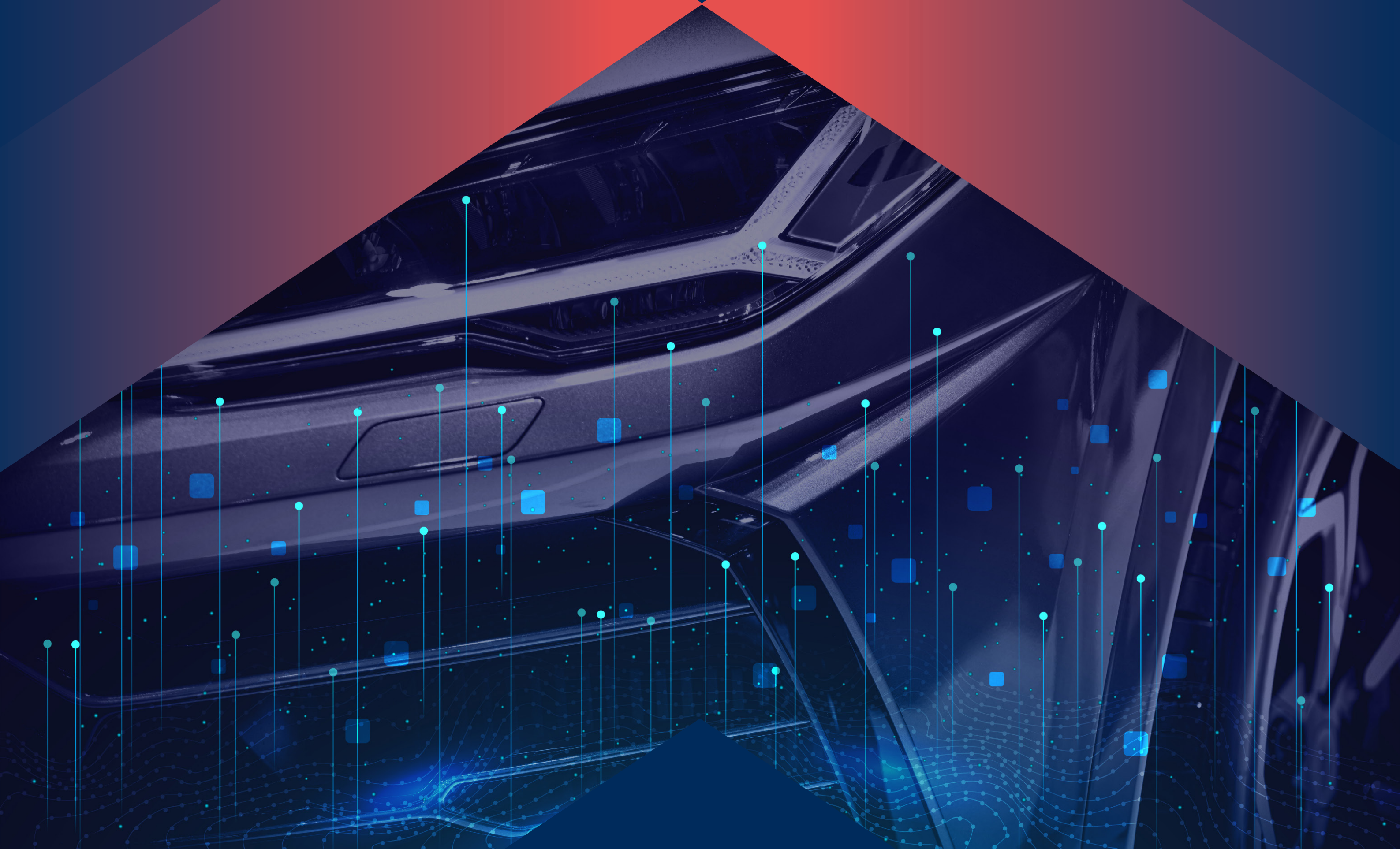
AUSTRALIAN AUTOMOTIVE DEALER ASSOCIATION

2021-2022 PRE-BUDGET SUBMISSION

9 FEBRUARY 2021



CONTENT

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 2021- 22 Budget.

The AADA is the peak automotive industry advocacy body and is the only industry association which exclusively represents franchised new car Dealers in every Australian state and territory. There are approximately 1,500 new car Dealers in Australia that operate some 3,200 new vehicle dealerships. Franchised new car Dealers pay over $3.6 billion in taxes and duties, and in total generate $12.76 billion in total economic contribution. They also employ more than 60,000 people directly.

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 have been signs of growth in the automotive industry. After new cars sales declined for 31 of consecutive months, the months of November and December 2020 saw a return to growth. However, these numbers should not mask what has been a very difficult period for the industry.

In 2020, we saw an annual decline in new car sales of 13.7 per cent, the biggest annual decline on record. It was also the third year in a row of falling sales, the first time this has happened since we started recording vehicle sales some 30 years ago.

Dealers have been very grateful for the Federal Government's assistance during the most remarkable of years and the JobKeeper program has literally saved tens of thousands of jobs in dealerships. The expansion of the instant asset write-off scheme has also provided much needed support, proving an incentive for more businesses to purchase vehicles which they otherwise would not have.

The landscape for franchised new car Dealers does however remain very challenging. The 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. These changes and the relationship between Dealers and the large offshore Manufacturers, which is characterised by a huge power imbalance, leaves Dealers and the people they employ dangerously exposed.

Restrictions on the availability of credit for car finance remains an issue for Dealers and is a significant factor constraining new car sales. Dealers sell nearly 1 million cars a year and of the 90% that are financed, Dealers arrange credit in 39% of sales. The Consumer Credit Reforms currently under review are a positive step in easing restrictions in the finance sector and are welcomed by Dealers. It is crucial that the legislation currently before Parliament passes.

Section 1

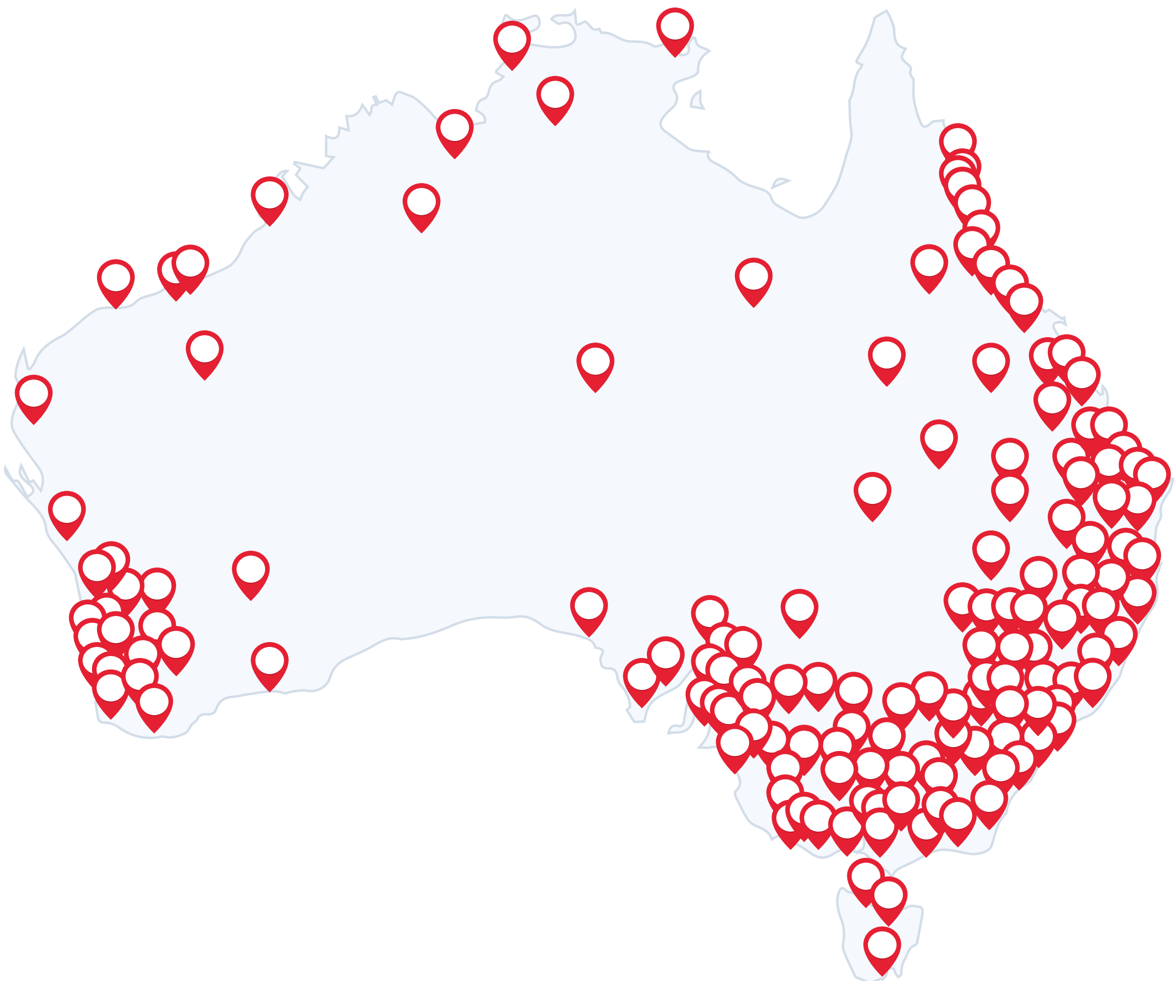
Franchised new car Dealers contribute tens of billions of dollars in tax and duties to the Federal and State Governments every year. Dealers do not object to paying their fair share of tax but we believe that customers are being penalised unfairly through a number of inefficient and antiquated taxes, 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.

Finally, taxes put in place to protect an Australian automotive manufacturing sector which no longer exists, along with tariff arrangements and the discriminatory LCT, demonstrate the need for thorough reform of automotive taxes.

James Voortman
Chief Executive Officer

Australia

3,135 Dealerships



60,278
Dealer Employees

$5.10 billion
Dealer Wages

$2.07 billion
Tax Contribution

$12.76 billion
Total Economic Contribution

AADA KEY BUDGETARY RECOMMENDATIONS

1

INCENTIVISE INVESTMENT

- Extend the enhanced Instant Asset Write-off
- Remove or increase the $500 million eligibility threshold on the Instant Asset Write-off scheme
- Remove or restructure the Car Limit

2

INCENTIVISE CONSUMERS

- Establish a Fleet Renewal Program
- Adopt Consumer Credit Reforms and amend Responsible Lending Obligations

3

MODERNISE AUTOMOTIVE TAXATION

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

INCENTIVISE INVESTMENT

It is crucial that we encourage business investment to assist in the recovery from COVID-19 crisis. Both the instant asset write-off and the temporary full expensing are welcome.

Dealers often make major investments in facilities 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, regardless of turnover.

Equally, the AADA would request consideration for the abolition of the car limit. There is currently an upper limit on the cost businesses can use to work out the depreciation for the use of some vehicles. The use of the car limit has been justified by Government as an integrity rule which is designed to limit deductions claimed on premium vehicles which have similar capabilities to other non-premium passenger vehicles. Whether or not the current car limit of $59,136 is appropriate for premium vehicles is open for debate, with many cars at that price point hardly considered premium. However, what is not open to debate is that the car limit discriminates against cars, as no other asset has such a limit. There is no boat limit. There is no coffee machine limit.

Furthermore, it discriminates against certain businesses, such as limousine providers and tour operators for example who are more likely to require vehicles subject to the car limit. The car limit should be abolished or restructured to ensure it targets appropriate vehicles and does not discriminate against certain businesses.

INCENTIVISE CONSUMERS

An Australian fleet renewal scheme will provide a stimulus for the automotive industry and assist in making Australia's passenger vehicle fleet safer, while also reducing emissions.

Bringing down the age of Australia's fleet, currently at 10.4 years, will have social and economic benefits. It will save lives and achieve better environmental outcomes while providing a boost for industry and making significant savings to the budget.

The Australasian New Car Assessment Program research has found that vehicles built before the year 2000 represent just 20% of the fleet but are involved in nearly one-third of fatal crashes while Australian Automobile Association research has shown that lowering the average age of Australia's light vehicle fleet by one year would save up to 1,377 lives and create a $19.7 billion benefit in trauma and emission reductions over a 20-year period.

In terms of efficiency, a 2016 Federal Government fuel efficiency RIS determined that vehicle efficiency improved by 76% from 2005 to 2015. The National Transport Commission has found that the average emissions intensity of the new light vehicle fleet has reduced by 28% since 2002.

Fleet renewal schemes have been successfully applied in other industrialised economies throughout the world during economic downturns. New cars are safer, cleaner and more efficient.

GROWING AGE of Australia's vehicle fleet.

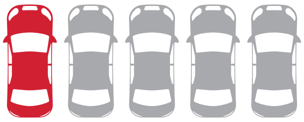
NEW CARS ARE SAFER, CLEANER AND MORE EFFICIENT.

According to the ABS Motor Vehicle Census the age of Australia's passenger vehicle fleet has been growing and in 2020 it reached double figures – it is now 10.1 years (10.6 years for light commercial vehicles). This is behind other industrialised countries.

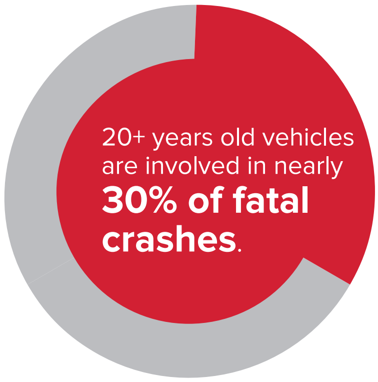
10.1 The average age of Australian passenger cars is older than in other OECD countries.

- Australia | 10.1 Years[1]
- France | 9.0 Years[2]
- Germany | 8.9 Years[2]
- UK | 8.5 Years[2]
- Japan | 8.3 Years[2]

[1] Australian Bureau of Statistics (ABS) Motor Vehicle Census 2020
[2] Average age of motor vehicles, 2015



1 in 5 vehicles is older than 20 years.



BENEFITS OF A REDUCED FLEET AGE

SAFER

New cars often come with up-to-date safety features and the latest technology.

- Autonomous Emergency Braking (AEB)
- Lane Keeping Assistant
- Parking Pilot
- Intelligent Speed Assistance
- Traffic Sign Recognition
- Attention Assist

Lowering the average age of Australia's fleet by one year could **save 1,377 lives.**

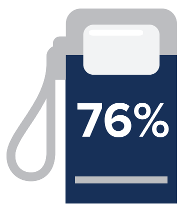
CLEANER

The **CARBON INTENSITY** for new cars sold in Australia has reduced by **28%** since 2002.

MORE EFFICIENT

New cars have fuel-efficient engines.

VEHICLE EFFICIENCY improved by 76 % from 2005 to 2015.



CONSUMER CREDIT REFORMS

In recent years a stricter application of responsible lending laws has resulted in everyday car buyers finding it more difficult to get finance approval for the purchase of vehicles. To compound matters COVID-19 has led to many occupations being deemed high risk resulting in a further tightening of credit.

The AADA agrees with the intent of the proposed reforms to consumer credit, which seek to place more responsibility on borrowers to provide honest and accurate information to lenders and their approved intermediaries. The Treasurer noted in his announcement of 25 September 2020 that placing the burden of proof almost entirely on lenders has created unnecessary red tape, administrative overheads, lengthy and inefficient lending processes and ultimately a restriction on lending and the provision of credit.

This has certainly been the case in the automotive industry, with many Dealers reporting that restrictions on consumer credit are adversely affecting car sales.

The AADA also supports plans to amend the Responsible Lending Obligations (RLO's) and move from a one size fits all approach.

The AADA fully supports the adoption of the draft reforms.

MODERNISE AUTOMOTIVE TAXATION

As we ask businesses to lead the recovery out of this economic downturn, it is important that we take a strong look at reforming the taxation regime which currently exists in the automotive industry.

Australia needs an urgent review of its Automotive taxation regime. Each year, Australian's pay tens of billions in motoring taxes and charges to governments. According to the Bureau of Infrastructure, Transport and Regional Economics in the 2017-18 financial year, more than $31 billion in such charges were paid.

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

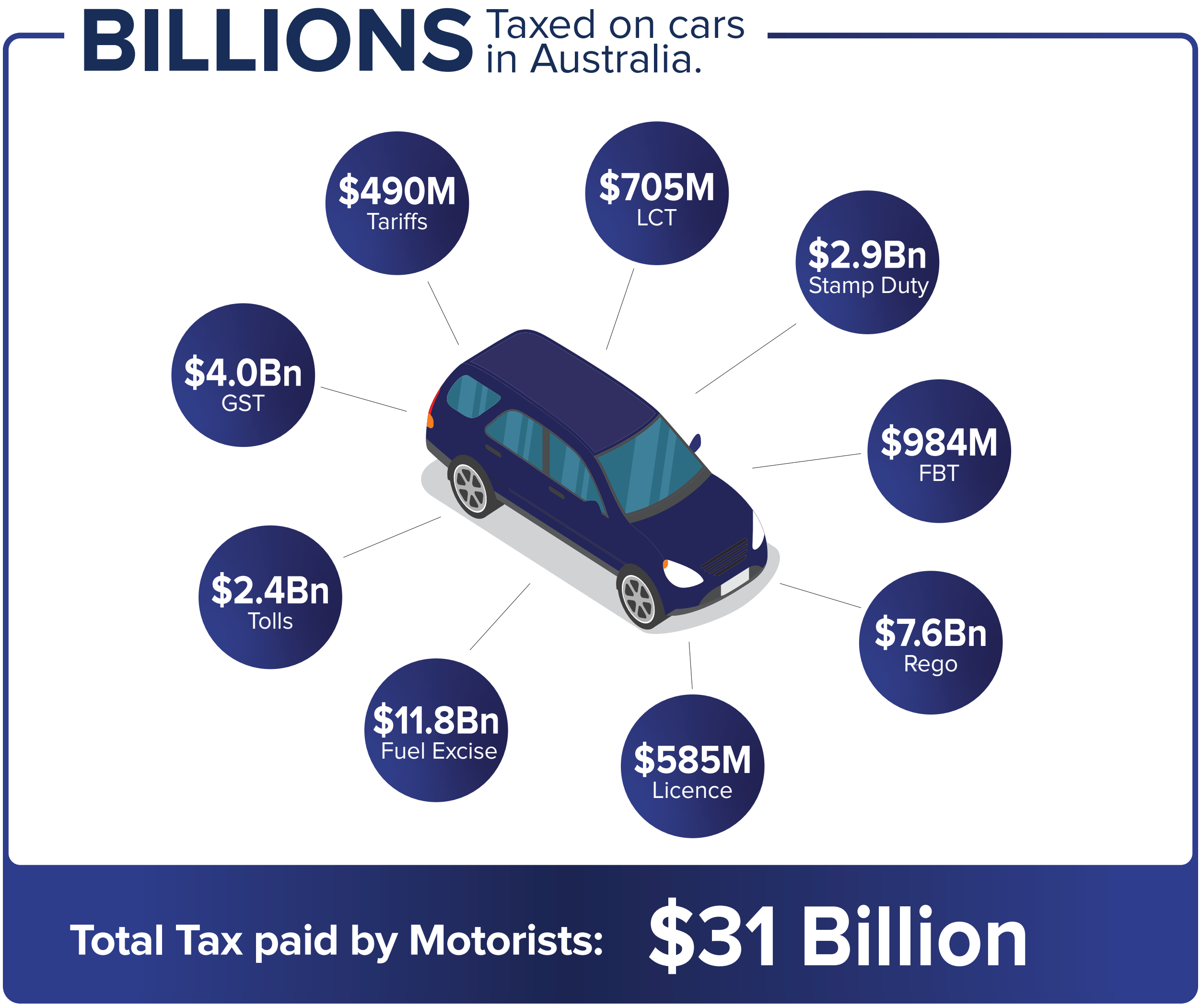
At the federal level, a considerable part of that tax revenue has been drawn from the Luxury Car Tax and the vehicle tariffs that are applied to new cars sourced from countries with which Australia has no Free Trade Agreement (FTA).

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 has softened over the past year.

Federal taxes on new cars, such as the import tariff and the Luxury Car Tax 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 design to establish a comprehensive automotive taxation regime that is fit-for-purpose for these new realities.



Source: BITRE, Australian Infrastructure Statistics Yearbook 2019, Table T 1.4a Selected road-related taxes and charges, Financial Year 2017-18, p. 49.

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 or even some variants of the Mazda CX-9 SUV.

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 1 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: Exempt low-emissions vehicles

Simply put the LCT has been structured in a way that discourages the purchase of 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 less than one per cent over the past decade – it is now $75,526. The threshold for non-fuel- efficient vehicles meanwhile has gone up almost 20 per cent to $67,525.

If the fuel-efficient cars were indexed at the same level as other vehicles, the threshold today would be over $88,000.

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.

Despite the significant savings in running costs and the relief from taxation, many motorists are put off by the fact that EVs are nowhere near price parity with Internal Combustion Engine (ICE) vehicles.

For example, the Hyundai IONIQ is Australia's most affordable EV at $48,990 (before on-road costs). A similar ICE vehicle would be the Hyundai Elantra which can start from as little as $21,490 (before on-road costs).

The reason for the price disparity is the high cost of the lithium-ion battery which is expected to decline over time. In the meantime, some countries have sought to bring down the cost of EVs by offering financial incentives. The question of incentives is, in essence, a philosophical one, and it distracts from the real factors distorting the price of EVs namely the Federal Government's taxes on new cars, which falls disproportionately on EVs.

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. Even more EVs are also paying the LCT as they cost more than the fuel-efficient threshold of $75,526.

EVs manufactured in Europe and are more likely to be priced above the LCT threshold and as such are more likely to be subject to additional Federal Government taxation. While the policy intent of these taxes is not to target low emissions vehicles, the unintended consequence of these legacy taxes is that EVs are more expensive than they should be.

Adopting Option 2 would make electric vehicles and potentially other low emissions vehicles more affordable and encourage their broader acceptance into the Australian fleet. Given the very small numbers of vehicles involved, this option would not significantly affect the revenue raised annually by the LCT.

Option 3: 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 include all accessories present 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. One example of this being the Mazda CX-9, where only the variant with the highest level of safety features falls within the LCT purview. 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. Given the growing number of FTAs, including the prospective trade agreements with the EU and UK, we believe that the Australian public would be best served by the Government removing existing tariffs from all passenger vehicles imported into Australia.

Vehicle tariffs are an invisible and discriminatory tax that is applied on approximately 400,000 new vehicles sold in Australia each year. On average, this is estimated to add almost $2,000 tax per vehicle. There is an estimated $1,500 in import tax for a mid-range VW Golf, one of the more popular small cars sold in the country. Many models from popular brands such as Ford, Nissan and Suzuki are built in non-FTA countries and thus subject to this hidden import tax.

The Volvo XC60, a five-star ANCAP rated vehicle which is highly regarded for its state-of-the-art safety features and is ranked on the Government's Green Vehicle Guide as one of the cleanest most efficient vehicles on sale in Australia attracts an extra $2,350 in duties. Significant duties are applied to some electric vehicles, such as the new Jaguar I-pace and the Renault Zoe – cars with zero tailpipe emissions. There are countless other examples of the price of various vehicle models being inflated by the tariff.

Trade policy experts say that the vehicle tariff will naturally fall away as part of the inevitable Free Trade Agreement with the EU. However, Free Trade Agreements 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 and which is also currently managing the departure of the United Kingdom.

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.

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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