final report is due by 31 July 2008. Funding for the $500 million Green Car Innovation Fund in the 2008-09 Budget and the increase in LCT which will raise $555 million foreshadow the government’s intention to take pre-emptive action to support the local industry by increasing the cost of imported luxury cars and investing in production of an Australian hybrid car.


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