Australian Finance Conference Level 7, 34 Hunter Street, Sydney, 2000. GPO Box 1595, Sydney 2001
ABN 13 000 493 907 Telephone: (02) 9231-5877 Facsimile: (02) 9232-5647 e-mail: afc@afc.asn.au

AUSTRALIA'S FUTURE TAX SYSTEM

Executive Summary

This submission on Australia's Future Tax System (AFTS) is made on behalf of the Australian Finance Conference, Australian Equipment Lessors Association and Australian Fleet Lessors Association (membership lists attached).

Our submission suggests GST zero-rating of financial services be introduced, a measure which would not increase the rate or broaden the base of GST. The most undesirable feature of input taxation is the over-taxation of business consumption of financial services; without the entitlement to the input tax credit, GST is no longer a value added tax. Other countries have introduced zero-rating or equivalent mechanisms to rectify this distortion, and Australia's GST framework needs to regain its international competitiveness.

We note that the 2001 drop in the company tax rate which moved Australia to below the OECD average, was largely financed by reducing capital allowances. The AFTS Discussion Paper finds that the Australian rate is now above that average, due in part to other countries doing similar. However as across many equipment categories, Australian depreciation rates are presently lower than in other countries, the option of reducing the tax rate by further lengthening effective lives should not be considered.

Luxury car tax should be abolished, as a similar ‘luxury’ tax does not apply to any other goods and services. Even with its abolition, ‘luxury’ cars would remain subject to limits on depreciation and input tax credits, tax imposts not borne by any other goods. For these purposes, a common threshold of $75,000 should apply, indexed to the general CPI. Luxury car tax legislation is not the appropriate mechanism for environmental incentives; any such measures should apply to all vehicles.

Our submission proposes an alternative to the current FBT statutory formula, increasing the present four bands to remove the incentive for more car use. This would also provide greater consistency with the operating costs method, reduce compliance burdens, ameliorate greenhouse gas emissions and address tax expenditure concerns.

A significant micro-reform initiative would be to achieve further abolition of state taxes. A number of significant stamp duties have been abolished in recent years, but many remain. The legislative framework covering remaining state taxes should be made uniform. Ideally, rates of tax and thresholds should also be aligned; if this is not possible, individual jurisdictions could set their own rates and thresholds across a common nexus/functional/definitional base.

*** *** ***

1. REFORM OF THE GST TREATMENT OF FINANCIAL SERVICES:ZERO-RATING OF FINANCIAL SERVICES

The AFTS terms of reference require that the review reflect the Government's policy not to increase the rate or broaden the base of GST. Zero-rating (or GST-free treatment) of financial services is consistent with this requirement, as it does not increase the rate or broaden the base of GST.

- It enhances Australia's international competitiveness as a financial services hub and thus attracts more financial capital to Australia.

- It enhances the efficiency of the Australian financial services industry by removing an embedded cost on the domestic financial sector.

- It removes a hidden cost that currently negatively impacts private sector savings and superannuation which detract from the nation's savings base.

- It lessens cost pressures on financial institutions currently feeling the considerable strain of the global credit crunch.

From a policy perspective, there are compelling arguments for financial services to be GST-free. These include:

- GST is designed to be a tax on final private consumption. However, from an economic perspective the financial sector acts as an intermediary between borrowers and savers, providing the economy with the means to fund consumption of goods and services. Hence, the fundamentals of economics dictate that financial services are not consumption but are the means to fund consumption. A tax on financial services is effectively a double tax on consumption as both the means of consumption (i.e. the finance) and the consumption itself are taxed. As financial services do not constitute final consumption, from a design perspective they ought not to be taxed.

- An embedded GST on financial services institution leads to cascading when the financial services are provided to businesses. From a design perspective this is clearly flawed policy.

The basic design of GST is that it is a tax on private consumption; i.e., it is not a tax on businesses, and transactions between businesses should generally be GST-neutral. To ensure GST is effectively borne only on consumers, and to prevent cascading, suppliers are generally entitled to an input tax credit for the GST component of their acquisitions. The input tax credit is the mechanism to prevent cascading, and it is the feature that makes GST/VAT the preferred method of indirect taxation. Without the input tax credit it is no longer a value-added tax.

However, financial services do not follow this 'pure' model. Financial services are input taxed, i.e., there is no entitlement to input tax credits (apart from reduced input tax credits), and accordingly GST is embedded in the cost structure of Australia's financial system. In practical terms, the most undesirable feature of input taxation is the over-taxation of business consumption of financial services.

It is generally acknowledged that input taxation of financial services is not optimal, but in 2000 a 'better' alternative had not been identified in other GST/VAT jurisdictions. Accordingly, when Australia introduced GST the Government noted that this treatment was consistent with the international model. In fact at that time the introduction of the reduced input tax credit regime produced a superior outcome than in other countries by addressing the internalisation bias that would otherwise exist. Additionally, input taxation was limited to financial services that are normally charged for by way of a margin; those financial services not charged for in a margin are subject to normal taxable treatment, thus achieving a narrower application of input taxation than most other jurisdictions at that time.

But while in 2000 the Australian GST treatment of financial services was equal or superior to comparable jurisdictions, in the interim important developments have occurred elsewhere, whereas Australia's treatment has remained virtually unchanged.

From 1 January 2005 New Zealand introduced 'zero-rating' of business-to-business (B2B) financial services. This approach integrates the supply of financial services more fully into the GST system by taxing (at 0%) such supplies and allowing financial service providers to claim input tax credits.

In Europe, there have been substantial changes to the European Union VAT directive for EU members, including an option to tax. Singapore has a GST system which enables business to overcome the GST distortions which would otherwise arise through input taxation, by way of pre-determined input tax credits; in essence this is an alternative to a recovery method that zero-rates the supply of financial services to registered businesses. Hong Kong has considered, but rejected at this stage, introducing a GST regime, and accordingly the Hong Kong financial services industry is not subject to the embedded costs of input taxation. However it is likely that, if introduced, the Hong Kong regime would have incorporated zero-rating of financial services.

In summary, the GST treatment of financial services has always presented a challenge, but when introduced in 2000 our approach was equal to or better than comparable GST/VAT jurisdictions. In the meantime, there has been much debate and the general consensus that zero-rating of B2B financial services is the most effective approach to address the inefficiencies of input taxation. The Australian approach is now inferior, particularly compared to approaches taken by GST jurisdictions in our local region. If Australia's financial system is to remain competitive in our region, close consideration needs to be given to the introduction of zero-rating of financial services. Zero-rating eliminates the comparative advantage that offshore providers of financial services have because their services do not contain embedded GST costs

It is recognised that the technical arguments for zero-rating B2B do not equally apply to business to consumer financial services, and that the widely recognised superior approach for the GST treatment of household consumption of financial services is the 'truncated cash flow method;' however, it is also widely recognised that this method is based on major assumptions and raises accuracy concerns. If zero-rating of all 'margin' financial services is regarded as initially too far-reaching, it could be approached in a two-stage process, commencing with zero-rating of B2B financial services, whilst continuing to evaluate the optimal approach for the treatment of household consumption of financial services.

2. CAPITAL ALLOWANCES

The AFTS Discussion Paper notes that Australia's corporate tax rate of 30% is above the OECD average of 26.6%, whereas in 2001 when our rate went from 36% to 30% the OECD average was 32.5%. In this context, it notes that corporate tax rate reductions in other countries have been partly financed by less generous tax depreciation allowances.

While this may be so, as the 2001 drop in the Australian company tax rate was largely financed by lengthening equipment effective lives, for a range of plant types, Australian depreciation rates are presently lower. For example:

Diminishing Value Depreciation Rate					
	Australia (%)	Canada (%)	Japan (%)	UK (%)	US (%)
Cranes	10	30	21	20	40
Forklifts	18	30	62.5	20	40
Motor Cars	25	30	41.7	20	40
Trucks	13.3	40	50	20	40
Light Commercial Vehicles	16.6	30	62.5	20	40
Corporate Tax Rate	30	29.5	42	28	35

Source: KPMG

While international tax comparisons are always fraught, we would be concerned on investment competitiveness grounds, if a reduction in the Australian company tax rate was made at the expense of capital allowances.

3. LUXURY CAR TAX IMPOSTS

With the recent amendments to the luxury car tax legislation there are two luxury car tax thresholds, serving three taxation related purposes. The ‘general’ luxury car limit is $57180, and the ‘fuel efficient’ limit is $75000. The purposes served by the limits are:

- firstly, under section 40-230 of the *Income Tax Assessment Act 1997* the $57180 ‘general’ limit is used to cap depreciation claimed for ‘luxury cars’ to that amount. This measure was introduced in 1979;

- secondly, the introduction of GST in 2000 was accompanied by the introduction of the luxury car tax (LCT), which imposes an additional tax on the value of a ‘luxury’ car above either the ‘general’ or the ‘fuel efficient’ limit;

- thirdly, where the purchase price of a car exceeds the ‘general’ luxury car tax threshold, section 69-10 of the GST Act limits the amount of input tax credits available to 1/11 of that threshold (i.e. $5198 of the current $57180 threshold).

When the depreciation limit was introduced in 1979 it was initially set at $18000, indexed annually in line with movements in the motor vehicle purchase sub-group of the Consumer Price Index (CPI). When GST and LCT were introduced in 2000 the limit was $55134.

It is therefore important to recognise that ‘luxury’ cars are subject to three taxation imposts: they cannot be depreciated beyond the luxury car lower threshold, an additional tax of 33% applies to their value above the relevant threshold, and input tax credit entitlements are limited to 1/11 of the lower threshold. No other goods or services within the income tax/GST regimes are subject to this combination of tax imposts.

Rationale for LCT

The *Explanatory Memorandum* to the LCT Bill states that:

> *'The main objective (of LCT) is to ensure that the price of luxury cars will fall under the new arrangements by about the same amount as a car just below the luxury car tax threshold*'.

However, whilst this may be the objective of LCT, we do not regard it as a rationale, but more a statement of the fact that these goods would continue to be additionally taxed at an approximately equivalent rate as they were under the former sales tax regime.

A fundamental objective of GST was to replace the inefficient sales tax regime, with its multiplicity of rates and thresholds, and which failed the fundamental principles that characterise an efficient and equitable tax system.

We believe that LCT should not have accompanied the introduction of GST. Sufficient taxation imposts for 'luxury' cars were already in place in the form of the limitations on depreciation and input tax credit entitlements.

Accordingly, it is our view that it is now appropriate to abolish LCT; the remaining depreciation and input tax credit limitations would continue to constitute tax disincentives not placed on other goods and services.

The luxury car threshold

Abolition of the LCT would not of itself resolve the issue of whether the current lower limit of $57180 is reasonable. The threshold is linked to the motor vehicle purchase sub-group of the CPI. This mechanism worked reasonably well in the early period following its introduction, with for example the limit increasing from $18000 in 1979 to $55134 in 1996; in the space of these seventeen years it more than tripled. However, in the last 12 years it has increased by less than 4 percent. It is noted that this recent period has been one of substantially reduced inflation, but this alone does not satisfactorily explain the almost imperceptible movement in the limit in recent years. It is more a reflection of a change in the composition of Australia's motor vehicle fleet, with a growing proportion of smaller and significantly cheaper vehicles. It is this change in the composition of the fleet which has significantly contributed to the very small increase in the luxury car threshold.

The movement in the luxury car threshold over the last decade bears little resemblance to prices of 'luxury' cars over this period. This is well illustrated by research undertaken for the Federal Chamber of Automotive Industries by Australian Automotive Intelligence. This analysis indicates:

- initially 2.5% of all vehicles sold in Australia were above the luxury car threshold, whereas it is now around 11 percent;

- this trend is more marked in the SUV market. In 1979 there were only two SUV models with variants above the luxury car threshold, in total less than 1000 vehicles. Some 38000 SUV were above the threshold in 2007. These vehicles are commonly used in rural and regional communities;

- sales of 'luxury' variants of the locally made models in 1979 numbered 2615 units, but in 2007 numbered 11500 units;

- the inadequacy of the current indexation methodology is demonstrated by outcomes using other indices. The 'luxury vehicle' index constructed by Australian Automotive Intelligence suggests that the appropriate indexation methodology would result in a luxury car threshold in 2008 of $70431. Other methodologies produce outcomes generally in the $65000 to $80000 bracket. We note the CPI All Groups Index result is $71552, and suggest that consideration be given to using the overall CPI due to its general availability and acceptability. We suggest also that the'general' luxury car threshold be increased to $75000 to reflect the true movement in luxury car prices since 1979.

Other issues related to luxury car tax and thresholds

i) Hire cars, vehicles used by tour operators, etc

Our members believe that vehicles such as hire cars, limousines and those used by tour operators should not be subject to luxury car tax, the depreciation limit, nor the input tax credit entitlement limit. These vehicles are not a 'luxury' to the operators, and these taxpayers should not be faced with taxation imposts which are not applied to business inputs used by other taxpayers for producing assessable income.

ii) Commissioner's advice of threshold for new financial year

The Commissioner of Taxation issues advice each year of the luxury car tax threshold to apply for the new financial year. It is a source of much industry frustration that this advice is usually provided at a very late date (this year on 30 June), giving taxpayers very little time to adjust their systems and provide accurate information to customers. The relevant threshold can be calculated when the Australian Bureau of Statistics releases the March quarter CPI, which is usually early to mid May.

Our members request that the Commissioner of Taxation undertake to advise the luxury car tax threshold for the coming financial year no more than three weeks after publication of the ABS March quarter CPI.

Summary of recommendations on the luxury car tax

1. The luxury car tax be abolished; a similar tax does not apply to other 'luxury' goods and services. Furthermore, 'luxury' cars used for business purposes cannot be depreciated beyond the lower luxury car threshold, and input tax credit entitlements are limited to $1/11^{th}$ of this threshold; no other goods and services are subject to these additional tax imposts, which would still represent a taxation 'surcharge' for luxury cars.

2. As the luxury car tax threshold would remain relevant for calculating these other tax imposts, it should be adjusted to realistically reflect movements in the price of 'luxury' cars. There should be one threshold

of $75,000, and adjusted annually in line with movements in the general CPI and not the motor vehicle purchase sub-group.

3. Vehicles such as hire cars, limousines and vehicles used by tour operators should be excluded from the depreciation and input tax credit limitations.

4. The Commissioner of Taxation undertake to advise of the adjusted luxury car tax threshold for the coming financial year no later than three weeks after publication of the ABS March quarter Consumer Price Index.

5. The recently revised luxury car tax arrangements contain 'concessions' for fuel efficient vehicles. We suggest that any environmental incentives for cars should be applied across the whole fleet; as 'luxury' cars are a minor proportion of the vehicle fleet, the luxury car tax legislation is not the appropriate mechanism for environmental incentives.

4. FBT: EMPLOYER-PROVIDED CARS – USE OF STATUTORY FORMULA

The Senate Standing Committee on Rural and Regional Affairs and Transport, in its report on *'Australia's future oil supply and alternative transport fuels'*, recommended that the Government review the statutory formula in relation to fringe benefits taxation of employer-provided cars to address the incentives for more car use.

The report stressed that the question of whether the tax should be concessionary is different from the question of minimising compliance costs, and that a statutory formula method can be retained for the sake of easy compliance, while the concessionary aspect can be removed by adjusting the rates. This submission gives consideration as to how such an adjustment might be done to achieve the desired outcomes.

The report described the FBT treatment of employer-provided cars in the following terms:

> *"8.83 Private use of employer-provided cars is taxed by recording actual business and private use (the operating costs method), or by deeming certain proportions of business and private use using a statutory formula. About 90 per cent of car fringe benefits tax is calculated by the statutory method. The statutory formula deems that the taxable fringe benefit is the base value of the car times a percentage which varies according to how far the car is driven in the year. The taxable fringe benefit is less if the car is driven further. The rationale for this seems to be an assumption that if the car travels further, it is likely that a smaller proportion of its use is private."*

We suggest that underlying this rationale is the need to maintain consistency between the two methods. The statutory formula is much simpler to apply, and as noted by the report, minimises compliance costs. The statutory formula therefore needs to be kilometre based; otherwise it would be rational for many taxpayers to apply the operating costs method.

Accordingly, there would seem to be three basic objectives:

- address the incentive for more car use;
- achieve greater consistency in tax outcomes between the statutory formula and the operating costs method;
- maintain compliance ease.

Our members suggest these objectives can be achieved by recalibrating the statutory formula bands, and a slight compression of the percentages.

Presently there are four bands:

Total kms travelled	**Statutory percentage**
Less than 15,000 km	26
15,000 to 24,999	20
25,000 to 40,000	11
Over 40,000	7

Presently, there is a major incentive to move from one band to the next. For example, if the vehicle has travelled 23,000 kms, the statutory percentage drops from 20% to 11% if you travel an additional 2,000 kms. This is a real incentive, and a rational response could be to add the kilometres.

As an alternative, we suggest a banding along the following lines:

Total km travelled		Statutory Percentage	FBT Liability on $30,000 car (pa)	
			Proposed	Current
Up to 14,000 km		22	6336.56	7488.67
14,000 to less than 16,000 kms		21	6048.54	7488.67 → 5760.51
16,000	18,000	20	5760.51	5760.51
18,000	20,000	19	5472.49	5760.51
20,000	22,000	18	5184.46	5760.51
22,000	24,000	17	4896.44	5760.51
24,000	26,000	16	4608.41	5760.51 →3168.28
26,000	28,000	15	4320.38	3168.28
28,000	30,000	14	4032.36	3168.28
30,000	32,000	13	3744.33	3168.28
32,000	34,000	12	3456.31	3168.28
34,000	36,000	11	3168.28	3168.28
36,000	38,000	10	2880.26	3168.28
38,000	40,000	9	2592.23	3168.28
Over 40,000		8	2304.21	2016.18

This sort of approach increases the number of bands and slightly compresses the percentages. Accordingly, if a vehicle has travelled 23,000 kms, the FBT liability if an extra 2,000 kms is travelled would drop from 17% to 16%, rather than from 20% to 11% currently. In dollar terms, for a $30,000 car the FBT liability drops by $288.03 pa (rather than $2592.23 currently). It would not be rational to travel the extra kilometres.

Our members believe that an approach along these lines would achieve the three basic objectives:

- the reduction in FBT liability of travelling higher kilometres is outweighed by the additional costs of travelling those kilometres;
- greater consistency between the two methods is achieved by the elimination of the incentive to travel higher kilometres and the slight compression of the percentages;
- the additional bands add no compliance burden.

Environmental and compliance implications

We submit that this approach would have environmental benefits and would also actually reduce the compliance burden. The current bands force a significant amount of focus by drivers and businesses on whether vehicles reach the kilometre thresholds, particularly when a vehicle is travelling close to the cusp of a bracket, because the incentive in reaching the threshold and the cost of getting it wrong are significant. Such additional driving and the consequential burden on the environment is unnecessary, and would be avoided by our proposal; the incentive to drive long distances would be removed if the penalty of failing to reach the next threshold is 1% or 2%, not 9% as presently for missing the 25000 km per annum threshold.

FBT revenue impact

As noted, we believe greater consistency between the statutory formula and the operating costs method would be achieved by the elimination of the incentive to travel higher kilometres and the slight compression of the percentages. Analysis carried out by several of our members indicates that the FBT liability under the proposed bands, and based on the distances travelled across their portfolio for the last FBT year, would be slightly higher than under the current bands. This analysis is based on actual distances travelled in the most recent FBT year, and takes no account of behavioural changes that a restructuring of the bands would induce.

5. STATE TAXES

Under the initial GST proposals state taxes on most financial transactions were to be abolished shortly after the 1 July 2000 GST commencement date. However, under the revised GST framework announced on 28 May 1999, the abolition of financial institutions duty was deferred by six months to 1 July 2001, the removal of debits tax put off to 1 July 2005 and the abolition of the range of other state taxes on financial institutions was indefinitely deferred but to be reviewed in the context of the 2005 Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations.

Many of these state taxes on financial transactions have now been abolished or are scheduled to be abolished. This represents a major micro-economic reform, but is a reform which has taken almost a decade to complete, and a number of significant states taxes remain.

We accept that the states have significant revenue constraints which limit the extent to which remaining state taxes can be abolished. However, we believe that the experience to date has amply demonstrated the economic efficiency gains that accrue from the abolition of these state imposts. Even for those state taxes which remain, considerable micro-economic reform would result simply from developing a uniform legislative framework amongst the states for these taxes. As an example, attached is a comparison of motor vehicle registration duty, illustrating the significant variations from state to state. A common legislative basis as opposed to the existing seven divergent statutory approaches would deliver significant benefits. Ideally, rates of tax and thresholds would also be aligned, but if this is not possible, individual jurisdictions could set their own. A mechanism for ensuring consistency in interpretation would also be beneficial.

***   ***   ***

NATIONAL SUMMARY OF DUTY RATES FOR APPLICATIONS TO REGISTER & TRANSFER REGISTRATION OF MOTOR VEHICLES – (OCTOBER 2008)

STATE	*RATE OF DUTY*
NSW	**For all vehicles other than passenger vehicles** $3 per $100 (or part) of the dutiable value. **For passenger vehicles** - $3 per $100 (or part) of dutiable value up to $45 000; plus $5 per $100 (or part) for the amount which exceeds $45 000.
VIC	**For Applications for Registration:** ***New Passenger Car*** Dutiable Value Rate < or = $57,009 $5 per every $200 (or part) of dutiable value > $57,009 $10 per every $200 (or part) of dutiable value ***New - Other vehicles (ie not passenger cars)*** Dutiable Value Rate No limit $5 per every $200 (or part) of dutiable value **For Applications to Transfer Registration*:** ***Second-hand vehicles*** Dutiable Value Rate No limit $8 per every $200 (or part) of dutiable value * except for previously LMCT (car dealer) registered high value vehicles – see below rates **For Applications to Transfer Registration of a Previously LMCT (car dealer) registered high value vehicle** Where the vehicle is a passenger car, it is acquired within 60 days of the initial LMCT registration and no duty has been paid on or since the initial LMCT registration of the vehicle: Dutiable Value Rate < or = $57,009 $5 per every $200 (or part) of dutiable value > $57,009 $10 per every $200 (or part) of dutiable value [Note : In each of above, reduce the dutiable value by $24 000 (including GST) for a taxi specially converted to carry a wheelchair containing disabled passenger not previously registered in VIC or elsewhere.]

STATE	***RATE OF DUTY***
QLD	**For All Vehicles (other than Special Vehicles)** Rates are based on the number of cylinders or rotors of a vehicle: Type of Vehicle — Rate For hybrid vehicles (with any number of cylinders) and electric vehicles — $2 per every $100 (or part) of dutiable value of the vehicle For vehicles with one to four cylinders or two rotors and a steam vehicle — $3 per every $100 (or part) of dutiable value of the vehicle. For vehicles with five or six cylinders or three rotors — $3.50 per every $100 (or part) of dutiable value of the vehicle. For vehicles with seven or more cylinders — $4 per every $100 (or part) of dutiable value of the vehicle. **For Special Vehicles** $25.00
TAS	**All Vehicles** Dutiable Value — Rate < or = $600 — $20 **Passenger vehicle** Dutiable Value — Rate > 600 but < or = $35,000 — $3 per every $100 (or part) of dutiable value >$35,000 but < or = $40,000 — $1,050+$11 per every $100 (or part) in excess of $35,000 >$40,000 — $4 per every $100 (or part) of dutiable value **Other non-heavy vehicles (includes commercial vehicles under 4.5t GVM & motorcycles)** Dutiable Value — Rate No limit — $3 per every $100 (or part) of dutiable value **New Non-Heavy Vehicles Subject to Manufacturer's Fleet Discount** Dutiable Value — Rate No limit — $3.50 per every $100 (or part) of dutiable value – min. of $20 **Heavy vehicles (4.5t GVM + over)** (including those subject to Manufacturer's Fleet Discount) < or = $2,000 — $20 > $2,000 — $1 per every $100 (or part) of dutiable value
NT	**For All Vehicles -** $3 per every $100 (or part) of the dutiable value of the motor vehicle

STATE	***RATE OF DUTY***
SA	**<u>Duty on Registration/transfer component -</u>** **For All Vehicles other than commercial vehicles or trailers** <u>Dutiable Value</u> — <u>Rate</u> $1,000 or < — $1 per every $100 (or part) - min. of $5 >$1,000 but < or = $2,000 — $10 + $2 per every $100 (or part) in excess of $1,000 >$2,000 but < or = $3,000 — $30 + $3 per every $100 (or part) in excess of $2,000 > $3,000 — $60 + $4 per every $100 (or part) in excess of $3,000 **For commercial vehicles or trailers -** <u>Dutiable Value</u> — <u>Rate</u> $1,000 or < — $1 per every $100 (or part) - min. of $5 >$1,000 but < or = $2,000 — $10 + $2 per every $100 (or part) in excess of $1,000 > $2,000 — $30 + $3 per every $100 (or part) in excess of $2,000 **<u>Duty on 3rd party insurance component</u>** In addition to the above, duty of $60 is payable for compulsory third party insurance, except that if period of registration is less than 12 months duty is $15 per quarter.
WA	**For Light Vehicles (ie GVM < or = 4.5 t)- New or Used** <u>Dutiable Value</u> — <u>Rate</u> $25,000 or < — 2.75% > $25,000 but = or < $50,000 — $2.75 + \frac{(DV - 25,000)}{(6666.66)}\%$[1] > $50,000 — 6.5% ([1] - % rounded to 2nd decimal point) **For New or Used Heavy Vehicles (ie GVM >4.5t)** The lesser of: 3% of dutiable value or $12,000. **NOTE**: In all the above cases, duty payable is to be rounded down to nearest 5 cents. From 1 July 2007, caravan purchases (together with camper trailers) will be exempt from this duty.

STATE	***RATE OF DUTY***
ACT	**Motor Vehicles with Green Vehicle Rating**

Motor Vehicles with Green Vehicle Rating

A Green Vehicle Rating only applies to a new motor vehicle that has not previously been registered under:

a) the *Road Transport (Vehicle Registration) Act 1999* or another Territory law; or
b) a law of the Commonwealth, a State, another Territory or a foreign country.

The duty payable for vehicles with a Green Vehicle Rating is calculated in accordance with Tables 1, 2 and 3 below.

For the purpose of charging duty, a Green Vehicle Rating for a new motor vehicle means a rating of A, B, C, or D corresponding to the vehicle's environmental performance score as determined in the Green Vehicle Guide at http://www.greenvehicleguide.gov.au. The environmental performance score for a motor vehicle is the total of the air pollution rating and the corresponding greenhouse rating for the vehicle.

Motor Vehicles with No Green Vehicle Rating

Non-rated motor vehicles are those that are currently registered or have previously been registered, or those that are not rated under the Green Vehicle Guide.

The duty payable for non-rated motor vehicles is the same rate of duty as C-rated motor vehicles in Table 2 below.

The duty payable for a non-rated passenger motor vehicle constructed primarily to carry no more than 9 people and with a dutiable value of more than $45,000 is the same rate of duty as C-rated motor vehicles in Table 3 below.

However, the duty payable for certain vehicles with a dutiable value of $45,000 or more, such as a 2-3 seater cab chassis with equipment attached (e.g. tray, tipper, garbage compactor), a motorcycle, buses for more than 9 people including the driver, an invalid conveyance, or a hearse; is the same rate of duty as C-rated motor vehicles in Table 2 below.

Table 1 Green Vehicle Ratings and Environmental Performance Scores

Green Vehicle Rating	**Environmental performance score** (air pollution rating + greenhouse rating)
A	16 or more
B	14 or more but less than 16
C	9.5 or more but less than 14
D	Less than 9.5

Table 2 Amounts Payable for s208 (1)

Table 2 lists the amount payable under s208 (1) of the Act, which applies to all motor vehicles not included in Table 3.

Green Vehicle Rating for s208 (1) of the Act **Motor vehicle valued at $45,000 or less**	**Amount Payable**
A-rated vehicle	nil
B-rated vehicle	$2 for each $100, or part of $100, of the dutiable value of the motor vehicle
C-rated vehicle and non-rated vehicle	$3 for each $100, or part of $100, of the dutiable value of the motor vehicle

STATE	***RATE OF DUTY***

D-rated vehicle	$4 for each $100, or part of $100, of the dutiable value of the motor vehicle

Table 3 Amounts Payable for s208 (2)

Table 3 lists the amount payable under s208 (2) of the Act, which applies to passenger motor vehicles constructed primarily for carriage of not more than 9 occupants and valued at more than $45,000.

Green Vehicle Rating for s208 (2) of the Act **Motor vehicle valued at more than $45,000**	**Amount Payable**
A-rated vehicle	nil
B-rated vehicle	$900, plus $4 for each $100, or part of $100, of the dutiable value of the motor vehicle that is more than $45,000
C-rated vehicle and non-rated vehicle	$1,350, plus $5 for each $100, or part of $100, of the dutiable value of the motor vehicle that is more than $45,000
D-rated vehicle	$1,800, plus $6 for each $100, or part of $100, of the dutiable value of the motor vehicle that is more than $45,000

*** *** ***

AFC MEMBER COMPANIES

AllCommerical Finance
Alleasing
American Express
Australian Finance Direct
Australian Finance & Leasing Limited
Australian Motor Finance
Bank of Queensland
BankWest
Bendigo and Adelaide Bank
Bidgee Finance
BFL Capital
BMW Australia Finance
Capital Finance Australia
Caterpillar Finance Australia
CBA Asset Finance
Centrepoint Alliance
CIT Group
Citigroup
CNH Capital
Collection House
Credit Corp Group
De Lage Landen
Dun & Bradstreet
Enterprise Finance Solutions
Esanda Finance Corporation
Flexirent Capital
Ford Credit
GE Commercial
GE Money
Genworth Financial
GMAC
HP Financial Services
HSBC Bank
Indigenous Business Australia
Institute of Mercantile Agents
Integrated Asset Management
International Acceptance
John Deere Credit
Key Equipment Finance
Komatsu Corporate Finance
Leasewise Australia
Liberty Financial
Lombard Finance

Macquarie Leasing
Max Recovery Australia
Members Equity Bank
Mercedes-Benz Financial Services
MotorOne Group
Nissan Financial Services
Once Australia t/as My Buy
PACCAR Financial
Profinance
RABO Equipment Finance
RAC Finance
RACV Finance
Retail Ease
Ricoh Finance
Service Finance Corporation
Sharp Finance
SME Commercial Finance
St. George Bank
Suncorp
Suttons Motors Finance
The Leasing Centre
The Rock Building Society
Toyota Financial Services
UFS Group
Veda Advantage
Volkswagen Financial Services
Volvo Finance
Westlawn Finance
Westpac
Wide Bay Australia
Yamaha Finance

Professional Associate Members:
Allens Arthur Robinson
Australian Business Research
Bartier Perry
CHP Consulting
Clayton Utz
Corrs Chambers Westgarth
FCS Online
Finzsoft Solutions
Henry Davis York

10/08

AUSTRALIAN EQUIPMENT LESSORS ASSOCIATION
Incorporated ABN 19 054 908 520
GPO Box 1595 Sydney 2001
Level 7, 34 Pitt Street
Sydney 2000
Telephone {02) 9231 5479
Facsimile (02) 9232 5647

AELA MEMBER COMPANIES

ABN AMRO Australia
Allens Arthur Robinson
Alleasing Group
Alliance e-finance
ANZ Investment Bank
Australasian Asset Residual Management
Australian Structured Finance
Babcock & Brown
Bendigo & Adelaide Bank
BFL Capital
BMW Australia Finance
Baker & McKenzie
Bendigo Bank Leasing Division
Blake Dawson
BOQ Equipment Finance
Bynx Australia
Canon Finance Australia
Capital Finance Australia
Caterpillar Financial Australia
CBFC
CHP Consulting
Cisco Systems Capital Australia
CIT Financial
Clayton Utz
Colin Biggers & Paisley
CNH Australia
Commercial Asset Finance Brokers Assoc.
Corrs Chambers Westgarth
Commonwealth Bank of Australia
De Lage Landen
Deacons
DaimlerChrysler Financial Services
Dibbs Abbott Stillman
Experien
equigroup
Esanda Finance
Flexirent Capital
Freehills
Fuji Xerox (Finance) Australia
GE Commercial Finance
Hal Leasing
Henry Davis York
HP Financial Services
IBM Global Financing
Insyston
Innovation Fleet
Integrated Asset Management
International Decision Systems
ISIS Capital
John Deere Credit
Kemp Strang
Key Equipment Finance
Komatsu Corporate Finance
KPMG
Lanier (Australia)
Lease Underwriting
Macquarie Leasing
Mallesons Stephen Jaques
Medfin Australia
Members Equity Bank
Mercer (Australia)
Meridian International Capital
Minter Ellison
Musgrave Peach
National Australia Bank
NLC
PACCAR Financial
Pitney Bowes Credit Australia
Protecsure
Queensland Treasury Corporation
Realtime Computing
RentSmart
Rhodium Asset Solutions
Ricoh Finance
Service Finance Corporation
SG Equipment Finance
Sharp Finance
Sofico Services Australia
Solutions Asset Management
Southern Finance Group
Spectra Financial Services
St. George Bank
Suncorp Metway
SunGard Asia Pacific
The Leasing Centre (Australia)
Toyota Finance Australia
Traction Group
United Financial Services Capital
Upstream Print Solutions
Volvo Finance
Westlawn Finance
Westpac Institutional Banking
White Clarke Asia Pacific
Yamaha Motor Finance

10.08

AFLA

Australian Fleet Lessors Association

Incorporated - ABN 78 059 998 533

This submission is made on behalf of the following AFLA members:

AFLA MEMBER COMPANIES

Custom Fleet

Fleetcare

FleetPartners

FleetPlus

Interleasing (Australia)

LeasePlan Australia

NLC

ORIX Australia

State Fleet Services

Summit Auto Lease Australia

Toyota Fleet Management

10.08

GPO Box 1595, Sydney, NSW, 2001/ Telephone (02) 9232 1238 / Facsimile (02) 9232 5647/Website: afla.com.au