



**FEDERAL  
CHAMBER OF  
AUTOMOTIVE  
INDUSTRIES**

16 October 2024

Indirect Tax Unit  
Personal and Indirect Tax and Charities Division  
Treasury  
Langton Crescent  
Parkes ACT 2600

via email: [indirecttax@treasury.gov.au](mailto:indirecttax@treasury.gov.au)

Dear Sir/Madam,

**Consultation on draft legislation – Luxury Car Tax**

The Federal Chamber of Automotive Industries (FCAI) is pleased to respond to the consultation on the draft legislation, *Treasury Laws Amendment (Fairer for Families and Farmers) Bill 2024: Luxury Car Tax*.

The FCAI is the peak industry body for the Australian importers and distributors of passenger motor vehicles, sports utility vehicles, light commercial vehicles, motorcycles and off highway vehicles. FCAI members supply the majority of the more than 1.1 million new vehicles sold into the Australian market each year.

In line with the 2023 announcement from the Treasurer, Dr Jim Chalmers MP, the FCAI notes that the Government is proposing to:

- halve the maximum fuel consumption for a fuel efficient vehicle (from 7.0 litres per 100km to 3.5 litres per 100km), thereby reducing the vehicles that will qualify for the higher luxury car tax (LCT) threshold; and
- amend the index number applied to the LCT threshold from the All Groups Consumer Price Index (CPI) to the motor vehicle sub-group of the CPI (CPI-MV).

The proposed amendments are intended to apply to taxable supplies and importations of vehicles on or after 1 July 2025.

**1. LCT is an obsolete tax**

The FCAI reiterates its longstanding opposition to the continued imposition of LCT on vehicles imported and sold in Australia.

The LCT has served a historic purpose, having originally been created as a means of protecting Australia's local vehicle manufacturing industry. Given manufacturing in Australia ceased in 2017, the LCT and its purpose has become redundant and should be scrapped. The continued imposition of LCT acts as a significant constraint on the industry, effectively penalising Australian consumers for choosing the best fuel efficiency and safety technologies through increased rates of taxation.

The FCAI continues to argue that it is inefficient and inequitable to manipulate a tax that was formulated for one (now redundant) purpose so as to artificially address a different issue. The FCAI believes the continued imposition of LCT is not an effective way 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 (NVES)<sup>1</sup>.

Consistent with its longstanding position, the FCAI recommends that the LCT be abolished in a staged process over a five year period to mitigate any unintended consequences.

### **FCAI commentary of exposure draft**

Notwithstanding that the position of the FCAI in relation to LCT remains as outlined above, the FCAI provides the following specific comments in relation to the exposure draft.

#### **2. Fuel efficient vehicle definition - reducing the maximum fuel consumption for a fuel efficient vehicle to 3.5 litres per 100km**

The FCAI notes that the categorisation of vehicles into 'fuel efficient' (consume less than 7.0 litres/100km) and 'all other vehicles' for the purposes of LCT has been in place since 2008.

The exposure draft proposes to halve the maximum fuel consumption from 7.0 litres to 3.5 litres for a fuel efficient vehicle for LCT purposes. The FCAI argues that this significant reduction will have a dramatic impact on the number of vehicles classified as 'fuel efficient'.

For example, an analysis of 2023-24 financial year sales data indicates this change would result in 6,493 vehicles previously considered fuel efficient moving to the all other vehicle rate, amounting to an estimated additional \$24.1 million in taxes imposed on Australian consumers.

The FCAI notes that the models that are being excluded from the fuel efficient categorisation (and therefore from the higher LCT threshold) are predominantly hybrid electric vehicles, including Plug-In Hybrid EVs. This means that many hybrid electric vehicles that previously would have qualified for the higher LCT threshold will now be more expensive for consumers. Hybrid electric vehicles are widely accepted as a necessary transition mechanism to reduce transport related emission in an effective and affordable manner.

If the Government remains of the view that the reduced fuel consumption for a fuel efficient vehicle should be implemented for the purposes of LCT, the FCAI would urge the Government to introduce the changed definition in a staged manner. The FCAI would request that the Government lower the maximum fuel consumption (from 7.0 litres to 3.5 litres) progressively over a three year period (rather than the significant drop in one stage, effective from 1 July 2025).

The FCAI further notes that the decreased fuel consumption threshold will also adversely impact consumers purchasing vehicles on or around 1 July 2025 (refer the discussion at section 4 below).

#### **3. Changing the index to the motor vehicle sub-group of the CPI**

The FCAI notes that the draft legislation will amend the index number used to index the LCT threshold from All Groups CPI (currently used for all other vehicles) to the CPI-MV (currently used for fuel efficient vehicles).

Since 2012-2013, the LCT threshold for fuel efficient vehicles has increased by 21% or \$16,012 from \$75,375 to \$91,387 in 2024-2025. Over the same period, the LCT threshold for vehicles has increased by \$21,434 from \$59,133 to \$80,567 (or 36%).

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<sup>1</sup> *Treasury Laws Amendment (Fairer for Families and Farmers) Bill 2024: Luxury Car Tax, Exposure Draft Explanatory Materials*, page 5.



The FCAI supports the notion that the two categories of vehicles should be subject to the same indexation methodology, however the FCAI believes that the All Groups CPI rather than the CPI-MV is the most appropriate indexation mechanism.

The FCAI understands that the CPI-MV measures the change in the price of motor vehicles over time, however, adjustments are made to the index to remove the impact of improvements in vehicles that affect motoring performance, economy, comfort level, safety or durability. The implication is that changes in the CPI-MV bear little or no resemblance to actual vehicle price changes in the market and as a result, its application to indexation of the LCT threshold is flawed.

The FCAI urges the Government to adopt the All Groups CPI method of indexation for both fuel efficient and all other vehicles subject to the LCT.

#### **4. Transitional Arrangements**

The FCAI notes that the exposure draft proposes some transition arrangements aimed at minimising the impact of the changed fuel efficiency threshold on the second hand market.

The FCAI believes that a further transitional arrangement should also allow for consumers who order a vehicle prior to 1 July 2025 in circumstances where the vehicle may not be supplied/imported before that date. In this instance, the LCT amendments may mean a consumer would be subject to increased LCT and therefore an increased total vehicle cost. The FCAI would request that the legislation introducing changes to LCT – particularly the significant changes contemplated by the exposure draft – accommodate those consumers who may be affected by the changes mid-purchase.

#### **5. Conclusion**

The LCT is an inefficient tax which gives rise to a significant distortion in the Australian vehicle market. The FCAI believes that the tax is inflationary and that it adversely impacts consumers buying vehicles with the best safety and fuel efficient technology.

In the event that the Government proceeds with legislative amendments outlined in the exposure draft, the FCAI urges the Government to:

- transition the reduction in maximum fuel consumption for vehicles defined as fuel efficient for the purposes of the LCT over a three year period;
- apply All Groups CPI as the method of indexation for both fuel efficient and all other luxury vehicles; and
- ensure transition arrangements protect consumers who may purchase a vehicle subject to LCT prior to 1 July 2025 in instances where the vehicle is not supplied/imported prior to that date.

The FCAI would be pleased to further discuss aspects of this submission.

Yours sincerely,

Dianne O'Hara  
Director Industry Operations