SUBMISSION ON

TAX DISCUSSION PAPER

Executive Summary

This submission in response to the questions raised in the Tax Discussion Paper (TDP) is made on behalf of Members of the Australian Finance Conference, the Australian Equipment Lessors Association and the Australian Fleet Lessors Association (membership lists attached).

Members of these associations are the major providers of equipment finance in Australia, and as such are uniquely placed to comment on the tax system as it impacts on equipment investment. Members also provide consumer finance. The total exposure of Members to equipment finance approaches $100 billion; at any time Members also fund over 200,000 vehicles worth $8 billion on showroom display, and from the dealerships finance over 300,000 consumer purchases and 115,000 business purchases a year, totalling $14 billion. The fleet leasing industry funds 350,000 motor vehicles and manages a further 190,000, a total portfolio of some 540,000 vehicles.

Our submission is directed at the issues raised in the TDP that relate to investment in capital assets, to inform the Government's tax options Green Paper to be released in the second half of 2015. Following the order of the TDP Discussion Questions, the submission firstly makes observations on the FBT treatment of motor vehicle fringe benefits; the tax expenditure of the car statutory method is not amongst the top 25 largest tax expenditures, and represents a significantly less complex and less costly compliance option.

An alternative approach to the tax treatment of residual value setting in finance leases is proposed: the objective is to ensure that the lease finance product is again competitive with the other equipment finance products, in turn providing an improved range of options for the financing of capital assets.

We recommend no further changes to the thin capitalisation rules at this time, allowing the recent changes to be considered for their effectiveness. The Board of Taxation's Post-Implementation Review of the Debt-Equity Regime is imminent, and will provide a comprehensive basis for consideration of this regime.

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Whilst endorsing the desirability of cutting the corporate tax rate, we caution that on investment competitiveness grounds this should not occur at the expense of capital allowances.

A Treasury/ATO protocol to facilitate the implementation of new tax measures would substantially assist in the interregnum between the announcement of a new tax measure and the time of Royal Assent of the enabling legislation.

Experience with the operation of the Investment Allowance demonstrates the effectiveness of this measure in stimulating investment in capital assets; it also has the advantage of an existing legislative framework. Incentives could be made more effective by increasing the small business threshold from $2 million to $5 million annual turnover to take in more medium-sized businesses.

Under Australia’s GST system most financial services are input taxed. The most undesirable feature of input taxation is the over-taxation of business consumption of financial services; zero-rating of B2B financial services would address this deficiency in our GST system.

A number of inefficient State taxes were abolished as part of the GST agreement with the States and Territories. Any move to reintroduce these taxes should be met by the imposition of countervailing Commonwealth financial penalties on the relevant jurisdiction.

Luxury Car Tax should be phased out; it has a narrow base, is extremely complex, and is the only Commonwealth tax levied on a specific good or service. The depreciation and input tax credit limitations in relation to ‘luxury’ cars are also examples of measures which only apply to motor vehicles, and should be discontinued. The income tax legislation treats ‘luxury’ car leases as loan transactions; abolition of the car depreciation limit would also make these provisions redundant. Taken together, these measures would eliminate a very complex area of the tax system.

Our membership appreciates the opportunity to respond to the TDP discussion questions, and looks forward to continued involvement in the tax reform process.

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<u>Question 16</u>	**To what extent does our fringe benefits tax system strike the right balance between simplicity and fairness? What could be done to improve this?**
<u>Question 17</u>	**To what extent are the concessions and exemptions in the fringe benefits tax system appropriate?**

<u>Fringe Benefits Tax (FBT)</u>

FBT is payable on the 'taxable value' of fringe benefits provided to an employee by their employer in respect of their employment. The FBT rate is set at the top marginal tax rate plus the Medicare levy. From 1 April 2015 it has increased from 47% to 49% for a period of two years to reflect the imposition of the Temporary Budget Repair Levy.

The taxable value of fringe benefits is determined by applying a range of different valuation methods. The TDP suggests that the availability of several methodologies to employers in calculating the FBT liability in relation to certain fringe benefits adds unnecessary compliance cost for employers. The TDP also notes that some valuation methodologies provide concessional treatment, and instances the treatment of motor vehicle fringe benefits.

The tax expenditure of the car statutory formula method (SFM) is not amongst the top 25 largest tax expenditures; at the same time it is acknowledged that it provides a significantly less complex and less costly compliance option than the operating cost method (OCM). Members favour retention of the SFM, however to ensure a balanced consideration of the SFM we suggest it would be informative for the Tax Green Paper to take into consideration both the impact on tax revenue, and the additional compliance costs for business, of abolishing the SFM option and requiring all taxpayers to use the OCM.

It may be the case that for a certain cohort of vehicles the OCM would in fact produce a lower FBT liability than the SFM, but the administrative burden is presently seen to outweigh the differential, and quantification of this differential (including ATO audit compliance costs) would usefully inform this debate. The quantification of the additional compliance costs to industry of having to solely use the OCM would be similarly informative; these costs are sometimes portrayed as being relatively minor, but such conclusions need to be tested. In a similar vein, a deeper understanding of the range of employers providing, and employees in receipt of, car fringe benefits would be valuable. We suggest that no reliable decision on this framework can be made in the absence of these analytical inputs.

In summary, we support the retention of different methodologies to enable employers to choose the most efficient method for calculating FBT liabilities. Specifically in relation to the example provided in the TDP, we support retention of the SFM, to enable the continued use of an option that achieves simplicity; it enables business to use its time for productive endeavours. Consideration of the appropriateness of existing arrangements needs to be informed by quantification of both the full revenue impacts, and the compliance costs for employers. This analysis is of particular importance in determining equity outcomes.

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Question 27	**To what extent does the tax treatment of capital assets affect the level or composition of investment? Would alternative approaches be preferable and, if so, why?**

Lease Finance – Minimum Residual Values

Lease finance is a useful financing alternative for businesses in Australia, as it incorporates features not available in the alternative equipment finance products of chattel mortgage and hire purchase. The significance of lease finance has declined quite dramatically in recent years; it now accounts for less than 20% of general equipment finance provided by our Members, whereas in 2000 we estimate that it accounted for around one half. A significant reason for this decline has been the inflexibility of the Commissioner of Taxation's 'safe harbour' methodology for the setting of residual values in finance leases, particularly in the context of the Commissioner's lengthening of effective lives.

In setting residual values in finance leases our members wish to use approaches that are acceptable to the ATO because of the compliance certainty this provides. The 'safeharbour' methodology in Income Tax Ruling 28 and Tax Determination TD 93/142, which is tied to the ATO effective life schedules, provided this certainty for many years and enabled the setting of residual values which fairly reliably reflected the market value of assets at the end of the lease. But in recent years our Members report that residuals calculated this way can be markedly above the market value of the asset at the end of the lease. This discrepancy has been exaggerated significantly as a result of the ATO effective life revisions, which substantially increased the effective lives of a range of assets. We do not suggest that the revisions are an inaccurate reflection of the full 'effective life' of an asset, but rather the application of the residual value methodology based on the revised effective lives does not produce an accurate reflection of an asset's value at the end of the lease, which typically has a term considerably below the effective life period.

For example, under the revised effective life for trucks (from 6 2/3 to 15 years from 1 July 2005), the TD 93/142 methodology resulted in an overnight increase in the residual value of a 4 years old truck from 30% to 55%. For a $300,000 truck this is an increase in the residual value of $75,000; clearly the value of a 4 years old truck does not increase by $75,000 overnight. We thought that it was a relatively straight forward proposition to put to the ATO that given this outcome it was necessary, in the light of the revised effective lives, to also revise the residual value methodology. However, this has not been the case, and we are no closer to achieving a more realistic framework. In the current environment particularly, roadblocks inhibiting capital investment should be removed. Leasing provides a valuable method of equipment utilisation, which is currently impaired.

Disposal Values of Vehicles as at December 2014 - % of original vehicle price

	PASSENGER VEHICLES			
			Safeharbour RVs	
Age of Vehicle (years)	Average Condition (%)	Poor Condition (%)	PC (%)	DV (%)
1	59	48	66	56
2	49	40	56	42
3	40	32	47	32
4	32	24	37	24
5	25	18	28	18

	LIGHT COMMERCIAL VEHICLES			
			Safeharbour RVs	
Age of Vehicle (years)	Average Condition (%)	Poor Condition (%)	PC(%)	DV (%)
1	60	51	69	62
2	53	45	62	52
3	48	40	56	43
4	40	32	50	36
5	32	24	44	30

	HEAVY COMMERCIAL VEHICLES			
			Safeharbour RVs	
Age of Vehicle (years)	Average Condition (%)	Poor Condition (%)	PC(%)	DV (%)
1	56	53	70	65
2	49	48	65	56
3	45	43	60	49
4	37	35	55	42
5	32	31	50	37
6	23	22	45	32
7	22	20	40	28

NB: The RedBook methodology is outlined in the attached Appendix

In the table above we have contrasted Red Book data on 'Disposal Values' firstly with the percentages arrived at using the methodology in IT28 and TD 93/142 (which is based on prime cost (PC) depreciation), and secondly with the percentages arrived at by applying diminishing value (DV) depreciation. These comparisons highlight that the PC rates lead to values which are significantly above the empirical values derived by Red Book. Furthermore, even the DV rates lead to values which in every category are equal to or in excess of the empirical values for vehicles in 'poor condition'. We do not have this data for the full range of leased assets, but the used market for vehicles is one of the deepest secondary markets in Australia, and there is no data to suggest the outcome would be materially different for other assets.

By way of elaboration, the RedBook data is historical rather than forward-looking, in that it is not forecasting future values. We suggest that this has the advantage of presenting actual market values as opposed to forecasted values, thus showing a like-for-like comparison of the values derived using the ATO ‘safeharbour’ methodology

Accordingly, we recommend that lessors have the ability to apply DV depreciation rates to the methodology in IT28 and TD 93/142 for the range of leased assets as an alternative to the PC method; this would again ensure that the lease finance product remains competitive with the other equipment finance options.

It is important to emphasise that this recommendation is fully consistent with the fundamentals of a lease transaction and aligns with and complements the policy underlying IT 28 and TD 93/142; as stated in the latter *‘the residual value of a leased item should reflect its market value at the end of the lease’.* In proposing the change we are also cognisant of the need to continue the status quo in relation to the further alternate of self-assessment currently provided and assume that this important and essential feature would remain unchanged. By way of explanation, as an alternative to the PC method (or as proposed the DV method) a lessor can choose to self-assess the residual value in a lease rather than adopting the Commissioner’s safeharbour values. In doing so the lessor does not need to firstly self-assess the effective life (but may do so for depreciation purposes), but must use a genuine pre-estimate of the market value at the end of the lease.

This ability for the lessor to self-assess is fundamental to the tax framework, for example for depreciation purposes as well as residual values, and is used extensively in cases where the lessor has sufficient empirical data to justify the values adopted. Self-assessment also provides the flexibility for lessors to take account of possibilities such as changes in the regulatory framework. However in some instances the lessor will have insufficient empirical data to undertake self-assessment, and the Commissioner’s safeharbour methodology provides compliance certainty in such cases.

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<u>Question 35</u>	**Should the tax system provide a more neutral treatment of different financing arrangements (debt, equity and retained earnings), and if so, how? What principles should inform the approaches?**

<u>Thin Capitalisation Rules and Debt-Equity Regime</u>

The TDP rightly highlights that to maintain the integrity and fairness of our tax system, it is important to ensure that companies that conduct business in Australia pay tax in Australia.

Australia has led the global response to tax avoidance, and the two-year G20/OECD Base Erosion and Profit Shifting (BEPS) Action Plan is designed to address deficiencies in the international tax system that create opportunities for tax avoidance, and its recommendations will be finalised by December 2015.

The TDP also notes that Australia already has some robust and sophisticated laws that deal with tax avoidance by multinational companies. These include comprehensive thin capitalisation rules; these rules have recently been tightened to stop multinationals from claiming excessive debt deductions and closed other loopholes in the tax system.

Accordingly, we recommend that no further changes to the thin capitalisation rules be contemplated at this time, but rather they be allowed to operate and reviewed after an appropriate period of experience.

The TDP also notes that, similar to most foreign jurisdictions, under Australia's tax system, interest payments are tax deductible while returns on equity are not. It observes that the economic cost of a tax-induced bias toward debt finance could potentially be significant.

The Board of Taxation is currently undertaking a Post-Implementation Review of the Debt-Equity Regime, and its report is imminent. This review will provide a comprehensive basis for further consideration of this regime.

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<u>Question 37</u>	**Are there other important issues in the business tax system, not covered in this section, which should be considered as part of the Tax White Paper process?**

<u>Treatment of Capital Assets-Ensuring a Competitive Capital Allowance Regime</u>

The TDP contains a comprehensive discussion of corporate income tax, highlighting that Australia's corporate tax rate is higher than many countries we compete with for investment, and that Australia relies more heavily on corporate income tax than most other countries.

The TDP includes a brief discussion on the depreciation of capital assets. We believe it would be instructive to include within the foreshadowed options Green Paper an international comparison of the tax treatment of capital assets. Information available to us suggests that Australia's depreciation regime is generally less competitive than many countries we compete with for investment.

Accordingly, we suggest that on investment competitiveness grounds, any reduction in the corporate tax rate should not be made at the expense of capital allowances.

<u>Need for Treasury/ATO Protocol to Facilitate Implementation of New Tax Measures</u>

New tax measures, by necessity, often operate from the time of announcement, which is usually well before the enabling legislation receives Royal Assent. Accordingly there is usually a period of significant initial uncertainty as to the detail of the measure, making it very difficult for business to conduct transactions impacted by the new measure. The ATO may be constrained from engagement until the legislation receives Royal Assent; Treasury may be reluctant to provide administrative guidance at this time, as it is the role of the ATO to administer the law.

We recommend the development of a Treasury/ATO Protocol to overcome this impasse, with a view to formalising joint Treasury/ATO consultation to provide guidance to taxpayers in the period between announcement of a tax measure and the time the enabling legislation receives Royal Assent.

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<u>Question 40</u>	**What other taxation incentives, including changes to existing measures, are appropriate to encourage investment in innovation and entrepreneurship?**

<u>Investment Allowance – Small Business and General Business Tax Break</u>

An 'investment allowance' measure has been used by the Commonwealth Government on a number of occasions to stimulate investment in capital assets. Most recently, the then Government announced the 'Small Business and General Business Tax Break' on 13 December 2008. The investment allowance provisions are contained in the new Division 41 of the *Income Tax Assessment Act 1977*. The investment allowance, when in place, is available for new investment in tangible depreciating assets.

The experience of our Members is that an investment allowance is a very good way of stimulating investment. It applied from 13 December 2008, and phased out (with varying application) by end 2010. New equipment finance business undertaken by Members participating in our statistical survey was in the vicinity of $37 billion in 2009, at the same level in 2010, increased to $41 billion in 2011 and to $44 billion in 2012. Whilst other factors are at play, this experience and feedback from Members suggests that the allowance was effective in achieving its objectives. Whilst we do not have data for 2008, the experience of our Members is that the investment allowance stabilised business conditions in 2009 and 2010; furthermore, it did not simply pull investment forward leading to a hiatus when it discontinued, as activity was higher in 2011, when the allowance no longer applied.

Accordingly, we recommend an investment allowance type measure as an effective way to stimulate investment in capital assets, and for economic stimulus more broadly. We also recommend the flexibility inherent in the pre-2008 Investment Allowance arrangements which provided for either the lessor or the lessee to claim.

Incentives could be made more effective by increasing the small business threshold from $2 million to $5 million annual turnover to take in more medium-sized businesses.

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<u>Question 51</u>	**To what extent are the tax settings (that is, the rate, base and administration) for the GST appropriate? What changes, if any, could be made to these settings to make a better tax system to deliver taxes that are lower, simpler, fairer?**

<u>GST: Zero-rating of Business-to-Business Financial Services</u>

The Financial System Inquiry (FSI) observed that financial service providers that do not charge GST still must pay GST on inputs, but cannot claim input tax credits. Providers pass this cost on to consumers in the form of higher prices. Because the GST is embedded in prices charged to business, but not charged explicitly, business cannot claim input tax credits.

The basic design of GST is that it is a tax on private consumption; that is, it is not a tax on businesses, and transactions between businesses should generally be GST-neutral. To ensure GST is effectively borne only on consumption, 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 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. Most 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 that most 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 of 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 financials services to registered businesses.

To recap, 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 is 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. We accordingly recommend zero-rating of B2B financial services. The reduced input tax regime should be retained; it produces a superior outcome by addressing the internalisation bias that would otherwise exist.

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<u>**Question 52**</u>	**What are the relative priorities for state and local tax reform and why? In considering reform opportunities for particular state taxes, what are the broader considerations that need to be taken into account to balance equity, efficiency and Transitional costs?**

<u>**State Taxes**</u>

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.

Most of these highly inefficient state taxes on financial transactions have now been abolished or are scheduled to be abolished. This represents a major micro-economic reform; these reforms have taken a decade and a half to implement, whilst a number of significant states taxes still 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, a comparison of motor vehicle registration duty illustrates the significant variations from state to state. A common legislative basis as opposed to the existing divergent statutory approaches would deliver significant benefits. Ideally, rates of taxes and thresholds would also be aligned, but if this not possible, individual jurisdictions could set their own. A mechanism for ensuring consistency in interpretation would also be beneficial.

Most importantly, State taxes that were abolished as part of the overall GST framework should not be reintroduced, and any move to do so should be met by the imposition of countervailing Commonwealth financial penalties on the relevant jurisdiction.

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Question 56	**What parts of Australia's tax system, and which groups of taxpayers, are most affected by complexity? What are the main causes of complexity?**

'Luxury' Car Imposts

The TDP observes that the Luxury Car Tax (LCT) has a narrow base, is complex and is the Australian Government's only luxury tax on a specific good or service. This complexity is well-illustrated by the following matrix, illustrating the different thresholds, indexation indices, and outcomes for input tax credit entitlements and depreciation.

Year ending 30 June 2015						
Price of the car	Type(a)	LCT @ 33% above GST inclusive price of	Depreciation car limit	ITCs limited to	Reduced cost for deprec - applying ITC first then car limit	Lease treated as sale
< $57,466	NFE & FE	no LCT	no cost limit	1/11 of price	10/11 of price	No
> $57466 but < $61,884	NFE	no LCT	$57,466	1/11 of $57,466=$5,224	10/11 of price with maximum of $57,466	No
> $61,884	NFE	$61,884	$57,466	1/11 of $57,466 = $5,224	10/11 of price with maximum of $57,466	If above $62,690 GST incl
>$61,884 < $75, 375	FE	no LCT	$57,466	1/11 of $57,466=$5,224	10/11 of price to maximum of $57,466	If above $62,690 GST incl
> $75,375	FE	$75,375	$57,466	1/11 of $57,466 = $5,224	$57,466	Yes

(a) NFE non-fuel efficient; FE fuel efficient

But the complexity and discriminatory nature (i.e., LCT is the only luxury tax on a specific good or service) is compounded by two further discriminatory measure associated with motor cars:

- firstly, under the *Income Tax Assessment Act 1997* the $57,466 car limit is used to cap depreciation claimed for 'luxury cars' to that amount. This measure was introduced in 1979;

- secondly, where the purchase price of a car exceeds the car limit, section 69-10 of the GST Act limits the amount of tax credits available to 1/11 of that threshold (i.e., $5,224 of the current $57,466 threshold).

When the depreciation limit was introduced in 1979 it was initially set at $18,000, 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 $55,134.

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 car limit. 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 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. More than sufficient taxation impost for 'luxury' cars were already in place in the form of the limitations on deprecation and input tax credit entitlements.

Accordingly, it is our view that it is now appropriate to phase out LCT; the remaining depreciation and input tax credit limitations in relation to 'luxury' cars are also examples of imposts which do not apply to a specific good or service, and should be discontinued. The income tax legislation treats 'luxury' car leases as loans; abolishing the car depreciation limit would make these provisions redundant, providing further simplification. In concert these measures would eliminate a very complex area of the tax system. As immediate LCT abolition would impact individuals and businesses that have residual value risk, we recommend a phased reduction in the rate of LCT, with the period to coincide with existing contractual obligations; attendant advantages for the Revenue would flow.

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APPENDIX

RedBook Methodology for Calculating ‘Disposal Values’

RedBook Australia was engaged to provide average ‘disposal values’ of specific vehicle categories. RedBook is an Australian motor vehicle pricing authority, building a data base of depth and credibility from operations over 60 years. RedBook data is supplied to a wide variety of organisations, including automotive, finance and insurance industries, and government bodies.

The disposal values represent the amount of money the purchaser of the vehicle would be prepared to pay for the vehicle, prior to incurring costs associated with getting the vehicle in a condition ready for sale (rectification and detailing costs, etc).

Within this report the disposal values are expressed as a percentage of recommended retail price and have been calculated as at December 2014.

The vehicle categories were based on definitions used within the ‘VFACTS’ publication, and then summarised into three larger categories as follows:

- Passenger (including SUV)
- Light Commercial
- Heavy Commercial

The average values were weighted based on the number of variants available in the market for each VFACTS category.

Two different ‘condition’ states were included within the findings – ‘Average’ and ‘Poor’, determined by reference to the physical condition of the vehicle.

Vehicle ‘options’ are not included within the presented values.

Definitions

- Average Condition:

Vehicles in normal condition for their age. The body and interior should be reasonably original. They should be mechanically sound and should not require any major repairs to make them ready for sale.

- Poor Condition:

Major repairs needed mechanically and on body and/or interior.

- Passenger Vehicle:

A vehicle for which the main purpose is to carry passengers, and is not built on a commercial chassis.

- Light Commercial:

Vans, Pick-up/Cab chassis 4x2 and 4x4, cab chassis and crew cabs, light trucks <3,500KG gross vehicle mass.

- Heavy Commercial:

Trucks > 3,500KG gross vehicle mass.

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