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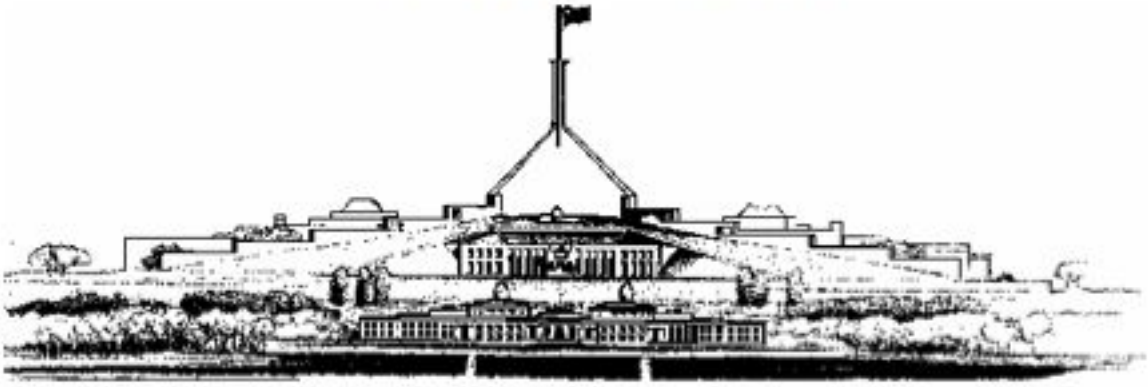

HOUSE OF REPRESENTATIVES

A NEW TAX SYSTEM (TAX ADMINISTRATION) BILL 1999

Second Reading

SPEECH

Monday, 11 October 1999

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

SPEECH

Date	Monday, 11 October 1999	**Source**	House
Page	11264	**Proof**	No
Questioner		**Responder**	
Speaker	Cox, David, MP	**Question No.**	

Mr COX (Kingston) (8.52 pm)—On 28 September, in light of Ford standing down 3,500 workers, I asked the Acting Treasurer when the Howard government would act to provide a satisfactory GST transitional arrangement for cars. The answer I got was that there was not a problem. The House was told:

The simple facts are—and I am sure the honourable member for Kingston will not like this—that to date there is little evidence that consumers are putting off the purchase of new vehicles in anticipation of lower prices after the commencement of the GST. In fact, the industry data for August show that sales for 1999 continue to lag just behind the 1998 record sales level and they continue to be ahead of the 1997 levels, and that of course was the previous record year. Total sales for the first eight months of 1999 were 2.3 per cent lower than 1998 but 13.4 per cent higher than 1997. Total sales for August 1999 are 3.9 per cent lower than August 1998 but 11.1 per cent above the August 1997 figure.

The minister then quoted the General Motors director of sales and marketing as saying that it was Holden's best August result in 20 years and, if there was a GST downturn, the company was not being affected. The minister went on to make some unflattering remarks about the latest model Falcon. Evidently, in his uncomplicated world, there are only two Australian car makers and no competition from imports. The minister finished by saying:

Therefore, it is not correct to suggest the GST is having an adverse impact on the car industry.

From that, I conclude that the government has no intention of changing the GST transition arrangements for cars.

The figures that the minister quoted in his answer were selectively chosen and are not an accurate indicator of the present state of the motor vehicle industry in Australia. First, they are figures for the whole of the motor vehicle industry and not specifically passenger motor vehicles—Australia builds only passenger motor vehicles not trucks, buses or even four-wheel drives. Second—and this is their biggest defect—they are for the whole calendar year. The figures that are relevant are for the months of July and August after the GST legislation was passed.

The estimates by the Australian Bureau of Statistics of new passenger motor vehicle registrations show the extent of the problem. In July, new passenger motor vehicle registrations plunged. They fell from 63,189 in the same month last year by more than 10,000 to 51,161—that is a fall of 15.9 per cent in original terms. In seasonally adjusted terms, the fall was 13.9 per cent. In August, the comparison with the same month in the previous year was similar, a fall of 13.6 per cent. For the financial year to date—that is, since the GST was passed—the original series is down 12.8 per cent and the seasonally adjusted series 13 per cent compared to the same period last financial year. That is a somewhat different picture from the vehicle sales figures fall for the 1999 calendar year of only 2.3 per cent, which the government focused upon.

The comparable sales figures for the 1999 calendar year to date, for passenger motor vehicles sales by the four Australian car makers, are down more than double that—by 5.1 per cent on the same period last year. Those figures include the imports the local makers bring in to fill out their model range. For the calendar year to date, for passenger vehicle sales, two of the local car makers total sales are ahead of last year—one of them is Ford. Two have recorded lower total passenger vehicle sales than last year—one is Holden. This is the reverse of the minister's simplistic remarks about Ford and Holden sales.

There are three main factors contributing to the GST-induced new car buyers' strike. The first is the expectation that new car prices will fall by a large amount as a result of the reduction in indirect tax. This is the major factor influencing private buyers. The difference between a 22 per cent wholesale sales tax and a 10 per cent GST seems like a lot but one is a wholesale sales tax and the other is determined by the retail value. A retail tax equivalent to the WST would be 13 per cent—suddenly the difference between wholesale sales tax and GST does not seem so large.

The government's *A New Tax System* document's estimate of the GST price effect puts the fall in car prices at 8.3 per cent. The industry estimates it at only 6.3 per cent. Before the election the Treasurer claimed a grossly optimistic $3,000 drop in the retail price of new cars. It is that kind of overblown rhetoric which fuels the buyers' strike. The second factor is the lower residual value of a new car bought pre-GST. Lower new car prices will drive down the value of second-hand cars. Fleet managers are much more conscious of this than private buyers because it has significant implications for the cost of lease agreements.

The third factor is the incentive which fleet and business buyers have to defer purchasing new vehicles until the GST comes in because they will be entitled to a credit with respect to the GST component of the price. To reduce this input credit effect, the government has disallowed credits for the GST on cars purchased in year 1—that is, 2000 to 2001—and only allowed a 50 per cent credit for purchas es made in year 2—2001 to 2002. What the government is doing is increasing its GST revenue take from cars for two years. What was the government's expectation about the influence of these factors? The government seems to have believed that the buyers' strike might occur for a few months before the introduction of the GST and that any loss in sales would be made up for by a surge in demand in the few months afterwards.

The transitional costs, if there were any, would be made up for by increases in future demand as a result of greater affordability of new cars. This optimistic set of assumptions is wrong on a variety of grounds. The belief that the buyers' strike would only occur a few months before the introduction of the GST has already been demonstrated to be wrong. Sales have plunged a full 12 months before the GST becomes operative. Buyers, including business and fleet buyers, have discretion about how often they will replace vehicles. It is by no means certain that deferred new car purchases will rapidly be made up after the GST comes into operation.

Because cars have a substantial residual value, they are different from most consumer goods. The fall in the value of second-hand cars is going to have a significant impact on the industry. On the face of it, the GST will improve the affordability of new cars, but the reality is, as any car dealer will tell you, it is the changeover price, not the retail price, that determines affordability. With the value of second-hand cars set to plummet, the changeover price is not going to be improved by the GST.

In fact, the second-hand market is going to be under a great deal of pressure with dealers forced to pay GST on second-hand car sales. They will need to quit stock prior to the GST coming in, and after it does they will not be in a position to be offering higher trade-in values. The local car makers will also face increased competition from cheap imports which have been improving their market share as a result of tariff cuts and now will benefit in the marketplace from the price effect of the GST.

It is an open question what proportion of any new sales will go to locally produced cars as opposed to cheaper, smaller imports. It is important to note here that the modest price effect of the GST is not going to overcome the affordability problem for most people who would like to buy a new upper medium car built by one of the local makers. Most will still have to settle for a second-hand one or an imported compact if they want a new car. That is why only 28 per cent of locally produced cars are bought by private buyers.

The benefits of the GST to the local car industry have been grossly overstated and are probably outweighed by the transitional costs. These transitional costs are going to have a significant impact on the industry's revenues and will therefore be a blow to its capacity to fund investment in new models and more efficient production facilities. In this regard, I have been given a rather disturbing industry report which suggests that the adverse transitional effects of the GST on cars will not cease on 1 July 2000 when the tax comes into operation. The document is a draft report by Martec Automotive Consulting on the *Impact of the introduction of the goods and services tax*.

Martec are well qualified. They have been providing consulting services to the car industry for the last 30 years and have an established track record forecasting sales. They also operate in New Zealand and so have already had some practical experience with a GST and transitional arrangements. The report says:

Despite the lower retail prices flowing from the introduction of GST making new vehicles more affordable, Martec do not believe that the present transitional arrangements will allow the volume levels to be sustained in the next two to three years. We are forecasting that new vehicle sales will decline by 5.3% in calendar year 1999 over 1998, and the downturn is more significant on a financial year basis.

On a financial year basis, Martec is forecasting a 12.6 per cent reduction. That is pretty curious in a situation where we have a relatively higher level of economic growth which is being fuelled by a substantial level of consumer demand. Martec's forecast for the second quarter of the year 2000, the three months immediately before

the GST becomes operational, is a 17.6 per cent decline over the second quarter in 1999. What is even more disturbing is that Martec say that:

Based on the present transitional arrangements a similar but smaller decline in selling rates will occur in 2001 and 2002. We would also point out that the projected delays and declines in the new vehicle trade cycle that underlay these forecasts will change the historical sales seasonality for a number of years beyond the forecast period.

The length of this disruption to the market from the introduction of the GST is a result of the government's transitional arrangements. According to Martec:

The potential negative impact on vehicle sales from the GST transition for fleets will be felt primarily from business fleets in not just the period to 1 July 2000 but also in the period through to 1 July 2002.

Martec's conclusions about the consequences for the local manufacturing industry are severe. They state:

With the four local manufacturers (Ford, Holden, Mitsubishi and Toyota) generating 72% of their sales from fleet the decline in fleet sales will fall most heavily on local manufacturing . . . The difficulties of reducing local production line speeds in the short term will if the Martec forecast is correct result in plant closedowns and employee standdowns, particularly in the period March through May in the years 2000, 2001 and 2002.

The fiscal consequences of this downturn are also a major problem. They state:

Martec estimate that Federal Government revenue from the Wholesale Sales Tax will be depressed by around $450 million through lower sales volume and changes in the vehicle mix in the 1999/00 financial year.

The Howard government may have got itself into a situation where it cannot fix the problem it has created for the car industry without blowing a big hole in its own budget.

Mr Hockey—You don't believe that.

Mr COX—We will wait and see. Martec calculates that reducing the wholesale sales tax to adjust the recommended retail price to the same level as would apply post GST would require a nine-point reduction in the wholesale sales tax rate to approximately 13 per cent. The cost of this reduction to federal government revenue is estimated to be $1.3 billion. The Treasurer's choice is: does he wreck the car industry or wreck his budget? The transitional arrangement which the government has put in place is one which is designed not to protect the car industry but to protect the revenue.