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RE: Modernising the luxury car tax for fuel-efficient vehicles

The Australian Chamber of Commerce and Industry (ACCI) appreciates the opportunity to provide comment on the draft legislation to modernise the Luxury Car tax for fuel-efficient vehicles.

ACCI is Australia's largest and most representative business association. Our members are all state and territory chambers of commerce, which in turn have 430 local chambers as members, as well as over 70 national industry associations. Together, we represent Australian businesses of all shapes and sizes, across all sectors of the economy, and from every corner of our country.

Australia has one of the most diverse automotive sectors in the world, with a wide range of makes and models available to consumers. Nevertheless, Australian consumers pay much higher prices for vehicles than consumers in Europe, the United States and most other developed countries, because of unnecessary taxes.

Without a car manufacturing industry in Australia, there is no longer an economic rationale for the luxury car tax (LCT). It is simply an additional cost borne by consumers that changes their decision on the type of vehicle to purchase. More importantly, the complete removal of the LCT would provide an important boost to the uptake of low emissions vehicles.

The LCT is leading to perverse environmental outcomes. Hybrid and battery electric vehicles (BEV) are considerably more expensive than their petrol and diesel competitors and, with few exceptions, exceed the moderately higher LCT threshold for fuel efficient vehicles.

The recent changes to the LCT to tighten the requirements in the definition of low emissions vehicles (lowering the fuel consumption from 7L/100 km than 3.5L/100 km) will only serve to exacerbate the problem, as fewer vehicles are eligible for the higher threshold, which will further slow the transition. At this level, it will benefit only the smallest of hybrid/plug-in hybrid electric vehicles (PHEV), excluding larger vehicles where the emissions reduction benefit of PHEV is greater. The LCT, and the recent

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changes, are not consistent with the government's Electric[1] Vehicle Strategy, to increase the uptake of electric and PHEV by improving affordability and choice of vehicles in the Australian market.

The change to apply the same indexing rate to the two LCT thresholds is a modest step to maintain the size of the advantage for low emissions vehicles. The current approach, where the higher threshold for fuel efficient cars is indexed annually using the CPI of the motor vehicle sub-group and all other luxury cars are indexed at the CPI for all groups (headline CPI), has resulted in the gap between the two thresholds narrowing.

However, changing the indexation would have a very small benefit, as the tax-free threshold at $80,567 is still too low. Only a small number of EV and PHEV models available in the Australian market are priced below this threshold. Further, recent changes to the fuel efficiency at which the higher threshold is applied, down from 7 l/100km to 3.5 l/100km, effectively rules out most hybrid and plug-in hybrids from accessing the higher threshold.

Currently EV sales in the medium passenger vehicle segment are at 48.9 per cent of that segment. However, the medium passenger vehicle segment only represents 5.25 per cent of the market. In comparison, large SUVs and utes represent more than 30 per cent of the market. However, EVs represent only 3.1 per cent of large SUVs sales and 0.01 per cent of ute sales.[2]

With tightened definition of low emissions vehicles under the luxury car tax will exclude most of PHEVs, consequently driving up the prices. This could have a detrimental impact on the hybrid/PHEV utes and 4-wheel drives which are just beginning to emerge in the Australian market. These vehicles are essential vehicles for trades people and those who work in agriculture, tourism, utility and emergency services. They are particularly important in rural and regional Australia where they are driven long distances, often over very rough roads or off-road, and either tow or carry heavy payloads. The current average fleet emissions of 199 g/km (8.5 l/100km) for light Commercial vehicles, will need to reduce to 81 g/km (3.4 l/100km). There are currently no hybrid/PHEV utes and large 4-wheel drives that can meet this emissions standard.

With limited hybrid/PHEV options available for light commercial vehicles, the new tighter fuel requirements with luxury tax, in conjunction with New Vehicle Efficiency Standards, will drive up the prices for these vehicles.

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[1] Under the current law, low emissions (hybrid and electric) vehicles have a higher price threshold before the tax is applied at $91,387 compared to $80,567 for standard vehicles (with internal combustion engines)

[2] Inquiry into the transition to electric vehicles, Standing Committee on Climate Change, Energy, Environment and Water, House of Representatives

Moreover, we believe that updating the definition of luxury car tax, at this stage is pre-emptive and should be delayed for at least 12 months. The introduction of the National Vehicle Emissions Standards (NVES), which is set to commence in January, brings significant uncertainty regarding its impact on pricing, vehicle availability, and overall market dynamics. The industry requires time to evaluate how these new regulations will affect both manufacturers and consumers before any adjustments to the luxury car tax are made.

Overall, maintaining the luxury tax will only slow down the transition from internal combustion engine (ICE) vehicles to hybrid/or electric vehicles in the Australian market. In the absence of a car manufacturing industry in Australia, we need to remove the luxury car tax to stimulate electric and plugin hybrid vehicles sales and improve environmental performance.

We look forward to further consultation on the Luxury Car Tax to ensure the final position that is reached is workable for all the customers.

Yours sincerely

Peter Grist
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