AUSTRALIAN AUTOMOTIVE DEALER ASSOCIATION

2020-21 PRE-BUDGET SUBMISSION

20 DECEMBER 2019

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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 2020-21 Budget. AADA notes the Government's achievement of a forecast Budget surplus while also supporting fairness, opportunity and security for all Australians.

Since our previous Pre-Budget submission, business has become tougher for Australia's new car Dealers. At the time of lodgement, there have been 20 consecutive months of negative new car sales. It is a deep concern that consumer sentiment has continued to soften despite record low interest rates and steady unemployment rates.

Nevertheless, Australia's new car Dealers and their customers have continued to support the economy through tax contributions of many billions of dollars. While we do not object to paying our fair share of tax, we do think that our 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. We believe that these taxes were put in place to support a car manufacturing industry that no longer exists, and therefore should now be abolished.

AADA's comments are limited to matters of direct relevance to our members and their business interests in the automotive retail sector. Our market is one of the most competitive in the world and our business environment is one that is being affected by margin compression, technological change and tighter regulation. These factors are even more oppressive at a time when new car Dealers are facing increasingly difficult business conditions.

Research conducted by Deloitte shows that the average dealer profitability is down to an average of 0.57 per cent, down from 1.2 per cent just one year ago. New car sales have been declining for twenty months straight, and their transactional profit has dropped from $500 per car in 2016 to barely $40 per car today.

As noted above, new car Dealers have an important part to play in Australia's economy, particularly in regional and rural Australia. Our members do not rely on government handouts and, because of their high turnover, they have largely missed out on Company Tax relief, despite the fact that their margins are razor thin and often their profits would be similar to many of the small businesses which have benefitted from company tax cuts. Our members are left facing both tight economic circumstances but, despite these challenges, we believe that with hard work, a clear view of our common future, and solid policy support we can continue to play a significant role in enhancing Australia's economic wellbeing. We commend this submission for your consideration.

James Voortman
Chief Executive Officer

AADA KEY BUDGETARY RECOMMENDATIONS

1

We urge the Commonwealth Government to commence a comprehensive review of Australia's automotive taxation regime.

2

Staged abolition of the Luxury Car Tax, or reform of it by adopting one of the following options:

- **(Option 1)** Raise the threshold to target truly luxury vehicles and stage a sunset period for LCT;
- **(Option 2)** Exempt low-emissions vehicles;
- **(Option 3)** Exclude accessories from the calculation of whether a vehicle hits the threshold for paying the LCT.

3

Abolish passenger vehicle tariffs.

4

Increase the instant asset write-off limit to $50,000.

5

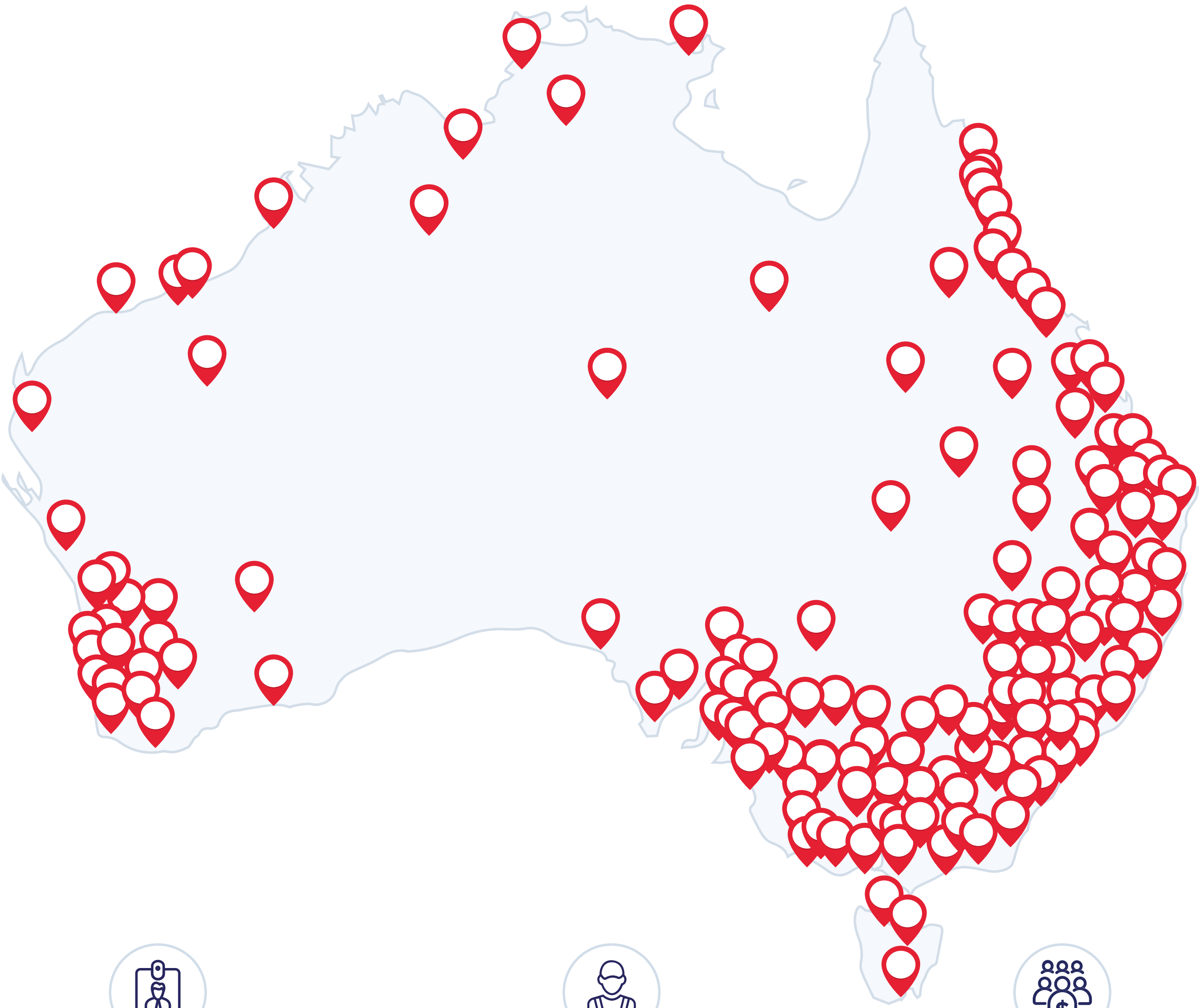
Reshape the Australian Apprenticeship System to attract more applicants, and ensure more apprentices complete their training.

6

Provide seed funding to support architecture for Sharing of Service and Repair Information.

Australia

3,187 Dealerships



58,232
Dealer Employees

4,655
Dealer Apprentices

$15.46 million
Community Donations

$5.32 billion
Dealer Wages

$2.13 billion
Tax Contribution

$13.25 billion
Total Economic Contribution

THE AADA

AADA is the peak industry body exclusively representing franchised new car Dealers in Australia. There are around 1,500 new car Dealers in Australia that between them operate over 3,000 new franchises. Those dealerships range from single-site family-owned small businesses to larger multi-site businesses, including a number of public companies, operating in regional Australia and capital cities across all States and Territories. It is important to note that the listed entities account for only around 15 per cent of total 'rooftops'. Put another way, 85 per cent of franchised new car businesses continue to be owned by individual operators or family groups. This is not an industry dominated by large multinational operators or an industry with monopoly market dynamics such as have developed in the banking and grocery sectors in Australia.

The automotive retail sector is an important contributor to the Australian economy. Our members directly employ more than 58,000 people across Australia, and are a major provider of apprenticeships, particularly in the mechanical trades.

The economic impact of the new vehicle retailing sector to Australia is also substantial. The industry's total turnover/sales amounts to over $58 billion and the estimated total economic contribution is over $13 billion. New car Dealers also generate in excess of $5 billion in wages and billions more in tax revenue.

The industry is a significant contributor to Australia's wealth, and ongoing wellbeing, particularly in rural and regional Australia, where new car Dealers are among the biggest employers and contributors to the local economy. All across Australia, Dealers sponsor local sporting clubs, community groups and charities.

Like many other segments of the Australian economy, new car Dealers are facing and overcoming significant challenges arising from technological change, evolving consumer expectations, and national economic pressures. More specifically, our members are under pressure from issues such as the continued government reliance on taxes and tariffs that were developed to support a motor vehicle manufacturing industry that no longer exists.

A MODERN NEW VEHICLE TAXATION REGIME

The Government should be congratulated on returning the Budget to surplus. New car buyers have made a significant contribution in recent years as federal new car taxes have poured into the Treasury coffers during a period of record new car sales. 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.

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 truly luxury vehicles. 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, jewellery and furs attract no such charge.

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

The AADA understands that the LCT is a useful source of revenue, and that its removal would be seen as giving a free kick to the wealthier elements in society. Consequently, 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.

Despite having no domestic vehicle manufacturing industry, the Government levies a five per cent tariff on vehicles being imported from countries with which Australia has no Free Trade Agreement (FTA). As Australia doesn't have an FTA with the EU, all vehicles manufactured in EU member countries incur this senseless charge, and unfortunately for potential EV buyers the overwhelming majority of EVs available in Australia are manufactured in the EU. More onerously, EVs, because of their high purchase price, are almost all subject to the Luxury Car Tax.

Table 1 has listed the EVs currently available for purchase in Australia as identified by the Australian Electric Vehicle Association.[1]

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[1] http://www.aeva.asn.au/wiki/knowledge-base, accessed 20 December 2019.

TABLE 1: LCT and tariffs applying to EVs available in Australia

Manufacturer	Model[2]	Country of Origin	Price (Incl. ORCs)	Tariff	Luxury Car Tax
Audi	e-tron	Belgium	Over $150k	✔	✔
BMW	i3	Germany	$79,000	✔	✔
Hyundai	Ioniq	Korea	$48,000		
Hyundai	Kona SUV	Korea	$64,750		
Jaguar	I-Pace	Austria	$140,000	✔	✔
Mercedes Benz	EQC	Germany Thailand	Over $150K	✔	✔
Nissan	ZE1 Leaf	Japan	$57,000		✔
Renault	Zoe	France	$50,000	✔	
Renault	Kangoo ZE van	France	$49,500	✔	
Tesla	Model 3 Std range	United States	$71,000		
Tesla	Model 3 Long range	United States	$94,000		✔
Tesla	Model S Std range	United States	$125,000		✔
Tesla	Model S Long range	United States	$145,000		✔
Tesla	Model X Std range	United States	$136,000		✔
Tesla	Model X Long range	United States	$157,000		✔

[2] **Notes to table 1:** Battery electric vehicles only listed. Table does not include any PHEVs, HEVs or FCEVs.

Six of the 15 vehicles listed are paying a tariff due to the fact that they have been manufactured in non-FTA countries, mainly within the EU. Ten of the 15 vehicles listed are also paying the LCT as they cost more than the fuel-efficient threshold of $75,526.

EVs are more likely to be 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, bullbars, 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.

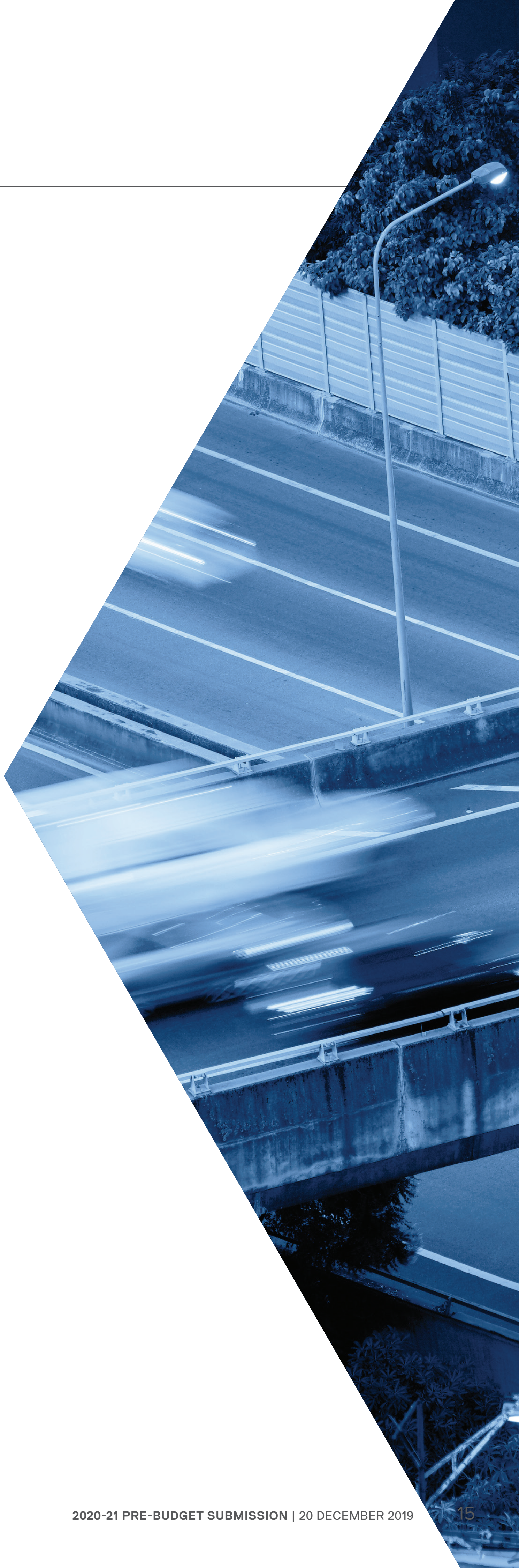
PASSENGER VEHICLE TARIFFS

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 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.

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 almost $2,000 tax per vehicle. The sale of new cars brings significant societal benefits as they are safer, more environmentally friendly and more fuel efficient. Improving road safety, reducing vehicle emissions and bringing down energy costs are all Government priorities and these taxes hinder progress towards these goals. 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.



ROAD USE CHARGES

It is well understood that the predicted growth in low-emissions vehicles is increasingly diminishing the government revenue currently raised through fuel excises. Consequently, we recommend that the Government considers the consequences of the decline in fuel excise revenue which funds the development and maintenance of transport infrastructure.

We note that other technological advances, such as the wide adoption of automated vehicles (AVs) will also likely erode the Commonwealth tax revenue over the coming years. The AADA is strongly of the view that a full-scoped review of automotive-related taxes should be undertaken as a matter of priority.

STIMULUS

The AADA considers that the ubiquity of the new car dealerships network and the policy benefits associated with encouraging the uptake of new, more efficient and safer passenger vehicles makes the industry a most suitable avenue for the encouragement of economic activity in the Australian economy. We would put forward the following policy to stimulate economic activity in the automotive industry.

INVESTMENT SUPPORT

The AADA acknowledges and applauds the Government's decisions for the previous Budget that increased the instant write-off limit for individual assets from $25,000 to $30,000, while increasing the turnover threshold from $10 million to $50 million. However, we consider that the current upper limit for instant asset write-off is too low to allow a sufficient range of commercial vehicles to be included. As shown in the table below, many more popular commercial vehicles used by trades people and others in Australia are priced in the range of $30,000 to $50,000. Consequently, the AADA submits that the instant asset write-off be increased to $50,000.

Make and Model	MSRP[3]
Renault Kangoo SWB Manual	$26,990
Volkswagen Caddy SWB Auto	$30,990
Toyota HiLux Workmate 4x2 Double Cab	$33,565
Renault Trafic Trader Life	$32,990
Mitsubishi Triton GLX MR Double Cab	$36,290
Toyota Hiace Auto	$37,530
Ford Ranger 4x2 Double Cab	$39,690
Hyundai iLoad Auto	$41,790
Volkswagen Amarok Core	$47,590
Ford Transit 350L	$49,490

[3] excludes options, dealer delivery, stamp duty, and other govt charges

INCREASING THE TAKE UP AND COMPLETION OF AUTOMOTIVE APPRENTICESHIPS

The automotive industry has long suffered from a systemic shortfall in the number of young people commencing, but more importantly, completing apprenticeships. This has led to shortfalls of over 6,000 automotive-related trades people.[4] While recent indications are that apprentice numbers are once again starting to rise, there is still a long way to go to ensure that all automotive trade positions can be filled by domestic candidates, without having to resort to the importation of temporary workers to fill them.

The AADA believes that to achieve a fully-domestic training and employment pipeline will require a coherent apprenticeship strategy that brings together both the States and the Commonwealth, and that addresses intake rates, completion rates, and both apprentice and employer support. Our proposed approach is addressed briefly below.

BETTER TARGETING AND MORE SUPPORT FOR APPRENTICES

The AADA would advocate for apprenticeship candidates that come from a broader demographic (in both age and cultural background) that are better screened for their desire to work in the industry. We believe that better screening is a vital component of achieving higher completion rates among the cohort of apprentices as they make their way through training.

Work would need to be undertaken to shift public perception that automotive apprenticeships are only for white males between the ages of 16-18 years old. Older candidates, female candidates, and candidates from diverse ethnic backgrounds need to be shown to achieve successful and rewarding careers in the industry after completing their apprenticeships. Drawing from a broader pool of candidates is a straightforward way to increase intake numbers.

A complete solution would require the phasing out of all out-of-pocket training expenses for apprenticeships (for both the trainee and the employer), as well as addressing wage levels for adult candidates, particularly those who are switching careers mid-stream.

[4] https://premium.goauto.com.au/auto-apprentice-numbers-growing/, accessed 31 Oct 2019.

MENTORS AND FACILITATORS

It is easy to forget that currently apprentices are usually in their first 'real' job, and have, by and large, very little experience of the workplace. Ignorance can be a heavy burden both in terms of workplace relations and the basic machinery of getting things done. This can have a significant effect on whether apprentices succeed or fall by the wayside. The AADA supports the current mentoring initiatives under the Government's Australian Apprenticeship Support Network but notes that it does not currently provide personal mentoring support for apprentices, but rather remote support through online services.[5] While some dedicated mentoring support is available from state governments, this varies according to the jurisdiction involved. The AADA submits that a federally funded specialist mentoring program for automotive apprentices would be a significant driver towards improving the completion rates of automotive apprentices, particularly those that come from non-traditional demographics.

Similarly, a dedicated facilitator program to support apprentices and their parents or partners through the process of selecting, applying and completing an apprenticeship would improve take up and completion rates by removing much of the uncertainty associated with the administration of the apprenticeship.

SUPPORTING EMPLOYERS TO INCREASE COMPLETION RATES OF APPRENTICESHIPS

When employers take on apprenticeships, they are making a large investment on trust. They are trusting that the new apprentice will be able and willing to complete their training, and that they will remain with their employer for long enough to recover some value from that investment. With that trust comes risk, which could be addressed through more effective government support. We consider that such support would be best demonstrated through a financial incentive (a completion bonus) to reward the completion of an apprenticeship. The employer could then use that financial incentive to support and encourage the next cohort of apprentices coming through.

[5] http://www.apprenticeshipsupport.com.au/Apprentices/Mentoring-support, accessed 11 November 2019.

SHARING OF SERVICE AND REPAIR INFORMATION – SEED FUNDING

In October 2019, the Assistant Treasurer, the Hon Michael Sukkar MP confirmed that the Government intended to legislate to establish a mandatory sharing scheme for service and repair information. While established by legislation, the governance body for the scheme is expected to be developed and run by industry. While the scheme is intended to eventually become self-sustaining, the scheme will require substantial seed funding from the Federal Government. Consequently, the AADA submits that the Commonwealth Government should provide appropriate budget support to ensure the establishment and operation of the information sharing scheme for its initial five years of operation.

Section 8

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 or our Policy Manager Alexander Tewes.

James Voortman
Chief Executive Officer
M: 0452 535 696
E: jvoortman@aada.asn.au

Alexander Tewes
Policy Manager
M: 0418 425 820
E: atewes@aada.asn.au

CANBERRA OFFICE
Level 3, 10 National Circuit, Barton ACT 2600
PO Box 4409 Kingston ACT 2604

MELBOURNE OFFICE
Level 3, Suite 12, 150 Albert Road,
South Melbourne VIC 3205

E info@aada.asn.au

aada.asn.au