Victorian Automotive Chamber of Commerce

Federal Pre-Budget Submission 2022-23

January 2022

VACC
You're in good hands

ABOUT VACC

The Victorian Automotive Chamber of Commerce (VACC) is Victoria's peak automotive industry association, representing the interests of more than 5,000 members in over 20 retail automotive sectors that employ over 50,000 Victorians.

VACC members range from new and used vehicle dealers (passenger, truck, commercial, motorcycles, recreational and farm machinery), repairers (mechanical, electrical, body and repair specialists, i.e. radiators and engines), vehicle servicing (service stations, vehicle washing, rental, windscreens), parts and component wholesale/retail and distribution and aftermarket manufacture (i.e. specialist vehicle, parts or component modification and/or manufacture), tyre dealers and automotive dismantlers and recyclers.

VACC is also an active member of the Motor Trades Association of Australia (MTAA) and contributes significantly to the national policy debate through Australia's peak national automotive association.

CONTACT DETAILS

Steve Bletsos
Senior Research Analyst

VACC
Level 7 | 464 St Kilda Road | Melbourne Vic 3004
P: 03 9829 1143 | **M:** 0438385881 | **F:** 03 9867 1795 | **W:** vacc.com.au

Contents

VACC RECOMMENDATIONS

Recommendation 1:
That the Federal Government initiate discussions on tax reform that encompasses reform of Australia's Goods and Services Tax.

Recommendation 2:
Extend the 25 per cent small business corporate tax rate to medium size enterprises by increasing the eligibility criteria to an annual aggregated turnover of up to $250 million.

Recommendation 3:
The Federal Government take a leadership role and work with the state and territory governments to reduce the burden of payroll tax on business.

Recommendation 4:
That the Luxury Car Tax be abolished to stimulate sales of zero and low-emission vehicles and improve reductions in vehicle emissions.

Recommendation 5:
That the Federal Government help foster a nationally consistent and coherent approach to road-user charging and road related investment that alleviates the potential for double-taxation between the Commonwealth and states and territories.

Recommendation 6:
The Temporary Full Expensing measure for the purchase of assets by businesses be extended until end June 2025 to support business investment and economic growth.

Recommendation 7:
The Boosting Apprenticeship Commencements wage subsidy and the Completing Apprenticeship Commencements wage subsidy programs be continued for a further two years.

Recommendation 8:
That Budget funding be allocated for the introduction of a national apprentice mentoring program for a two-year period.

Recommendation 9:

a) *That annual migration levels be increased above current targets for the next two years.*

b) *That the applicability criteria for employer sponsored permanent and temporary migration for the short and medium/long term skill shortage lists be removed.*

c) *The Skilling Australians Fund levies for temporary and permanent employer nominated visas be removed or reduced.*

Recommendation 10:

a) *That the Federal Government incentivise training delivery for zero and low emission vehicles courses for registered training providers.*

b) *Provide mature age training incentives to upskill existing technicians to maintain a zero-emissions vehicle fleet.*

c) *Add the Certificate III Electric Vehicle Technology qualification and EV technicians to the Additional Identified Skills Shortage Payment Scheme.*

Recommendation 11:
Increase investment and research in an industry-led and federally funded national program aimed at the proper disposal of end-of-life vehicles.

Recommendation 12:
That Budget funding is allocated toward the investigation of automotive supply chain disruptions, including improvements in the efficacy and efficiency of our border crossing processes.

Recommendation 13:
That the Federal government allocate appropriate funding to centralise the collection of monthly new motor vehicle sales data through the Australian Bureau of Statistics, including funding to reinstate the annual Survey of Motor Vehicle Use and the Motor Vehicle Census.

INDUSTRY BACKGROUND

The automotive industry is a significant contributor to Australia's economy. Across all its constituent sectors it employs over 384,000 Australians within 72,521 individual businesses[1], the majority of whom are small and family-owned businesses. In aggregate, these businesses contribute $39.4 billion to Australia's Gross Domestic Product (GDP). The automotive industry is also one of the largest employers of apprentices and trainees nationally.

The needs of the automotive industry, from a small business perspective are many, and given the economic significance of the industry, are an important consideration within the Federal Budget. This is all the more critical as the industry transitions to a new era of zero and low emission vehicles (ZLEVs).

KEY POSITIONS

1. Tax Reform

Goods and Services Tax

As Australia emerges from the COVID pandemic, structural tax reform that raises productivity, creates jobs and fosters economic growth is of critical importance. VACC believes that Australia's goods and services tax (GST) is a prime candidate for tax reform. Australia's tax system relies too heavily on income taxes, and its GST rate of 10 per cent is well below the OECD average. VACC advocates for a discussion on GST reform to potentially replace outdated and unproductive state taxes through a broadened base on which GST is applied, and, potentially, an increase in the rate at which it is levied.

GST reform would assist in addressing systemic inequalities in the Australian tax system including overreliance on personal and corporate taxes, as well as distortionary and inefficient taxes such as vehicle and land stamp duty and luxury car tax (LCT).

Recommendation 1:

That the Federal Government initiate discussions on tax reform that encompasses reform of Australia's Goods and Services Tax.

Corporate Tax

In recent years, Australia has lowered its corporate tax rate for small businesses with an aggregated turnover of less than $50 million per annum, to 25 per cent. Australia's corporate tax rate on medium and large businesses, however, remains at 30 per cent, which is uncompetitive by world standards. Whilst obtaining corporate tax rate parity between small, medium and large businesses may be a longer-term proposition, VACC believes that in the interim, consideration should be given towards extending the 25 per cent tax rate to medium sized businesses. This could be achieved by increasing the aggregate annual turnover threshold to at least $250 million. This would allow both small and medium-sized enterprises to be more competitive and stimulate greater levels of business investment and employment.

Recommendation 2:

Extend the 25 per cent small business corporate tax rate to medium size enterprises by increasing the eligibility criteria to an annual aggregated turnover of up to $250 million.

[1] Source: Directions in Australia's Automotive Industry, 2021, p18

Payroll Tax

State and territory governments are heavily reliant on payroll taxes for revenue. Payroll taxes, however, are extremely inefficient taxes, placing both a high administrative burden and excessive compliance costs on business. Payroll tax also acts as a disincentive for firms to employ more staff or provide wage increases. Whilst payroll tax is a state and territory tax, the Federal Government can play a leadership role in reducing the administrative and compliance burden of payroll taxes on business, through greater digitisation and integration of payment platforms in each state and territory. Reducing the burden of payroll tax on business is a critical part of broader tax reform, that will support business employment, wages growth and economic recovery.

Recommendation 3:

The Federal Government take a leadership role and work with the state and territory governments to reduce the burden of payroll tax on business.

Luxury Car Tax

The LCT was introduced in 2001 to encourage buyers to purchase locally manufactured vehicles instead of imported prestige vehicles. The end of passenger vehicle manufacturing in Australia now makes this tax redundant.

The LCT is also leading to undesirable environmental outcomes. Zero and low-emission vehicles (ZLEVs) are generally more expensive than equivalent sized petrol and diesel vehicles, with many ZLEV's exceeding the LCT threshold. This distorts the market by penalising potential buyers of ZLEVs, thus contributing to lower sales of ZLEVs and poorer environmental outcomes. VACC strongly recommends that the Government make provisions for the removal of the LCT in the 2022-23 Federal Budget to boost the uptake of ZLEVs.

Recommendation 4:

That the Luxury Car Tax be abolished to stimulate sales of zero and low-emission vehicles and improve reductions in vehicle emissions.

2. Road User Charging

As the number of ZLEVs expands within the Australian vehicle fleet over the coming years, revenues from fuel excise will decline considerably, thus affecting the capacity of the Federal Government to maintain adequate levels of investment in road infrastructure. In response to this scenario, some state governments have already implemented, or are planning to implement, various distance-based road-user charging regimes for ZLEVs.

Whilst VACC acknowledges the economic rationale for road-user charging, the emergence of inconsistent and incoherent road-user charging regimes across jurisdictions is of concern. There is also a lack of clarity as to the Commonwealth's role in road-user charging moving into the future. A system of federal road-user taxes on top of existing state-based road user charges would be an undesirable outcome for motorists and likely act as a disincentive to future uptake of ZLEVs.

Recommendation 5:

That the Federal Government help foster a nationally consistent and coherent approach to road-user charging and road related investment that alleviates the potential for double-taxation between the Commonwealth and states and territories.

Temporary Full Expensing

The Temporary Full Expensing measure, introduced in the October 2020 Budget, has played a key role in the support and recovery of business investment, particularly after the lockdowns experienced in 2021 due to COVID-19. The Temporary Full Expense measure, however, is set to expire on 30 June 2023, with all assets above $1,000 purchased after 1 July 2023 being made to follow a standard longer-term depreciation schedule.

VACC believes that the early removal of the full expensing arrangement poses a risk to business investment and economic recovery, particularly as the economy emerges from the uncertainty and disruptions due to COVID. VACC recommends that temporary full expensing be extended until end June 2025 to support business investment, confidence, and ensure economic growth over the medium-term.

Recommendation 6:

The Temporary Full Expensing measure for the purchase of assets by businesses be extended until end June 2025 to support business investment and economic growth.

3. Skills and Training

The automotive industry is facing the most serious skills shortage in its history. There is a current skilled labour deficit of 31,143 positions across the industry that is forecast to rise to 38,700 positions during 2022/23. Furthermore, with 1.7 million ZLEVs expected to be on Australia's roads by 2030, this transition will only intensify the pressure on businesses to secure skilled labour to meet the ever growing and changing mix of vehicles on-road. To this end, it is imperative that the Federal Government continue to support the industry through initiatives that will increase the commencement and completion of automotive apprenticeships, as well as boosting skilled migration.

The Boosting Apprenticeship Commencements (BAC) wage subsidy and the Completing Apprenticeship Commencements (CAC) wage subsidy programs have provided valuable support to businesses and Group Training Organisations to take on new apprentices and trainees and assist towards building a pipeline of skilled workers to support the automotive industry. Given the early success of these programs, VACC believes that it is essential that the programs be continued for a further two years This will help drive industry gains well into the future.

Recommendation 7:

The Boosting Apprenticeship Commencements wage subsidy and the Completing Apprenticeship Commencements wage subsidy programs be continued for a further two years.

Statistics show that approximately 50 per cent of all apprentices withdraw over the course of their training. Research also shows that mentoring and coaching apprentices through the early stages of their apprenticeship has significant benefits in terms of improving retention and completion rates. To this end, Federal Government apprentice mentoring programs in the past have proved to be enormously successful in raising apprentice retention and completion rates to around 83 per cent. VACC therefore believes there is a strong case for reinstating a national apprentice mentoring program to improve training and skills outcomes for employers and apprentices.

Recommendation 8:

That Budget funding be allocated for the introduction of a national apprentice mentoring program for a two-year period.

4. Population and Skilled Migration

Given the lack of skilled migration over the past 18 months and acute volume of skill shortages in the economy, VACC believes that the government's migration targets should be much higher than what they currently are. Over the next few years, there is an urgent need to replenish both the skills lost during the pandemic and boost the supply of skilled migrant labour significantly to ensure that the momentum of economic growth is sustained moving forward.

There should also be a simpler and more cost-effective way for employers to engage skilled migrant labour. Both the process and applicability criteria for employer sponsored migration are too complex and restrictive, especially for small businesses. VACC strongly recommends that the Federal Government consider removing the applicability criteria for employer sponsored permanent and temporary migration for the short and medium/long term skill shortage lists. Doing so would enable any migrants holding any skilled occupation to be sponsored by employers. This would also mean that all temporary skilled migrants would have a pathway to permanency, thereby adding to the permanent skill base of the economy. VACC also believes that the Skilling Australians Fund (SAF) levies that are applied to temporary and permanent skilled migration are excessive, and not-fit-for purpose, particularly in the current COVID affected environment.

Recommendation 9:

a) That annual migration levels be increased above current targets for the next two years

b) That the applicability criteria for employer sponsored permanent and temporary migration for the short and medium/long term skill shortage lists be removed

c) The Skilling Australians Fund levies for temporary and permanent employer nominated visas be removed or reduced.

VACC research indicates that there is a growing demand for skills training associated with the service and repair of ZLEVs. This demand will increase significantly over the next few years, given that Government projections show that around 1.7 million ZLEVs are expected to be driving on Australia's roads by 2030. Based on the Government's projections, VACC modelling indicates that an additional 6,000 specialist trained ZLEV technicians will be required by 2030 to support this growth.

Currently, there is a lack of sufficient training providers delivering ZLEV training in each jurisdiction, and this is contributing to a lack of the necessary skills needed to service and repair ZLEVs within the automotive service and repair sector. To address this problem, VACC encourages the Federal Government to incentivise the provision of ZLEV training for training providers nationally, and reduce the costs associated with upskilling existing technicians and new apprentices in ZLEV training.

VACC recommends the following:

Recommendation 10:

a) That the Federal Government incentivise training delivery for zero and low emission vehicles courses for registered training providers

b) Provide mature age training incentives to upskill existing technicians to maintain a zero-emissions vehicle fleet

c) Add the Certificate III Electric Vehicle Technology qualification and EV technicians to the Additional Identified Skills Shortage Payment Scheme.

5. End of Life Vehicle Strategy

Each year, over 750,000 vehicles reach the end of their economic life, creating more than one million tonnes of waste. The number of internal combustion engine vehicles that will be removed from Australia's roads is expected to grow exponentially in the coming years. The support of federal and state government for a cleaner, more environmentally friendly ZLEV vehicle car parc will require further investment and action from the Australian Government.

VACC, and its dismantling and recycling business constituents, have dedicated substantial resources and are currently collaborating with government to identify options for government to introduce an End-of-Life Vehicle (ELV) program to Australia. The level of investment must be increased. There is an emerging global movement towards Product Stewardship, where manufacturers take a major responsibility for the ultimate disposal of a product. Australia has taken a first step through the Product Stewardship Act, however, while batteries, oils and tyres are covered, complete motor vehicles remain excluded.

The importance of better ELV management has only increased and will continue to do so in line with government policy related to the increased uptake of ZLEVs. This, coupled with increasing community expectations relating to sustainability and the environment make this an area for urgent reform.

Recommendation 11:

Increase investment and research in an industry-led and federally funded national program aimed at the proper disposal of end-of-life vehicles

6. Supply Chain Vulnerability

Being heavily reliant on internationally manufactured vehicles and parts, Australia's automotive industry continues to face significant delays, vulnerabilities, and shocks to its supply chain. This has been of considerable detriment to consumers and businesses, both during periods of COVID lockdowns and beyond. There is also a need to ensure that Australia is globally competitive and attractive to both logistics providers as well as manufacturers.

Whilst many global shipping issues remain out of Australia's control, there is still much that can be done in ensuring supply chain security and reducing our internally applied costs – both those imposed by government and other businesses along the supply chain. There is considerable room for improvement in modernising and improving the efficacy and efficiency of our border crossing processes to make Australia an attractive destination for international shipping lines and reduce the cost of imported goods for Australian businesses and consumers.

Recommendation 12:

That Budget funding is allocated toward the investigation of automotive supply chain disruptions, including improvements in the efficacy and efficiency of our border crossing processes.

7. Centralised Automotive Data

Over the past few years, VACC has observed a significant decline in the availability and quality of data pertaining to Australia's automotive industry. Automotive industry statistics that were once collected by reputable authorities such as the Australian Bureau of Statistics (ABS), have either ceased, or are now collected by private entities or other government agencies in the form of administrative by-product data, that is of a lesser quality. Key examples include:

- The collection of new motor vehicle sales data, which understates the size of the electric vehicle market in Australia by omitting sales from dominant manufacturers such as Tesla

- The cessation of key motor vehicle data collections including the annual *Survey of Motor Vehicle Use*, and the *Motor Vehicle Census* by ABS.

These developments have reduced the availability, accuracy and quality of automotive industry data, which has serious implications for industry policy development, planning and forecasting. VACC advocates for federal funding to centralise the collection of key motor vehicle statistics under the ABS, to ensure the dissemination of quality and fit for purpose industry data.

Recommendation 13:

That the Federal government allocate appropriate funding to centralise the collection of monthly new motor vehicle sales data through the Australian Bureau of Statistics, including funding to reinstate the annual Survey of Motor Vehicle Use and the Motor Vehicle Census.