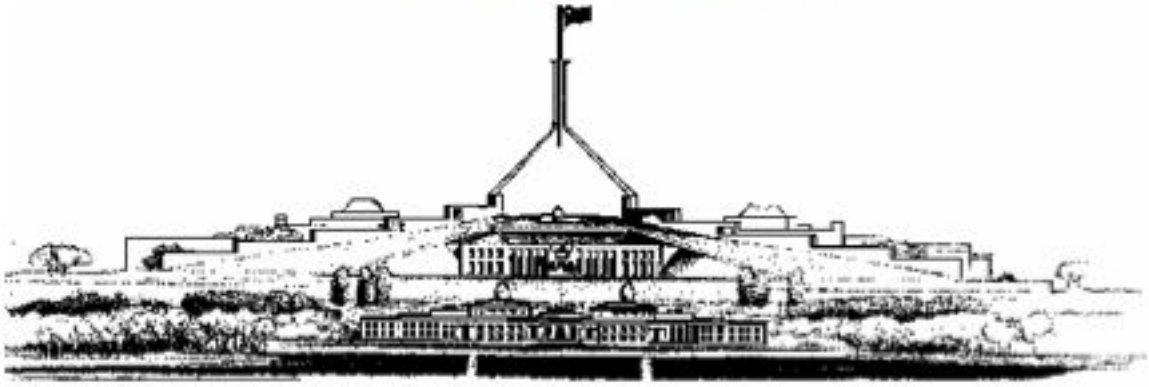
COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



HOUSE OF REPRESENTATIVES

ADJOURNMENT

Goods and Services Tax: Car Industry

SPEECH

Monday, 26 June 2000

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

SPEECH

Date	Monday, 26 June 2000	**Source**	House
Page	18280	**Proof**	No
Questioner		**Responder**	
Speaker	Cox, David, MP	**Question No.**	

Mr COX (Kingston) (10.24 pm)—It is time to examine the effect of the Howard government's policies on the Australian car manufacturing industry and in particular on Mitsubishi. The thing that has had the greatest bearing on the car industry over the last 12 months has been the introduction of the GST. Like all of the Howard government's other claims about the benefits of the GST, the benefits for both Australian car buyers and Australian car makers have been exaggerated. I do not expect to see the massive increase in demand for new cars that the government promised when it unveiled its GST before the last election.

The government's message was that, with lower personal taxes and a drop in the indirect tax on cars, volumes would increase dramatically, benefiting both buyers and car makers. The reality is something much less than that. First, the drop in indirect taxes is not from 22 per cent down to 10 per cent because the 22 per cent is a wholesale sales tax and the GST is 10 per cent at the retail level. The real difference is from 14 per cent—the rate of wholesale sales tax equivalent to the GST—down to 10 per cent. Second, most buyers trade in their old cars. To the extent that new car prices are reduced, so too will the value of second-hand cars be reduced. The changeover cost will therefore tend to be maintained. Third, John Howard's deal with the Democrats to remove some food items from the GST included some reduction in the tax cuts for higher income earners. That means they do not have as much to spend on new cars as they had been promised. Fourth, while the indirect tax burden on an Australian made car will fall slightly, the indirect tax burden on cheaper imported four-cylinder cars will fall by an equivalent amount, making them even cheaper. It is reasonable to assume that they will continue to erode the Australian car makers' market share.

Fifth, because the government refused to provide an adequate GST transitional arrangement between the passage of the GST legislation and it coming into effect, there was a GST car buyers strike. The government should have reduced the wholesale sales tax to the GST equivalent rate but refused to in order to save wholesale sales tax revenue. The local car makers were left to carry all the financial burden of the buyers strike. The Australian car makers were putting $4,000 and $5,000 worth of free extras into their cars to sustain a modest level of sales and help keep their factories operating. Paradoxically, this has resulted in the period of the GST buyers strike being an excellent time for consumers to buy a new car. Unfortunately, that also means that with the GST coming into effect the only direction for car prices to go will be up. The boost in sales that was expected to follow the introduction of the GST is likely to be less than might otherwise have been anticipated.

Sixth, the only GST transitional arrangement which the government put in place for cars was one to reduce the incentive for business fleet buyers to defer expenditure until after the GST came in so that they could claim input tax credits. The mechanism they chose was designed to maximise the revenue that would be collected. The availability of input tax credits will be phased over two years. Fleet business buyers will not enjoy the benefit of being able to deduct the full amount of the GST they pay on business vehicles from their GST liability for the goods and services they sell for two years. This transitional arrangement will disrupt and distort sales to the fleet market for a further two years. Given that 70 to 80 per cent of Australian made cars are sold to fleet buyers, that will continue to be a serious issue. The government should scrap the phasing arrangement for input credits, but they are short of revenue and will not. Our local car manufacturers will have to carry the combined burden of restricted access to input credits and lower residual values for vehicles, making investment in a vehicle fleet much less attractive. Those are the six factors which bear on the state of the car industry as a result of the GST.

A recent indicator of the Howard government's lack of interest in the local car manufacturing industry was its decision to put three imported four-cylinder sports cars on the list of eligible vehicles to be available to senior public servants as part of their remuneration package. The cars were the Toyota MR2, the Nissan 200SX and the Toyota Celica. Previously, cars leased under the scheme had all come off an Australian production line, except where there were compelling reasons such as the need for business purposes to have a four-wheel drive, a people-mover or a small four-cylinder sedan. This change would have resulted in serious inroads being made into the number of Australian made cars being acquired under the scheme. I ensured this decision was given the sort of adverse publicity it deserved and, as a result, the government quietly amended the list of eligible vehicles, omitting the offending sports cars.

We discovered a couple of weeks later that the reason this reversal was executed so quietly was that the government had also taken a decision to allow more junior public servants to lease any imported car of their choosing under salary sacrifice arrangements utilising FBT motor vehicle concessions. To date there has been no reversal of this policy. The industry minister, Senator Minchin, has in fact defended it, saying that allowing public servants to choose a taxpayer subsidised imported car is a human rights issue. Frankly, I am more concerned about the livelihoods of Australian car workers and their families. This government has shown a callous disregard not only for the welfare of car workers and their families but also for the fate of the Australian car industry. The government chose early to deny there was a GST car buyers strike. The loss of volume and the need to discount stock to move it were detrimental to profitability. *(Time expired)*