

16 October 2024

The Treasury
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Submission to Treasury on Luxury Car Tax draft legislation

Thank you for the opportunity to review the Exposure Draft Legislation – *Modernising the luxury car tax for fuel-efficient vehicles*.

In 2022 I wrote to the Federal Treasurer, the Hon Dr Jim Chalmers MP, highlighting the need to amend the definition of “fuel-efficient vehicles” to recognise the impact of recent increases in vehicle efficiency, and to promote consumer preference for fuel-efficient vehicles, particularly electric vehicles. I therefore support the government’s proposed amendment to the definition from 7l/100km to 3.5l/100km to achieve this aim.

When first introduced, the fuel-efficiency limit was substantially above the LCT threshold, representing a clear incentive to consumers. Over time, the difference between the two limits has diminished, both in real terms and as a proportion of the LCT threshold, due to differing means of indexation. I note that the draft legislation proposes to change the indexation mechanism to the LCT threshold to be consistent with that for fuel-efficient vehicles. This is a welcome change, to ensure that the gap between the two limits does not narrow to the point of irrelevancy.

I support the changes proposed in the draft legislation, but there is further scope to encourage the take-up of zero-emissions vehicles.

I submit an additional measure to incentivise choice of zero-emissions vehicles, and discourage ongoing uptake of high-emissions vehicles, in recognition of the need to decrease carbon emissions and vehicular pollution.

Proposal: Expansion of the class of vehicles subject to the luxury car tax, to include utility vehicles marketed to the luxury SUV consumer, by changing the definition of ‘car’ (S25.1(2)).


Changes to the definition of ‘car’


The definition of “car” in Section 25.1 of *A New Tax System (Luxury Car Tax) Act 1999* (the Act) excludes “commercial vehicles not designed for the principal purpose of carrying passengers”. Under this definition utility vehicles, traditionally favoured by trades workers and rural properties for their load-carrying function, are exempted.

In the past few years, a number of new models in the utility vehicle (light commercial) class have entered the market. Often promoted as luxury passenger and sports utility vehicles, appealing to

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image and recreational use as much as commercial functionality, these models are priced well above the LCT, and have notably high rates of fuel consumption and emissions.

Nearly a quarter of all vehicles sold in Australia in 2023 were light commercial vehicles, mostly 'utes' – a total of 3.1 million units in a single year. With there being only 1.94 million tradespersons in Australia, it is reasonable to conclude that these vehicles are largely being purchased for non-commercial purposes.

It is inconsistent for the LCT to be designed to tax luxury vehicles and to incentivise consumers to choose fuel-efficient vehicles, while simultaneously exempting a class of vehicles priced well above the luxury car tax threshold and with fuel emissions levels double that of a standard car.

A change to the definition of 'car' should exclude luxury utility vehicles from the commercial vehicle exemption.

A change to the wording of S25.1(2)(c) of the "*A New Tax System (Luxury Car Tax) Act 1999*" should aim to exempt only those commercial vehicles that can carry a maximum of two passengers and a payload of more than two tonnes.

Drivers of the sorts of utility vehicles which are used principally for carrying loads are unlikely to be adversely affected, because popular models in this class are priced below the LCT threshold.

I appreciate this opportunity to contribute to improvement of the new vehicle market, and taxation settings around it, such as to help set the course to zero-emissions in the transport sector.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Monique Ryan' with a horizontal line extending to the right.

Dr Monique Ryan MP