

SUBMISSION FOR THE GOVERNMENT'S HENRY TAX REVIEW

Re-Designing Motor Vehicle Related Taxes to Improve Efficiency of personal transportation of people

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Summary

The luxury car tax should be replaced by a tax that deters people from buying inefficient cars for personal transportation as a status symbol at the expense of the environment. The Luxury Car Tax fails to address the most significant contribution to motor vehicle emissions which is the existing vehicle fleet.¹ The Luxury Car Tax also fails to address that the world only has a finite amount of fossil fuel that has taken millions of years to produce and this finite resource should be depleted with care. A Luxury Energy Tax should be introduced to educate society and change behaviour. The Emissions Trading Scheme is unlikely to solve the problem. A targeted tax is required to change behaviour.

Background

Over the last century the love of large and powerful vehicles has grown as vehicles have become more than just a means of transportation. Vehicle manufacturers promote large and powerful vehicles as a means of fulfilling personal dreams and as a symbol of status. These big and powerful ownership vehicles are driven at a tremendous cost to our environment, a cost that is not only borne by the people who drive them, but by all mankind. Given the history of transportation, it is worth reminding ourselves that we do not necessarily need tons of metal to carry us from home to work or from one place to another.

Luxury Car Tax

The *Tax Laws Amendment (Luxury Car Tax) Act 2008* came into effect on 1 July 2008 increasing the rate of Luxury Car Tax from 25 per cent to 33 per cent. Luxury Car Tax was first introduced on 1 July 2000 when the Goods and Services Tax (GST) was introduced and the wholesale sales tax was abolished in Australia. The tax applies to vehicles whose GST-inclusive value exceeds the threshold of \$57,123 for 2007-08². Certain types of vehicles are exempt including commercial vehicles not designed for carrying passengers, most second hand cars, motor homes, campervans and prescribed

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¹ Federal Chamber of Automotive Industries, Submission to the Senate Economics Committee: Luxury Car Tax, July 2008.

² The luxury car tax threshold is indexed using the motor vehicle purchase component of the consumer price index.

emergency vehicles.³ The Luxury Car Tax applies to both domestically produced and imported vehicles.⁴

The purpose of the Luxury Car Tax was to prevent luxury cars becoming cheaper with the introduction of the GST. However the purpose should have been to encourage people to drive less. When debating the amendments to the Luxury Car Tax, Senator Milne pointed out that a reduction of cars on the road would solve congestion problems and would also improve the quality of our air. However, this will require a huge investment in public transport, in cycle-ways and making cities more pedestrian friendly, requiring the Government to examine the Australian infrastructure and urbanisation policies.⁵

The Luxury Car Tax is unlikely to change the behaviour of the Australian population at large. This is because only a small number of taxpayers are affected by Luxury Car Tax. Only 1100 suppliers paid the Luxury Car Tax during 2006-07 and the Australian Government collected \$365 million in revenue out of total revenue of \$262,511 million.⁶ Moreover, the Luxury Car Tax is imposed only when the price of the car is above the legislated threshold. This does not necessarily have an impact on gas emissions as the price of the vehicle is not indicative of its fuel efficiency or its emissions.

Proposal

The proposal is that the Luxury Car Tax should be replaced by an energy tax with the following objectives:

Change people's habits and re-educate people

The objective of the energy tax should be to closely align its imposition to factors in that vehicle which cause excessive fuel use, i.e. the weight, the engine capacity, the power output and emissions produced and in doing so, re-educate society about the factors that cause more consumption of a scarce resource and result in more emissions that harm our environment.

Change manufacturer's business plans

³ Commonwealth of Australia Explanatory Memoranda, Tax Laws Amendment (Luxury Car Tax) Bill 2008, [Electronic] http://www.austlii.edu.au/cgi-bin/sinodisp/au/legis/cth/bill_em/tlactb2008380/memo_0.html?query=luxury%20car%20tax, Accessed 10 Nov 2008.

⁴ *Tax Laws Amendment (Luxury Car Tax) Act 2008* (No. 101, 2008).

⁵ The Greens, Luxury Car Tax second reading speech, Spokesperson Christine Milne, 3rd September 2008, [Electronic] <http://christine-milne.greensmps.org.au/content/speech/luxury-car-tax-second-reading-speech>, Accessed: 10 Nov 2008.

⁶ Commonwealth of Australia, Architecture of Australia's tax and transfer system, August 2008, [Electronic] http://www.taxreview.treasury.gov.au/Content/downloads/report/Architecture_of_Australias_tax_and_transfer_system_revised.pdf, Accessed: 15 Nov 2008.

The energy tax should aim at bringing about a change in the vehicle industry so that vehicle manufacturers improve vehicle designs and develop and promote vehicles that are fuel efficient and low on emissions.

Change Government policies

The introduction of an energy tax would highlight the Australian Government's role in assisting people to change their habits by planning public transport when releasing land for housing development or zoning an area. The Government can do this with better local planning and urban policies and the administration of better R-Codes which govern the size of lot ratios which in turn governs the use of space and control the urban crawl. The introduction of efficient public transport should assist people in relying less on their own vehicles to transport them.

Concluding Comments

Since Ford's invention of the constant moving assembly line in the early part of the 20th century, motor vehicles have become bigger and more powerful and consume more fuel. This has created the problem of diminishing a finite resource. The world's energy source is not just for the people of today, but, for the future generations and all mankind to share. Further research should be undertaken to introduce an energy tax that may drive behaviour to seek smaller and lighter vehicles that are designed to consume less fuel and thereby reduce emissions.