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The Australian Automotive Industry Advisor

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Editorial Comment

- ***Taxes continue to underpin the rising price of Automobiles***

Whilst industry has generally welcomed the Government's post-2005 automotive package for its contribution to industry stability and the provision of a framework to support long-term investment decisions, there appears little relief in sight for consumers from the effect of high taxes on both their primary incomes, as well as anything left over that might be spent on 'luxuries'.

Prime Minister Howard and his Ministers have recently come under fire for presiding over 'the highest taxing federal administration in history'. Hence, there is new talk of the need for a further round of income tax cuts to be announced in the run-up to the next election. This may be sooner than later if a 'double-dissolution' election is brought on in 2003 as a means of securing the Government's legislative program.

Looking broadly at taxation issues facing the automotive industry, the Productivity Commission considered in its final report that, as a revenue-raising instrument, the luxury car tax had 'deficiencies'. So if it was to be retained in any post-2005 Scheme, then the Commission considered the threshold for the tax (and the associated depreciation limit) "would need to be raised to reflect previous price movements in the luxury vehicle market."

Similarly, as revenue raising instruments, payroll tax and stamp duty on vehicle sales and transfers were also said by the Productivity Commission to have 'deficiencies'. Responding to the call for 'a significant increase in the threshold value' that determines when luxury car tax is applicable, the Government has predictably declined.

Happy with the thought that it has found yet another source of funds that is continually bolstered by the effects of inflation, the Government has replied to the Productivity Commission's recommendation by saying it "considers the current luxury car tax threshold and indexation mechanism are appropriate."

Secondly, and in regard to payroll tax and stamp duty on vehicle sales and transfers, the Commonwealth Government - who so boldly fought for reductions in State taxes when it was negotiating to bring in the GST - has now walked away from any continuing responsibility to push for tax reform initiatives by saying, "any changes to these taxes are a matter for the States."

Post-2005 ACIS extension now confirmed

As part of a decision to reduce tariffs levied on passenger motor vehicles (PMVs) to 5% on 1 January 2010, the Government has agreed to provide a further ten-year program of budgetary assistance for automobile design and manufacture - to be distributed under the existing Automotive Competitive Investment Scheme (ACIS).

The ten-year extension of ACIS will be funded at approximately $4.2 billion, comprising 'uncapped' ACIS duty credits estimated at $1.2 billion, along with 'capped' ACIS assistance of $2 billion to be spread evenly over the period 2006 to 2010.

Phase-out arrangements will then be applied to capped assistance of $1.0 billion over the period 2011-15, in the hope the transition to the 5% tariff rate after 2009 can be achieved with a minimum of industry structural adjustment/employment disruption.

The Government is also moving early to implement a re-balancing of Scheme benefits, so from the first quarter of 2003, capped payments will be divided into two funding pools in a ratio of 55:45, the first one for motor vehicle producers and the second one for the automotive supply chain.

Benefits more generous than first expected

The new-look ACIS package is said by the Government to 'go far beyond' what was recommended by the Productivity Commission in its recent post-2005 report, having added 'an extra 50% (or $1.4 billion) to funding the 10-year continuation of the Scheme'.

Industry Minister, Ian Macfarlane, says the package is aimed 'squarely at innovation' with greater emphasis on research and development (R&D), rather than production subsidies. As such, the Government is to establish from the vehicle producers' portion of the ACIS budget, a special R&D fund of $150 million, targeted specifically for vehicle manufacturers investing in new and innovative technologies.

The R&D fund will be administered on a competitive basis, with three annual rounds of applications to be held over 2006, 2007 and 2008. Up to $50 million will be allocated for each round, with unallocated funds returned to the motor vehicle producers' funding pool. The Government will not implement a successor to the Automotive Market Access and Development Strategy.

Next inquiry in 2008 to review tariff liberalisation

The Government has also decided the Commission should undertake a further inquiry into PMV issues in 2008, principally to determine whether changes are warranted to the legislated tariff reductions in view of conditions in the international trade environment. In essence, this means the 5% tariff will last beyond 2015, or will be reduced to zero.

In terms of Australia's APEC 'Bogor' round undertakings to achieve 'free and open' trade and investment in the region by 2010, Prime Minister Howard says that given we're going down to 5% by 2010, "for practical purposes, there's not a lot of difference between zero and 5%. Australia is at least the equal, if not ahead of other countries in the APEC area (in terms of tariff reductions), so the decision is wholly consistent and in total harmony with what we're committed to under Bogor."

Supporting the primary PMV assistance packaged, the Government has also agreed to retain the $12,000 tariff on second hand vehicles, picking up on Productivity Commission recommendations that its removal was not warranted when weighed against the possibility that such action could destabilise the structured plan for reductions in automotive assistance.

Would you like to know more about the Government's decision on post-2005 automotive assistance? If you have any concerns in regard to the current ACIS Scheme, contact a member of our ACIS advisory team or surf www.tcf.net.au - our new website!

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