

LUXURY CAR TAX

Concerned with the negative impact LCT has had on the Historic Car movement in Australia a group of clubs have formed the **Australian Historic Vehicle Interest Group** under the direction of our past President, Doug Young, to put the following submission to the Australian Government.

A more comprehensive submission will be lodged next month.

2018-19 Federal Budget

Pre-Budget Submission - Preliminary

The Treasury

15 December 2017

1. Executive Summary
- 1.1 Subject matter: This submission relates to the anomalous application of the LCT (and GST) to the importation of cars over 30 years old (Historic Cars) purchased overseas when the LCT (and GST) are not applied to private sales of identical cars occurring within Australia¹.
- 1.2 Methods: This submission is based on the following fact-finding methods, including:
 - (a) Inquiries of Government Departments, as to the amount of LCT raised on the importation of vehicles over 30 years old.
 - (b) Various relevant Commonwealth policy statements in Second Reading Speeches, Explanatory Memoranda, Ministerial Media Releases, and Government-commissioned Review Reports, such as the Simpson Review into the *Protection of Movable Cultural Heritage Act 1986* (PCMH Act).
 - (c) Survey results, of members of various Historic Car clubs, including those who have imported such cars and paid LCT on them, to determine whether more Historic Cars would be imported were it not for the LCT, and the amounts likely to be spent on them after import.
 - (d) Inquiries of professional restorers, who are aware of client desires to permanently import Historic Cars for restoration and retention within Australia.

1 For a history of the LCT, see the attached article "A Hobby, A Heritage, An Industry: How The Luxury Car Tax Impacts Them All"

- (e) Records kept of specific types of Historic Cars imported and exported before and after the LCT commenced applying to such vehicles, and
- (f) Other relevant research.

1.3 Results: These inquiries disclosed that:

- (g) Because of Australia's extraordinarily high standard of living throughout the 20th century, many of the world's best cars were imported new to Australia. Even police forces bought some of the greatest pre WW2 cars, with WA buying Speed 6 Bentleys, and Victoria 4.3 litre Alvises. This historic car fleet also survived as war was more remote and our climate was far less destructive as little or no snow and salted road driving occurred. Australia's Historic Car fleet was the envy of the world.
- (h) Many of those great cars have been lost to overseas, particularly over the past decade: over 40% of particular types in some cases.
- (i) Imposing the LCT on the importation, and reimportation, of Historic Cars acts as an almost complete barrier to such importations and reimportations.
- (j) The importance of this issue, and the means of resolution, were the subject of bi-partisan Senate recognition in 2008, with support for exempting the importation of Historic Cars from the LCT². Despite this, nothing was done.
- (k) The appropriateness of such an exemption has already been recognised, and legislated for, for the Museums, Galleries and Libraries sector. An LCT exemption was granted in February 2017³ for the importation of cars of any age (for public display) which satisfy the criteria of "collectors pieces" or "works of art". As observed by Treasurer Swan (when first announcing the proposal in 2011) it means they do not pay Customs Duty, GST or LCT on the importations⁴.
- (l) There is a world-wide boom of interest and economic activity associated with the old car movement. Some countries, such as the UK, recognise and embrace this- by *inter alia*, easing barriers to entry of such cars⁵ - and as a result, the value to the UK economy was a

2 Senate Standing Committee on Economics Report into the proposed increase in LCT from 25% to 33%. While dividing along party lines for the main issue, both sides recognised there was a case for exempting the import of Historic Cars from the LCT.

3 *Tax and Superannuation Laws Amendment (2016 Measures No. 2) Act 2017*

4 http://www.budget.gov.au/2011-12/content/bp2/html/bp2_revenue-07.htm

5 EG, whereas VAT on car imports is generally 20%, it is 5% for Historic Cars. They also allow free road registration for such cars.

verified £5.5bn in the last financial year. Another indicator is that auctions sales of classic cars in the USA exceed US\$1bn a year. And original manufacturers of such cars are now making identical replicas of cars from the 1950s and 1960s, such as the Jaguar XKSS (9 at £1m, all sold) and Lightweight E Type (6 at £1.2m, all sold); the Aston Martin DB4GT (25 cars at £1.5m, all sold). Closer to Australia, New Zealand has no LCT on Historic Cars and benefits from international custom in terms of its restoration industry, at Australia's expense.

- (m) Rather than raising significant amounts of LCT, imposing it on imports of Historic Cars acts as an almost complete barrier to their importation. This is because the combined total of the LCT and GST can add over 40% to the price of the car, with no corresponding increase in its value.
- (n) As a result, only a handful of high value Historic Cars have been imported since 2000, and the LCT raised on such cars has averaged only A\$1.2m per year over the last decade, or 0.2% of the LCT raised in 2016-17⁶.
- (o) The numbers of Historic Cars exported since the commencement of the LCT in 2000 by far exceed those being imported. Australia's once-great fleet of high quality Historic Cars is being steadily eroded, with, as mentioned above, over 40% of some examples having been lost overseas forever.
- (p) Because the LCT acts as a one-way valve preventing the reimportation of cars previously exported, and the importation of similar cars, it actually subverts the policy underpinning the PCMH Act. It prevents Australians from reimporting Historic Cars which were exported long ago, and would otherwise restore part of Australia's motoring heritage.
- (q) This damages not only Australia's heritage – it also deprives Australians of business opportunities and jobs. One car alone whose importation is blocked by the LCT (which would amount to A\$600k) - would cost A\$1m to restore, and provide 4 jobs for 3 years⁷. The GST on the importation of 12 cars that this restorer's clients would import but for the LCT would be A\$1.132m alone.

6 As advised by the Department of Immigration and Border Protection (DIBP), who, pursuant to an MOU with the ATO, collect LCT on private imports of cars. Last financial year, total LCT receipts were A\$607m., with A\$3m being collected by DIPB, of which A\$1.3m was attributable to Historic Car imports.

7 Hermann Goering's Mercedes 540K staff car – see attached letter from Sleeping Beauties restoration business, which has 12 cars clients would like to import and have that business restore, but for the LCT. See attached letter from Sleeping Beauties for more information about this and other cars that would be imported for restoration were it not for the LCT.

- (r) The jobs created by historic cars owners generally fall under small business definitions and are often in regional areas. The jobs include artisan type jobs and include skilled trades. They encourage smaller operators and seek those with high levels of skill. Jobs exist and can be created for ex automotive workers in this sector. Historic car owners also use their cars and spend money on accommodation and meals, as well as fuel, oil, and maintenance⁸.
- (s) Some countries hold many major Historic Car events each year. Australia holds one – Melbourne’s Motorclassica. This delivers an economic impact of A\$9.2m to Melbourne over 4 days. The organisers are however concerned about the ever diminishing pool of cars to exhibit and the barrier to importing similar cars posed by the LCT.
- (t) A survey the Australian Historic Vehicle Interest Group has conducted of about 330 enthusiasts has identified :
 - (i) They would import 573 Historic Cars were it not for the LCT.
 - (ii) They own, here and overseas, 737 cars worth more than the LCT threshold, on which they have spent \$23,438.05 per car over the last 5 years, or a total of \$17,273, 806.
 - (iii) The average amount spent per car per year has been \$4,687.
 - (iv) Were the LCT removed and these cars imported, the Government would earn \$3,724,500 GST on the importation, and if owners spent similar amounts on the cars, a further \$1,343,000 in GST on the work performed over 5 years.

1.4 Conclusions:

- (u) The LCT prevents Australians from participating in the world wide classic car boom in interest and economic activity, with Australia being likened to an undeveloped third world country, providing only its raw materials – its great Historic Cars – with the massive value adding being done in other countries.
- (v) Were the importation of such cars exempted from the LCT, the following would occur:
 - (i) It would be revenue-positive for the Commonwealth, as it would reap far more GST on such imports than the meagre amount of LCT it currently receives from same.
 - (ii) It would go some way towards replenishing Australia’s once-great heritage car fleet.
 - (iii) It will also stimulate and lead to the expansion of existing businesses and creation of new ones.

⁸ Jaguar Cars Ltd advised that in recreating the Lightweight E Type and XKSS continuation cars that they tapped into the “cottage industries” that flourished in Britain.

- (iv) The annual spend on such Historic Cars would represent the 'gift that keeps on giving' with substantial amount to be spent on restoration and ongoing maintenance.
- (v) It will create jobs and revenue streams only enjoyed at present by residents of overseas countries and ensure that the skills necessary to restore and maintain these cars would be preserved.
- (vi) It would allow Australian businesses to share in the massive returns being enjoyed by overseas countries which do not have prohibitive barriers to the entry of Historic Cars.

1.5 Recommendation:

That the importation of Historic Cars be exempted from the application of the LCT.