

# SUBMISSION

Tax Discussion Paper

1 June 2015

Audi Australia Pty Ltd

Volkswagen Group Australia Pty Ltd

ŠKODA Australia



**Audi**

**ŠKODA**



All correspondence in relation to this submission should be directed to:

David Miles or Andrew Plumley  
Willard Public Affairs Pty Ltd  
Level 13  
84 Pitt Street  
Sydney NSW 2000

Ph: +61 2 9231 2200

Email: [info@willard.com.au](mailto:info@willard.com.au)



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## About Our Companies

### Audi Australia Pty Ltd

The dynamic and progressive Audi brand has enjoyed record growth in Australia since 2004. More than tripling vehicle sales in this time, Audi continues to break new ground in this country – introducing its sporty and progressive product to a receptive public each year.

For more than 100 years, Audi has been at the forefront of vehicle design, leading technology and innovative production practices, and this pioneering heritage has seen the Audi brand win numerous awards, year-on-year for its great product.

Audi has continuously improved its technology and its vehicles, ensuring that sportiness and low fuel consumption can indeed go hand-in-hand. From its leading edge direct injection diesel technology, known as TDI, to direct injection petrol engines, FSI and TFSI with turbocharging, to fuel-saving transmissions like multitronic and S tronic, Audi is always looking for ways to reduce the use of fuel and emissions while maintaining the sportiness of its vehicles.

Recently, Audi celebrated 30 years of its leading-edge quattro all-wheel drive technology – one of the brand's most famous innovations – an active safety feature which promotes vehicle stability on all road surfaces, as well as offering dynamic yet surefooted performance.

Audi Australia and its dealer networks are significant employers and continue substantial investments within the Australian market. We are proud to employ nearly 1600 staff across a nationwide network of 48 dealerships.

The iconic 16,000m<sup>2</sup> Audi Lighthouse corporate headquarters in Sydney's South Dowling Street is Australia's largest Audi dealership, and the brand has recently completed Australia's most advanced Audi service centre in Zetland. This investment is on top of circa \$300m investment by the Audi Dealer Network in facilities since 2006.

Audi is an innovative brand for progressive people and this is borne out in everything the brand does.



## Volkswagen Group Australia Pty Ltd

The Volkswagen Group is one of the world's leading automobile manufacturers and the largest carmaker in Europe.

The group operates 94 production plants in 18 European countries and a further eight countries in the Americas, Asia and Africa.

Each working day, more than 500,000 employees worldwide produce more than 34,000 vehicles. We sell our vehicles in 153 countries.

It is the goal of the group to offer attractive, safe and environmentally sound vehicles which are competitive in an increasingly tough market and which set world standards in their respective classes.

Volkswagen Group Australia – a wholly-owned subsidiary of the parent company, Volkswagen AG – has its headquarters in Chullora, NSW and a dedicated team of approximately 200 people handling all aspects of the company's operations, supporting sales growth, and the expanded network of dealerships and service facilities.

In 2013, Volkswagen celebrated 60 years in Australia.

## ŠKODA Australia

ŠKODA is one of the world's fastest growing car manufacturers, now delivering European quality to over 100 countries worldwide. Becoming part of the Volkswagen Group in 1991 has assisted ŠKODA in growing from strength to strength.

Since the launch of the Octavia in 2007, ŠKODA has released over 15 new cars in five model variants and Australians have rewarded the company with record growth, year on year.

ŠKODA have a well-earned reputation for creating value-for-money vehicles built to the highest standards, giving access to European quality without the European price tag.



## Introduction

Audi, ŠKODA and Volkswagen welcome the opportunity to respond to the Australian Government's tax discussion paper.

The Australian tax system is a very significant influence on our businesses and on the buying behaviour and buying power of our customers.

The review of the tax system is one of two reviews that the Australian Government is running in parallel affecting the Australian automotive industry.

The tax discussion paper names its central aim as achieving taxes that are "*lower, simpler, fairer.*"

The ongoing review of the *Motor Vehicle Standards Act* seeks to "*strike the balance between appropriate safety standards... and consumer access to vehicles at the lowest possible cost.*"<sup>1</sup>

Changes to the tax system can achieve those aims, without affecting safety standards or jeopardising the jobs and investments in a major Australian industry.

Australian motorists would gain improved access to higher quality vehicles at globally competitive prices. The outcome would be improved safety and lower environmental emissions in the Australian fleet, benefiting the entire community.

## Luxury Car Tax

Section Nine of the Tax discussion paper identifies the Luxury Car Tax among a group of ad hoc, complex and inconsistent taxes that require examination:

*The LCT has a narrow tax base, is complex and is the Australian Government's only luxury tax on a specific good or service.*<sup>2</sup>

The discussion paper is right to name the LCT as an obvious target of reform – it stands out as a relic of the past.

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<sup>1</sup> [http://minister.infrastructure.gov.au/jb/releases/2015/April/jb029\\_2015.aspx](http://minister.infrastructure.gov.au/jb/releases/2015/April/jb029_2015.aspx)

<sup>2</sup> [http://bettertax.gov.au/files/2015/03/TWP\\_combined-online.pdf](http://bettertax.gov.au/files/2015/03/TWP_combined-online.pdf)



The LCT is a vestige of the sales tax regime of a previous century. Wholesale Sales Tax commenced in 1930 at a rate of 2.5 per cent. Five decades later, it had grown to 45 per cent for a range of disparate items considered "luxuries".

It was inefficient, complex, arbitrary and with a narrow base.

When the Goods and Services Tax replaced Wholesale Sales Tax in July 2000, the Luxury Car Tax was introduced so the price of these vehicles did not fall dramatically. Such a fall in price would render many locally produced, higher-specified cars, uncompetitive. The LCT provided the funding to subsidise and protect the local motor vehicle manufacturing industry whose remaining players announced in 2014 their intention to close.

The LCT rate commenced at 25 per cent but grew to 33 per cent. The level at which it applies varies depending on a vehicle's fuel efficiency. The rate is no longer linked to the depreciation limit. This complexity is reminiscent of the multiple, arbitrary, tiered levels of the unlamented Wholesale Sales Tax.

Inflation and the passage of time have combined to make it a "luxury" tax in name only. How can tradesman's utilities and family people-movers be taxed *because* they are a luxury, when no such punitive tax is applied to diamonds, furs and private jets?

A plumbing, electrical or construction business that purchases a strong, well-equipped Amarok utility with safety features that include a reversing camera, parking assistance and four airbags cannot claim back the entire GST component. A business that selects certain Touareg 4MOTION vehicles would lose half the GST, yet a business that purchases a private jet has no such restrictions and can claim its entire multi-million dollar GST expense.

The LCT has no place in a modern tax system.

The Productivity Commission recommended government consider its removal and the Henry Tax Review was short and blunt:

**Recommendation 80: The luxury car tax should be abolished.<sup>3</sup>**

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<sup>3</sup> [http://taxreview.treasury.gov.au/content/finalreport.aspx?doc=html/publications/papers/final\\_report\\_part\\_1/chapter\\_12.htm](http://taxreview.treasury.gov.au/content/finalreport.aspx?doc=html/publications/papers/final_report_part_1/chapter_12.htm)



## 5% Import Tariff

A second policy option open to government is to abolish the five per cent tariff on passenger motor vehicles and parts.

This taxation measure has become a patchwork, because the Australian Government has incrementally conceded it during negotiations on bilateral free trade agreements. It now applies to products from some nations but not others, and even applies to some models within a brand, but not to others in the same brand.

The Productivity Commission's Inquiry Report into the automotive manufacturing industry recommended the Government consider the removal of the five per cent tariff, as well as removing the Luxury Car Tax.

The financial burden on consumers from the five per cent tariff is larger than the LCT and dwarfs the impact of safety compliance costs that has been proposed for deletion by Government as a way to reduce vehicle costs.<sup>4</sup>

Budget forward estimates show that both the five per cent Import Tariff and the LCT are generally declining.

Passenger Motor Vehicle Customs Duty forecasts (2015/16 Budget Papers)

2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
<b>\$921m</b>	<b>\$700m</b>	<b>\$420m</b>	<b>\$400m</b>	<b>\$400m</b>	<b>\$450m</b>

Luxury Car Tax forecasts (2015/16 Budget Papers)

2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
<b>\$464m</b>	<b>\$500m</b>	<b>\$450m</b>	<b>\$400m</b>	<b>\$410m</b>	<b>\$420m</b>

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<sup>4</sup> 2014 Review of the Motor Vehicle Standards Act 1989, Options Discussion Paper, Page 2





## Motor Industry Investment in Australia

Audi, ŠKODA and Volkswagen, together with our dealer networks, have built major headquarters, dealerships and high technology servicing centres around Australia.

We have increased our training and employment of skilled technicians and the Australian community is choosing and benefiting from the innovative, efficient, and safe vehicles we produce for this market.

While the local manufacturing industry has declined, there has been a steady increase in investment in the sector. Regional areas in particular benefit from the dealer networks that service their communities, built under a stable regulatory regime. The dealer investments made in regional areas allow Australians across the nation to have high technology vehicles serviced locally with factory back-up.

From a consumer's perspective, there is a great deal of choice and competition:

- The Australian market is among the most competitive in the world, with 67 automotive brands competing for business and offering vast consumer and business choice
- Recent changes in the market are evidence of intense competition
- Australian regulation protects the community, ensuring all new vehicles are designed to cope with the extremes of Australian distances, temperatures and road conditions
- The industry remains Australia's largest manufacturing sector, employing hundreds of thousands of people in manufacturing, importing, component manufacturing and distribution, logistics, transport, retailing, servicing and financing
- Safety innovation delivered by manufacturers in a climate of regulatory stability and mandated standards have helped reduce Australian road fatalities by 25 per cent in just a decade.<sup>5</sup> It is an industry delivering the safety outcomes that government and the community demand.

### Taxation changes versus wholesale regulatory upheaval

In a quest to lower the price of some motor vehicles, a recent Department of Industry and Regional Development discussion paper canvassed options that included major changes to Australian safety requirements and relaxing motor vehicle import regulations.

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<sup>5</sup> 2014 Review of the Motor Vehicle Standards Act 1989, Options Discussion Paper, Page 15.



The review specifically ruled out consideration of tax arrangements like the LCT and Import Tariff, even though taxation has a much greater potential to achieve the outcomes government is seeking, with none of the risks to safety, employment and investment.

It should be noted that the Australian market is already so intensely competitive that local manufacturers have determined it is too great to survive, even with the benefit of considerable taxpayer and legislative support.

What will discarding successful safety protections and destabilising one of Australia's largest industry sectors deliver?

By the Department's calculations, compliance adds \$229 per car, on average.<sup>6</sup>

Contrast the \$229 compliance cost with more than \$100,000 added to the retail price of every Audi R8 as a result of the 33 per cent Luxury Car Tax.

It is not only the very top end impacted by LCT. Some models of the Audi A5 and Volkswagen Touareg would reduce by more than \$15,000 – each – without this tax.

Australians choosing a high quality vehicle are likely to see that a \$229 investment in safety and the peace of mind of a stable, reputable, nationwide dealer network represents good value, whereas a \$15,000 arbitrary tax is not good value.

The proposal to allow parallel and/or second-hand imports into Australia would produce few or no benefits for vehicle owners, the automotive industry or the broader Australian community. As can be seen from the New Zealand experience, the relaxation of vehicle import restrictions can result in a proliferation of small, short-term importers competing on marginal, low price vehicles and with little commercial incentive to prioritise safety, maintenance or apprentice training.

These importers would be potentially the only beneficiaries of this policy change.

Allowing vehicles to bypass the established safety regulations and properly established, factory-backed supply regimes would disadvantage consumers in the long run. They would:

- age the fleet, which has been relatively constant over the past decade.<sup>7</sup>
- reduce the ability of the industry to respond to safety recalls

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<sup>6</sup> 2014 Review of the *Motor Vehicle Standards Act 1989*, Options Discussion Paper, Page 51.

<sup>7</sup> 2014 Review of the *Motor Vehicle Standards Act 1989*, Options Discussion Paper, Page 43.



- leave consumers without factory warranty protection on expensive, sophisticated technology
- reduce the incentive for and likelihood of manufacturers investing in the market and defending their brands
- see vehicles equipped for other climates and road conditions imported into a market for which they may not be entirely suitable, without any appreciation of these issues by the customer or future owners
- over time, reduce the community's confidence in all vehicles
- further destabilise Australia's largest manufacturing industry and call into question the investment and employment decisions made or contemplated by major employers
- reduce the value of the investments made by current manufacturers, importers and the entire industry
- reduce the value of existing vehicles, with implications for customers and finance companies
- create parts availability problems for customers and repairers. One of our Australian spare parts warehouses, not used by all brands, holds approximately 50,000 part lines for vehicles imported to Australia. Parallel imports, however, may require one of 600,000 parts in the global group. Consumers and repairers will not anticipate lengthy and potentially costly delays for parts never imported into Australia.
- result in vehicles with, for example, airbag disabling functions; fewer airbags in total; no rear view cameras; and smaller capacity cooling systems being driven by owners unaware they have bought a vehicle engineered for a foreign market.

The *Motor Vehicle Standards Act 1989* has delivered an Australian car fleet that is of an improving standard, with rising safety outcomes and falling emissions. The industry is highly competitive, giving consumers access to a greater range of vehicles than many markets, at competitive prices by world standards. There is a high degree of confidence expressed by consumers and there is a strong level of investment by manufacturers, importers, dealer networks and service centres. If the policy lever is safety and import regulations, the potential for any benefit to consumers and industry is low, and the likelihood of negative consequences is very high.

Contrast this with the removal of the LCT and import tariff, which would produce an outcome for consumers that is many times greater and accords with the government's stated aims of lower prices and a lower, simpler, fairer tax system.

## Conclusion

Australia's new car market is one of the most competitive in the world with 67 brands and more than 350 different models.

This competition gives Australian consumers more choice than their counterparts in the United Kingdom, Canada and even the United States. The competition among those 67 brands has resulted in very high standards of equipment, technology and safety, and it has proved too intense for the local manufacturing industry.

An efficient, effective and stable regulatory regime built over many decades has attracted quality, innovative, technology-driven brands like Audi, ŠKODA, Volkswagen and others. Australian consumers have confidence in their purchases as a result of this structure and the benefits of factory-backed brands and reputable dealer networks. We have poured funds into training, equipment and infrastructure in all parts of Australia, particularly in regional locations.

It is estimated that 66,000 Australian jobs are supported by the investments in our dealer networks.

Australian new car pricing is very competitive, particularly when the high levels of trim, performance and safety equipment are understood. Where Australia becomes less competitive is at the higher ends of the market, where the five per cent Import Tariff and 33 per cent Luxury Car Tax strongly disadvantage Australian consumers.

These taxes are ad hoc, inefficient and inconsistently applied.

Every recent review has recommended their abolition.

The removal of these taxes would immediately benefit consumers; improve the standard of the Australian fleet, and lead to further gains in road safety and environmental emissions.



