

VACC Submission

2020-21 Victorian Pre-Budget Submission

January 2020



ABOUT VACC

The Victorian Automobile Chamber of Commerce (VACC) is Victoria's peak automotive industry association, representing the interests of more than 5,300 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), 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

Industry Divisions

Industrial Relations, Policy and Engagement

VACC

Level 7 | 464 St Kilda Road | Melbourne Vic 3004

P: 03 9829 1143 | **M:** 0438385881 | **F:** 03 9867 1795 | **W:** vacc.com.au

Michael McKenna MBA

Industry Policy Advisor

Industry Divisions

Industrial Relations, Policy and Engagement

VACC

Level 7 | 464 St Kilda Road | Melbourne Vic 3004

P: 03 9829 1280 | **M:** 0418 822 939 | **F:** 03 9867 1795 | **W:** vacc.com.au

Contents

ABOUT VACC	2
VACC RECOMMENDATIONS	4
Industry background	6
1. PAYROLL TAX REFORM	6
2. END-OF-LIFE VEHICLE DISPOSAL policy	6
3. PROMOTION OF AuTOMOTIVE apprenticesHIPS.....	7
4. MODERNISATON OF Duties Act Revenue Ruling DA.022	7
5. UNDER-REPORTING OF DUTY IN THE PRIVATE VEHICLE MARKET.....	8
6. ECONOMIC STIMULUS PACKAGE FOR NEW CAR DEALERS	9
7. IMPACT OF SUPER-LUXURY DUTY	10
8. SUPPORTING WOMEN IN AUTOMOTIVE	11
9. REFORM OF VICROADS REGISTRATION AND LICENSING DIVISION	11

VACC RECOMMENDATIONS

Recommendation 1:

That Victoria's payroll tax threshold be lifted to \$950,000 per annum, thereby aligning more closely with other states, to ensure Victorian business competitiveness, capital investment and future jobs growth.

Recommendation 2:

The Victorian Government take a leadership role on end-of-life-vehicle (ELV) policy by allocating funding in the 2020-21 State Budget for the trial of a self-regulated ELV program. This would work to ensure the disposal of ELVs has minimal environmental impact.

Recommendation 3:

That the Victorian Government engage with industry and fund a targeted campaign to promote the value of automotive apprenticeships to employers, job seekers, parents and students.

Recommendation 4:

That the Victorian Government initiate a revised methodology for the calculation of a motor vehicle's dutiable value, based on the Recommended Retail Price or negotiated retail price of a vehicle paid on the day of its sale.

Recommendation 5:

That the Victorian Government act to exempt Licensed Motor Car Traders from the application of duty to the fitment of accessories and/or aftermarket parts and from being calculated into a new motor vehicle's dutiable value.

Recommendation 6:

That the Victorian Government support the State Revenue Office to conduct an annual voluntary disclosure initiative with a focus on under-declarations of a vehicles dutiable value in the private-to-private vehicle market.

Recommendation 7:

That the Victorian State Revenue Office launch a public awareness campaign that underreporting of a vehicle's dutiable value in the private vehicle market will be subject to similar punitive measures as applied to Licensed Motor Car Traders.

Recommendation 8:

That the Victorian Government introduce an economic stimulus package in the 2020-21 State Budget to support Licensed Motor Car Traders. This package should include an immediate and indefinite moratorium on any rises in rates of motor vehicle duty for Victorian LMCTs.

Recommendation 9:

That the Victorian Government abolish the Super Luxury Vehicle Duty by the 2020-21 Budget period.

Recommendation 10:

That the Victorian Government modernise the Victorian Duties Act 2000 Section 216 (1)(2) & (3) to reflect NSW Duties Act 1997 Section 263 to allow Victorian LMCTs and the consumer to negotiate who will be the applicant for vehicle registration.

Recommendation 11:

That funds be allocated within the 2020-21 State Budget to assist the delivery of an effective mentoring program and student outreach program to attract more women into the automotive industry from an earlier age.

Recommendation 12:

That the Victorian Government include VACC in the scoping study surrounding improved service delivery within VicRoads' Registration and Licensing Division. This includes the provision of consultancy and advice on service delivery for the Victorian automotive retail sector that are derived from the Victorian Road Safety (Vehicles) Act and its Regulations, and funding assistance with the rollout of information to automotive retail businesses.

INDUSTRY BACKGROUND

The automotive industry is a significant contributor to the Victorian economy. Across all its constituent sectors it employs over 100,000 Victorians within 17,961 individual businesses, the majority of which are small and family owned businesses. In aggregate, these businesses contribute \$9.7 billion to Victoria's Gross State Product (GSP).

The automotive industry is also one of the largest employers of apprentices and trainees in Victoria, with almost 3,000 apprentices and trainees commencing annually in automotive trades.

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 State Budget. This is all the more critical as the industry transitions over the next decade to a new era of electric and autonomous vehicles.

KEY POSITIONS

1. PAYROLL TAX REFORM

Whilst VACC commends the Victorian Government on recent reforms to payroll tax, particularly for regional employers, it is now the case that Victoria has the lowest annual threshold for payroll tax (\$650,000) of all states and territories. This situation has arisen due to significant increases in the payroll tax threshold within other jurisdictions.

Having the lowest annual payroll tax threshold places Victorian businesses at a comparative disadvantage in relation to interstate businesses. This transpires in a greater financial and regulatory impost for Victorian businesses, as well as a disincentive towards future investment and employment growth.

VACC urges the Victorian Government to review the current payroll tax settings for Victoria in the 2020/21 State Budget, with a view to raising the annual threshold towards parity with at least New South Wales and Western Australia (both \$950,000). Bridging the payroll tax gap will help ensure that Victoria remains a competitive place to do business.

Recommendation 1:

That Victoria's payroll tax threshold be lifted to \$950,000 per annum, thereby aligning more closely with other states, to ensure Victorian business competitiveness, capital investment and future jobs growth.

2. END-OF-LIFE VEHICLE DISPOSAL POLICY

VACC informs the Victorian Government that Australia remains the only developed country not to have a policy dealing with end-of-life vehicles (ELVs). This means that over 240,000 tonnes of plastic emanating from ELV's are sent to landfill every year nationally, of which Victorian ELV waste represents more than one quarter (63,000 tonnes) of the national total.

Whilst plastic waste from ELVs remains difficult and un-economic to recycle, VACC believes that the Victorian Government must show leadership by recognising the environmental and economic impacts associated with the disposal of ELVs and by initiating an appropriate policy response. As a starting point, VACC recommends that the Victorian Government work towards a nationally implemented ELV plan, with Victoria taking a leadership role by trialling a self-regulated ELV program. A trial of this nature has the potential to deliver both intelligence and best practice regarding the proper disposal of ELVs, for which Victoria may be used a model nationally.

Recommendation 2:

The Victorian Government take a leadership role on end-of-life-vehicle (ELV) policy by allocating funding in the 2020-21 State Budget for the trial of a self-regulated ELV program. This would work to ensure the disposal of ELVs has minimal environmental impact.

3. PROMOTION OF AUTOMOTIVE APPRENTICESHIPS

Since 2011/12, VACC has observed a steady decline in automotive apprentice commencement and completion rates in Victoria. The consequences of this decline are that there are currently around 7,000 automotive jobs that cannot be filled by employers in Victoria.

Automotive trades have long suffered from negative and misplaced community perceptions surrounding the desirability of such work and this has resulted in a diminishing pool of skilled labour across the industry. VACC argues that raising the profile of automotive apprenticeships will have flow-on benefits in improved commencement and completion rates for automotive apprenticeships. This is essential in closing the skills shortages experienced across the automotive industry.

Job seekers and school leavers need quality careers advice, with a focus on the viability and respectability of an automotive trade career. This advice includes informing parents, teachers and other youth leaders who are the primary influence in a student's career choice. Automotive apprenticeships need to be promoted as a respected and credible career path, particularly with vibrant new technologies such as electric and autonomous vehicles on the horizon.

VACC would therefore encourage the Victorian Government to initiate the following:

Recommendation 3:

That the Victorian Government engage with industry and fund a targeted campaign to promote the value of automotive apprenticeships to employers, job seekers, parents and students.

4. MODERNISATION OF DUTIES ACT REVENUE RULING DA.022

VACC contends that the application of Revenue Ruling DA.022's in the Duties Act 2000 by the Victorian State Revenue Office (SRO) towards vehicle dealerships is discriminatory, archaic and requires urgent reform.

VACC has advised the Victorian Government in previous submissions regarding the modernisation of DA.022, which to date, has not been acted upon. Consequently, Licensed Motor Car Traders (LMCTs) are unfairly penalised by a Revenue Ruling that is no longer suitable and jeopardises their viability.

In particular, VACC strongly disagrees with the SRO's valuation methodology for the calculation of motor vehicle duty. This involves the use of private commercial data aggregators to validate and declare a vehicle's market price. VACC contends that a vehicle's market price is determined by many elements not covered by such data aggregators. For example, supply and demand, odometer readings, vehicle condition, colour and location of vehicle are some of the additional considerations required to determine a vehicle's actual retail value.

VACC therefore strongly recommends that the Victorian Government undertake the following:

Recommendation 4:

That the Victorian Government initiate a revised methodology for the calculation of a motor vehicle's dutiable value, based on the Recommended Retail Price or negotiated retail price of a vehicle paid on the day of its sale.

An additional complication and burden to new car dealers is that accessories added to the vehicle at the point of the sale also attract duty, as they become part of the dutiable value of the vehicle. These can include the fitment of sunroofs, bull bars and tinted windows. This additional duty results in the loss of revenue to dealerships as consumers often favour independent aftermarket sellers that do not attract an additional duty.

VACC believes that this duty is discriminatory and provides an unfair market advantage to aftermarket sellers. It also offers scope for the attention of the Australian Competition and Consumer Commission (ACCC) under anti-competition laws. VACC believes that a substantial lessening of competition exists within this market as a result of the discriminatory requirement for LMCTs to pay duty on these fittings.

These penalties particularly affect regional dealers and their communities. Regional dealerships engage heavily with their local community through sponsorship of sporting clubs, charities and not-for-profit associations. The loss in revenue from this tax impost significantly impacts their ability to support such activities.

VACC therefore strongly recommends that the Victorian Government act to remove this discriminatory tax:

Recommendation 5:

That the Victorian Government act to exempt Licensed Motor Car Traders from the application of duty to the fitment of accessories and/or aftermarket parts and from being calculated into a new motor vehicle's dutiable value.

5. UNDER-REPORTING OF DUTY IN THE PRIVATE VEHICLE MARKET

The private-to-private market constitutes over two thirds (68%) of all vehicles sold in Victoria. VACC research indicates that there is rampant underreporting of a vehicle's dutiable value within the private vehicle market. This activity is not only illegal but deprives the Victorian Government of critical tax revenue and diverts sales away from LMCTs.

Unlike LMCTs that are regulated by the Victorian SRO and subject to voluntary disclosure requirements to identify any incorrect vehicle valuations, duty exemptions or changes in trading stock, the private market is unregulated and thus subject to the problem of underreporting of a vehicle's dutiable value in pursuit of paying less motor vehicle duty. VACC believes that the seriousness of this issue warrants a matter for focus by the SRO.

VACC therefore recommends the following:

Recommendation 6:

That the Victorian Government support the State Revenue Office to conduct an annual voluntary disclosure initiative with a focus on under-declarations of a vehicles dutiable value in the private-to-private vehicle market.

Recommendation 7:

That the Victorian State Revenue Office launch a public awareness campaign that underreporting of a vehicle's dutiable value in the private vehicle market will be subject to similar punitive measures as applied to Licensed Motor Car Traders.

6. ECONOMIC STIMULUS PACKAGE FOR NEW CAR DEALERS

Victorian LMCTs are facing difficult and devastating trading conditions. VACC has been advised that Victorian dealers cannot sustain further increases in motor vehicle duty, land tax or other government fees, with many Victorian dealers currently experiencing negative returns of between -1.0 to -2.0 per cent on the sale of a new car.

The *Deloitte 2019 Automotive Industry Overview* reported in the first half of 2019 that 32 per cent of dealerships were unprofitable (negative return on sales). High performing dealers were also impacted, with very few dealers experiencing a return of 3.5 per cent or more on sales. Exponential rises in land tax have also impacted negatively on dealer profitability, with rises of between 50% and 100% recorded across many dealers and municipalities within a twelve-month period.

VACC analysis also indicates that motor vehicle duty revenue for Victoria as at end of Q1 2019-20 fell sharply by \$58.7 million from that of Q4 2018-19. This is reflective of a significant deterioration in sales that is attributable to both tighter lending criteria and the introduction of the Super Luxury Car Duty for Victorian dealers.

Based on these trends, VACC forecasts a shortfall of \$328 million on budgeted motor vehicle duty forward estimates. This revenue collapse necessitates urgent government action in the form of a stimulus package for new car dealers. Dealers must be able plan for future growth, infrastructure improvements, employment opportunities and be able to trade with confidence. Consumers must also not be discouraged, disillusioned or surprised at the point of sale, by the amount of taxes they are required to pay on a new vehicle, which could lead them to purchase a vehicle from an interstate LMCT.

VACC reiterates the gravity of the overall situation affecting dealerships and that Victorian LMCTs cannot sustain any further increases in motor vehicle duty, land tax or other government fees and should not become the new cigarette or beer income stream for governments.

VACC therefore calls on the Victorian Government to introduce an economic stimulus package to support new car dealers. Part of this package could include an immediate and indefinite moratorium on the introduction of further rises in rates of motor vehicle duty, taxes and thresholds, or increases in transfer fees, regulatory fees or penalty units.

Recommendation 8:

That the Victorian Government introduce an economic stimulus package in the 2020-21 State Budget to support Licensed Motor Car Traders. This package should include an immediate and indefinite moratorium on any rises in rates of motor vehicle duty for Victorian LMCTs.

7. IMPACT OF SUPER-LUXURY DUTY

It is an unfortunate fact that since the introduction of the Super Luxury Car Duty (SLD), retail sales figures as reported by VFACTS show all vehicle categories affected by the SLD thresholds to be in decline since 1 July 2019.

New Vehicle Sales - Victoria

Vehicle Segment	2018 Sales	2019 Sales	% Difference
Upper large > \$100k	360	272	-24.4 %
Sports > \$80k	176	167	-5.1%
Sports > \$200k	635	530	-16.5%
SUV Large > \$70k	40,590	36,193	-5.1%
SUV Upper Large > \$100k	149,964	142,518	-5.0% ⁱ

Source: VFACTS data

VACC advises that many industry participants have taken the drastic business decision to stop acquiring stock of high value. This reluctance to trade has the potential to cause serious disruption to the market and drag the wholesale and resale prices of all vehicles to unsustainable levels. VACC therefore strongly recommends that the SLD must be abolished before the 2020-21 budgetary period.

The SLD has also had an impact on the sale of used four-wheel drive vehicles, a category that has been unwittingly caught up in the SLD thresholds. Similar to mainstream high-end motor vehicles, the second hand 4WD market is a specialised category of vehicle that is highly competitive nationally.

The SLD and other legislative issues dictated by the Duties Act 2000, combined with advertising requirements as mandated by the Australian Consumer Law (ACL), leaves many Victorian LMCTs in a non-competitive position when compared with their interstate colleagues. Dealers in New South Wales (NSW) have a distinct advertising and selling advantage over their Victorian counterparts as NSW dealers can negotiate with the consumer as to who will pay or remit the motor vehicle duty that is applicable. This allows for NSW dealers to advertise their stock at more competitive prices as they are not bound by ACL component pricing legislation. This has been problematic in the specialist used 4WD market and has resulted in the exit from the industry of many Victorian traders.

VACC therefore recommends the following:

Recommendation 9:

That the Victorian Government abolish the Super Luxury Vehicle Duty by the 2020-21 Budget period.

Recommendation 10:

That the Victorian Government modernise the Victorian Duties Act 2000 Section 216 (1)(2) & (3) to reflect NSW Duties Act 1997 Section 263 to allow Victorian LMCTs and the consumer to negotiate who will be the applicant for vehicle registration.

8. SUPPORTING WOMEN IN AUTOMOTIVE

Female participation in the Australian automotive industry have remained largely unchanged for the past 20 years. At around 20 per cent of the workforce, women over represent their male counterparts in administration and sales related roles and are under-represented in trades and senior-level executive positions. Attrition rates for women working in the industry are also high.

With the growing body of evidence on the benefits of diversity and inclusion, as well as a changing automotive industry landscape, it is imperative that more women be encouraged and supported into the industry.

VACC's Women in Automotive network goes some way at addressing the issue by providing leadership training, resources and networking opportunities. However, there is more that can be done between government and industry to ensure talented, capable women are attracted and retained in the automotive industry.

VACC therefore recommends the following:

Recommendation 11:

That funds be allocated within the 2020-21 State Budget to assist the delivery of an effective mentoring program and student outreach program to attract more women into the automotive industry from an earlier age.

9. REFORM OF VICROADS REGISTRATION AND LICENSING DIVISION

The Victorian Government has informed VACC of its intention to investigate options to aid the improvement of customer service and deliver better value for money for taxpayers within the VicRoads' Registration and Licensing Division (R&L).

Such investigations include a detailed scoping study exploring alternatives for the division and the potential role of private sector partners.

In order for government to be able to adequately assess the value, benefits and risks of the various options to this division, it is imperative that industry is an integral part of the scoping process. As the peak automotive retail industry stakeholder body, VACC is best placed to provide advice and consultancy on the service delivery on behalf of the Victorian automotive retail sector.

Once the scoping investigation is complete and its outcomes announced, it is vital that all Victorian retail automotive businesses are clear on the new VicRoads R&L deliverables. This should include a comprehensive regional and metropolitan roadshow, educating industry on the revised service delivery of VicRoads R&L. VACC is well placed to facilitate such a program and remains open to dialogue on this issue.

VACC therefore recommends the following:

Recommendation 12:

That the Victorian Government include VACC in the scoping study surrounding improved service delivery within VicRoads' Registration and Licensing Division. This includes the provision of consultancy and advice on service delivery for the Victorian automotive retail sector that are derived from the Victorian Road Safety (Vehicles) Act and its Regulations, and funding assistance with the rollout of information to automotive retail businesses.
