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THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

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TREASURY LAWS AMENDMENT (FAIRER FOR FAMILIES AND FARMERS)  
BILL 2024: LUXURY CAR TAX

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EXPOSURE DRAFT EXPLANATORY MATERIALS

## **Consultation preamble**

Treasury seeks feedback on the effectiveness of this exposure draft explanatory material in explaining the policy context and operation of the proposed new law, including, but not limited to:

- how the new law is intended to operate;
- whether the background and policy context is sufficiently comprehensive to support understanding of the policy intent and outcomes of the new law;
- the use of relevant examples, illustrations or diagrams as explanatory aids; and
- any other matters affecting the readability or presentation of the explanatory material.

Feedback on these matters will assist to ensure the Explanatory Memoranda for the Bill aids the Parliament's consideration of the proposed new law and the needs of other users.

Treasury and the ATO work closely to identify aspects of new tax laws which may benefit from ATO public advice and guidance (PAG). Feedback is also sought on any aspects of the new law where ATO PAG should be considered, to support stakeholders' understanding and application of the new law. Stakeholder feedback on this question will be shared with the ATO.

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# **Glossary**

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This Explanatory Memorandum uses the following abbreviations and acronyms.

<b>Abbreviation</b>	<b>Definition</b>
CPI	Consumer Price Index
ITAA 1997	<i>Income Tax Assessment Act 1997</i>
LCT	Luxury Car Tax
LCTA 1999	<i>A New Tax System (Luxury Car Tax) Act 1999</i>
NEVS	National Electric Vehicle Strategy



# Chapter 1: *Luxury Car Tax*

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## Outline of chapter

- 1.1 Schedule 1 to the Bill amends section 25-1 of the LCTA 1999 by:
  - updating the definition of a fuel-efficient car by reducing the maximum fuel consumption for a car to be considered fuel-efficient for the LCT to 3.5 litres per 100 kilometres from the current 7 litres per 100 kilometres; and
  - amending the index number used to index the LCT threshold from All Groups CPI to the motor vehicle purchase sub-group of the CPI.
- 1.2 The amendments seek to incentivise the take-up of fuel-efficient and electric vehicles and ensure the concessional treatment of fuel-efficient cars is consistent with the Australian Government's National Electric Vehicle Strategy (NEVS).
- 1.3 All legislative references in this Chapter are to the LCTA 1999 unless otherwise specified.

## Context of amendments

- 1.4 As part of the 2023-24 Mid-Year Economic and Fiscal Outlook, the Government announced that it will modernise the LCT by tightening the definition of a fuel-efficient car and amending the index number used to index the LCT threshold from All Groups CPI to the motor vehicle purchase sub-group of the CPI.
- 1.5 LCT, as set out in the LCTA 1999, is a tax on the GST-inclusive value of luxury cars and is payable to the Australian Taxation Office by businesses and individuals on any taxable supply or taxable importation of a luxury car, with a luxury car being defined as a car whose LCT value exceeds the LCT threshold.

### **Indexation of the LCT threshold and fuel-efficient car limit**

- 1.6 The current law provides two LCT thresholds indexed at different rates, a higher threshold that applies to fuel-efficient luxury cars, known as the fuel-efficient car limit which is indexed annually using the index number for the motor vehicle purchase sub-group of the CPI, and a lower threshold that applies to all-other luxury cars, which is indexed annually using the index number for the All Groups CPI.
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- 1.7 At the time of its introduction in 2008, the fuel-efficient car limit was set at \$75,000, whilst the LCT threshold for all-other luxury cars was \$57,180. Since then, there has been weaker growth in the motor vehicles sub-group of CPI compared to All Groups CPI. Over time, this has caused the differential between these two thresholds to narrow. For the 2024-25 financial year, the fuel-efficient cars threshold sits at \$91,387, whilst the threshold for all-other luxury cars is at \$80,567.
- 1.8 Amendments seek to align these indexation rates to ensure that the LCT thresholds will grow at the same pace, ensuring the concessional LCT treatment for fuel-efficient vehicles is maintained.

### Fuel-efficient car definition

- 1.9 The current law prescribes that a fuel-efficient car has a fuel consumption not exceeding 7 litres per 100km as a combined rating under national road vehicle standards in force under section 12 of the *Road Vehicle Standards Act 2018*.
- 1.10 The fuel efficiency of internal combustion engine vehicles has improved since the introduction of the fuel-efficient car definition in 2008, resulting in the current definition now being too broad.
- 1.11 Tightening the definition aims to ensure only electric vehicles or vehicles that are at least partially electrified, such as plug-in electric hybrids will receive the concessional fuel-efficient threshold for LCT.

## Comparison of key features of new law and current law

**Table 1.1 Comparison of new law and current law**

<b>New law</b>	<b>Current law</b>
The definition of a fuel-efficient car for the LCT as a car that has the maximum fuel consumption of 3.5 litres per 100 kilometres.	The definition of a fuel-efficient car for the LCT as a car that has the maximum fuel consumption of 7 litres per 100 kilometres.
The LCT threshold for the 2024-25 financial year is \$80,567 and is indexed annually according to the method prescribed by Subdivision 960-M of the ITAA 1997 and using the index number for the motor vehicle purchase sub-group of the CPI as referred to in subsection 960-280(2) of the ITAA 1997.	The LCT threshold is on and from 1 July 2012, either the LCT threshold as at 30 June 2012 indexed according to a factor determined by Parliament or indexed annually in accordance with the method prescribed by subdivision 960-M of the ITAA 1997 and using the index number for the All Groups CPI as referred to in subsection 960-280(1) of the ITAA 1997.



## Detailed explanation of new law

### Tightening the definition of fuel-efficient cars

- 1.12 Currently, a fuel-efficient car for the purposes of the LCT is defined as a car which has a fuel consumption not exceeding 7 litres per 100 kilometres.
- 1.13 These amendments reduce the maximum fuel consumption for a car to be considered fuel-efficient to 3.5 litres per 100 kilometres.  
*[Schedule 1, item 2, subsection 25-1(4) of the LCTA 1999]*
- 1.14 At the time of the introduction of the current the fuel-efficient car definition in 2008, cars with a fuel consumption of less than 7 litres per 100 kilometres were considered to be low emission vehicles. Developments in engine technology have led to improvements in the fuel-efficiency of internal combustion engine vehicles which has resulted in the current definition being too broad.
- 1.15 This amendment ensures the treatment of fuel-efficient vehicles for LCT is consistent with the Australian Government's NEVS, by ensuring that only electric vehicles or vehicles that are at least partially electrified, such as plug-in electric hybrids, will receive the concessional fuel-efficient vehicle threshold (the fuel-efficient car limit), thereby incentivising the take up of such vehicles.

### Indexation arrangement for all other luxury cars

- 1.16 The current law provides that the LCT threshold is indexed annually using the All Groups CPI number.
- 1.17 These amendments update the number used to index the LCT threshold to the index number for the motor vehicle purchase sub-group of the CPI and prescribe that the LCT threshold for the 2024-25 financial year is \$80,567.  
*[Schedule 1, items 1 and 3, subsections 25-1(3) and 25-1(6)]*
- 1.18 This aligns the indexation arrangements for the LCT threshold with the fuel-efficient car limit, thus ensuring that relativities are maintained so that both thresholds grow at the same pace and no longer continue to converge, as well as ensuring that concessions for fuel-efficient cars are appropriately targeted and will complement other changes to incentivise the take-up of fuel-efficient cars in line with the NEVS.

## Commencement, application, and transitional provisions

- 1.19 Schedule 1 to the Bill commences on the first 1 January, 1 April, 1 July or 1 October to occur after the day the Bill receives Royal Assent.

- 1.20 The amendments apply to taxable supplies and taxable importations of luxury cars on or after 1 July 2025.  
*[schedule 1, subitem 4(1)]*
- 1.21 The current fuel-efficient definition of 7 litres per 100 kilometres continues to apply to a supply or importation of a car on or after 1 July 2025, where prior to this date the car was first supplied or imported, and the car was used for a purpose other than that outlined in subsection 9-5(1) of the LCTA 1999. This ensures that the supply of a car on or after 1 July 2025 which falls under these circumstances will not, as a result of the amendments made to the fuel-efficient definition, be subject to a greater amount of LCT than would have otherwise been payable.  
*[Schedule 1, subitems 4(2) and (3)]*
- 1.22 These transitional arrangements operate to minimise the impact the amendments will have on the market for second-hand fuel-efficient luxury cars. Without the arrangements dealers may offer less for the trade-in of such a car in anticipation of bearing a greater amount of LCT on the re-sale. In addition, the absence of transitional arrangements may lead to an increase in the cost of the affected cars, as dealers may seek to pass on LCT payable to consumers which may ultimately disincentivise the take up of fuel-efficient luxury cars.
- 1.23 For clarity these arrangements will apply regardless of whether the value of relevant car falls above or below the fuel-efficient car limit.