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Tax White Paper Task Force
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Initial submission on the Tax Reform Discussion Paper

Dear Tax White Paper Task Force

The Australian Motor Industry Federation (AMIF) and the Motor Trades Association of Australia Limited (MTAA) thank you for the opportunity to provide an initial submission in relation to the 'Re:think Taxation Discussion Paper. AMIF and MTAA have also welcomed the opportunity to discuss small business issues specific to this important review during consultations with the Tax Board and Treasury Officers recently in Canberra. This initial submission is an expansion of the central themes provided by AMIF during those discussions.

The Australian Motor Industry Federation (AMIF) is the pre-eminent body representing the interests of over 100,000 retail motor trades businesses, which employ over 310,000 people and have an aggregated annual turnover in excess of \$221 billion. These figures, combined with the industry's scope and size, makes the retail motor trades the largest stand-alone small business sector in Australia. The Federation's membership consists of the automobile chambers of commerce and the majority of state and territory motor trades associations. It is these associations members who stand to gain the most from the work of the tax task force and reforms stemming from it. From July 2015, AMIF will be subsumed into the Motor Trades Association of Australia.

The AMIF/ MTAA National Secretariat remains available to the task force and Treasury officials at any time should you wish to obtain further information or additional clarity on the matters raised in this initial submission.

Yours Sincerely,

National Secretariat
AMIF and MTAA Limited

1 June 2015

Executive Summary

The Australian Motor Industry Federation (AMIF) and Motor Trades Association of Australia Limited (MTAA) on behalf of State and Territory Motor Trades Associations and Automobile Chambers of Commerce and their thousands of automotive business constituents, strongly supports the need for tax reform.

This Tax Reform must help position Australia and its people beyond the next 20 years. It must provide the revenues for the services Australian's and the nation will need to create the environment for jobs growth; international competitiveness; and strong sustainable economic growth.

This Tax Reform must account for societal and economic change, structural adjustment, rapid application of technology and be bold, progressive, anticipatory, achievable, and be implemented within a reasonable timeframe. It must be communicated well and possible outcomes become a national conversation for decision.

This Tax Reform cannot repeat the mistakes of the past. It cannot be a political plaything. It cannot be a repeat of the Henry Tax Review, where many good ideas and changes were recommended, only to largely be ignored or put in the 'too hard basket'.

AMIF and MTAA Limited suggest that this Tax Reform must consider a whole of system approach rather than just a Commonwealth perspective. The nexus between States, Territory, Commonwealth tax regimes must be investigated as part of this whole of system approach, and future solutions identified.

The outcome must be a tax system that is simplified, transparent, efficient, equitable, and sustainable.

It must recognise the individual, the companies and importantly champion small business and the entrepreneurial spirit it spawns.

To do otherwise will not be a 'Re:think', but a regurgitation.

Recommendations

AMIF and MTAA Limited provide the following recommendations for the consideration of the Task Force:

1. Principles and Objectives of the Tax System

- a. The Taxation System should be:
 - Efficient
 - Equitable
 - Simple
 - Sustainable, and
 - Transparent
- b. These principles should be incorporated into any future tax reform legislation to ensure that any future tax system is applied consistently across government and provide a 'minimum expectations' guide to other tax regimes.
- c. National objectives for the tax system should be further developed during the white paper process as a community engagement tool. Consideration should be given to these determined objectives being also being enshrined in legislation.

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2. Future definition of Small Business, Family Enterprises, Micro Businesses etc.

- a. AMIF / MTAA Limited advocates whole of government approaches to policy determination and legislative and regulatory reform.
- b. Particularly those that impact the automotive industry's retail, service, repair, recycling and associated sectors, and the largest stand-alone small-business sector in the nation.
- c. AMIF / MTAA Limited welcomes the initiative of the Small Business and Family Enterprise Ombudsman and suggests that the creation of this Office provides an opportunity for a streamlining of many of the tax reform issues facing small business.
- d. AMIF / MTAA Limited suggest that the Ombudsman be empowered to re-define a consistent and contemporary SME's small business descriptor for government policy and regulatory environments including taxation.

3. Specific Taxation reforms

- a. Abolish the Luxury Car Tax (LCT).
- b. Simplify and rationalise motor vehicle taxes including abolition of stamp duties.
- c. Remove perceived or real cases of 'double dipping' taxation.
- d. Reduce Corporate Tax Rate and provide incentives for small business through indexation.
- e. Reduce personal income tax
- f. Equalise the highest marginal individual rate to the reduced company rate.
- g. Reduce number of tax brackets and consider indexation.
- h. Broaden and potentially increase the Goods and Services Tax (GST).
- i. Consider Fringe Benefits Tax (FBT) rate reduction to individual marginal rate.
- j. Revisit percentage applied to statutory FBT rates.
- k. Abolish Payroll Tax – by offsetting revenue reduction with GST.
- l. Abolish existing Land Tax Regimes and replace with simplified broad based system with reduced exemptions – potentially offset any revenue reduction with GST.

4. Small Business and medium enterprise tax reforms

- a. Increase the aggregated turnover threshold for Small Business to \$5million and that it is indexed.
- b. Increase the maximum net asset test threshold for small business from the current \$6million and that it is indexed.
- c. Simplify tax treatment of discretionary trusts including allowing trusts to retain cash for working capital.
- d. Implement proposed changes to Division 7A of the ITAA 1936.
- e. Maintain small business concessions
- f. Maintain permanently the threshold for outright capital deductions for amounts up to \$20,000 (announced in the 2015/2016 Budget) and increase threshold for motor vehicles to \$30,000.

5. Tax System administration

- a. A consequence of simplifying the tax system must be streamlined administration with reduced costs. The benefits of compliance cost reductions will translate into reduced business costs thereby increasing profitability and consequently increasing the tax revenue base. In addition, operators will be encouraged to establish new small business and enterprises further broadening the tax revenue base.
- b. Cost containment should not be at the expense of increased compliance for business or a shifting of the administration obligation.
- c. The tax reform process should examine the issue of compliance at a grass roots level to ascertain the true impact before proceeding with change.
- d. A thorough examination of reporting requirements should be undertaken as part of the white paper process to ascertain what reductions might be achieved.
- e. A significant examination of available or soon to be available technologies should be made to determine opportunities to streamline reporting, administration, and compliance.
- f. Efforts by Government to reduce red tape and to address the burden of compliance are applauded. However, but more needs to be done and care should be taken that the repeal of some legislation or regulation without adequate consultation may in fact create a larger issues. Therefore AMIF / MTAA Limited suggests stronger engagement and consultation between Government decision makers and peak industry organisations during policy, regulatory or rule change investigations – including repeal - so that the true impacts on small business sectors can be properly identified and risks mitigated.

6. Depreciation Capital assets

- a. AMIF /MTAA welcomes efforts by Government to stimulate business with the outright depreciation of items up to \$20,000 announced in the May 2015 budget.
- b. Consideration should be given to determining the life of vehicles or accelerating depreciation to encourage new vehicle turnover thereby reducing the age of the fleet, encouraging more purchasing power and increasing already historic high levels of competition.

7. Taxation incentives

- a. Consideration should be given to greater use of broad based taxation incentives for societal change issues as part of a simplified system.

Discussion

1. Self-determination through a simplified tax system

- AMIF / MTAA Limited are disappointed and frustrated that many of the issues and changes promoted in the 'Henry Tax Review' have failed to be realised or implemented. This has contributed significantly to an underperforming tax system and years of neglect.
- The rapidly changing environment in the automotive industry and broader economy requires action not complacency.
- A new national engagement and conversation is required to instil ownership by all Australians of the need and benefits to be obtained from structured tax reform. However, it is not a conversation that can exclude sections of the community or jurisdictions.
- AMIF / MTAA Limited is of the strong belief that tax impediments facing small business cannot be properly examined from a purely Commonwealth perspective and it is the imposition of State based taxes that are more likely to be inhibiting small business growth and artificially capping the size of that growth in the automotive trades in particular.
- This does not mean that the Commonwealth is not a contributing factor to issues facing small to medium sized automotive industry businesses. It is the combination of compliance, administration and level of taxation for various jurisdictions that when combined, inhibits growth and complicates the act of doing business for the benefit of Australians.

2. Small Business definition

- AMIF / MTAA Limited suggest that urgent action needs to be taken to determine a consistent definition across all jurisdictions and all legislation as a precursor to any tax reform change.
- There currently exist multiple definitions for small business, medium sized enterprises, family businesses, SME's, and micro businesses. Multiple applications of these definitions to be found in Commonwealth, State and Territory government legislation and regulations, including tax policy.
- In some cases descriptors are based on staff numbers, in others turnover, in others a combination. In some cases, the numbers vary. It is the automotive trades experience that to simplify the tax system and make the necessary reforms, a critical issue will be the consistency of descriptors or definitions of small business including an understanding of how in some industries these may look, and be, different.
- For example: a fuel retailer may turnover millions of dollars and employ 20+ staff; but the actual profitability of this business can be marginal, particularly when other issues are also considered. The imposition of a raft of compliance requirements and tax collection by some automotive trades adds further cost to doing business.

3. Luxury Car Tax

- The AMIF /MTAA Limited have campaigned against the LCT since its inception and as each year passes, the rationale for its existence has become mute, its continuing presence an affront to meaningful tax reform, and its impact on sectors of the automotive industry more pronounced.

- AMIF and MTAA Limited understand government’s reluctance to forego a half billion plus revenue, particularly in a weak fiscal environment. Nevertheless, the LCT shines like a beacon in terms of a tax that undermines the objectives and purpose of a meaningful tax system and reforms to that system.
- The LCT is discriminatory and unfair; both in its application and through the significant compliance burden on motor vehicle dealers. No other goods attract such a tax. Other “luxury” items such as artwork, boats, planes, or jewellery are not similarly penalised. Adding to this unfairness is the inclusion of the GST amount within the LCT threshold, equating to a “tax on a tax”.
- The LCT works against other government policy priorities including consumer protection and safety and penalises consumers for wanting to take advantage of rapidly changing safety and environment technologies.
- Many of the vehicles captured by the LCT offer additional safety and environmental benefits, such as blind spot monitoring, lane adherence monitoring, and additional airbags, enhanced vehicle security, greater fuel economy, and reduced emissions. The costs of these technologies/accessories either are features of the base vehicle model or purchased as an “add on”. In either scenario, these technologies/accessories add to the vehicle’s price, potentially capturing it within the LCT threshold or increasing the amount of tax.
- LCT also fails to recognise that consumers who purchase vehicles within the LCT threshold often have little choice in what they buy. The LCT affects rural and regional motorists, as many small or mid-size passenger vehicles do not suit the terrain where the vehicle is driven. Rural and regional motorists often face driving conditions, which differ immensely from the driving experiences within cities and towns. It is not surprising then that some 4WD and utility vehicles sit at the top of models impacted by the LCT.
- The LCT must be abolished immediately

4. Specific Tax Reforms

The abolition of the LCT as many of AMIF / MTAA Limited’s recommendations are, were also recommendations of the Henry Tax Review. It remains increasingly frustrating that the benefits from these proposed changes are not being realised, yet remain as pertinent today as they were three quarters of a decade ago.

- The Henry Tax Review recommended that the Corporate Tax rate should be internationally competitive and be reduced to 25%. This recommendation is supported, but concessions, although streamlined, should remain available to small business.
- The highest marginal individual rate should in future be equivalent of the reduced company rate.
- The number of tax brackets is increasing tax system complexity and compliance. The issue of ‘bracket creep’, whether real or perceived, is undermining community confidence in a transparent tax system. Reducing the number of brackets and consideration of indexation are recommended.
- AMIF /MTAA Limited suggest an effective way of simplifying the tax system is to broaden the base of the GST. Of importance are also the further efficiencies that could be attained by abolishing growth inhibiting taxes such as stamp duties and payroll taxes and using increased GST revenues to offset the revenue shortfall to state and territory jurisdictions.

- There will be deep seated community suspicion and mistrust in regard to abolishing taxes and increasing the GST given the plethora of taxes and levies that were originally meant to have gone as a result of the GST introduction. However, these characteristics can be mitigated through bipartisanship and community dialogue and then by enacting appropriate legislation to abolish such taxes before any increase to the GST.
- A complicating factor will be determining a new model for the fair and equitable distribution of GST revenue. Central to this will be to face head-on current inadequacies of Horizontal Fiscal Equalisation (HFE), (perceived or real).
- ‘Double dipping’ taxation must not feature in a new tax system. A decision by this government to return to indexation of the fuel excise has cemented the spectre of ‘double dip’ taxation. The reintroduction of indexation will effectively remove the compensatory measures provided for the introduction of the GST. Similarly GST on LCT represents a tax on a tax.

5. The case for simplification - barriers to growth and added compliance burden

- It has been the experience of AMIF / MTAA Limited that many businesses have deliberately chosen not to take the next growth step, even though business conditions would normally support a decision to expand.
- It has been explained by many automotive trade businesses that it is the impact and imposition of Commonwealth, State, and Territory tax regimes, which result in a decision to not expand or grow.
- Stamp Duties, Payroll Tax, and the complexities of some other taxes are providing a disincentive to grow and are at odds with what an efficient and effective tax system should be.
- The payroll tax creates an artificial and unnecessary tax barrier to growth and should be abolished. Similarly, the imposition of stamp duty is curbing investment, particularly with businesses looking to expand their business footprint.
- It is not only the existence of such taxes, but significant variations between jurisdictions on how they are applied. This is not only affecting growth, but also arguably distorting markets and reducing competitiveness.
- In one state the Stamp Duty applicable on the sale of a motor vehicle is 3%, while in another it is 6.5% for exactly the same vehicle.
- The presence of these forms of taxation also increases the compliance burden and restricts the simplification of the overall tax system.
- AMIF suggests that the Commonwealth and States and Territories examine these matters with a view to abolishing such taxes and for any revenue reduction offset with revenue from a simplified, broadened, and potentially increased GST.
- In terms of equity and transparency, it is imperative that those who are less well off in the community, are not disadvantaged and any broadening and / or increase must include adjustments to annual support payments.

6. Taxing the automotive industry, the motorist and a nation reliant on road transport

- An industry and sector of the economy worthy of specific, detailed examination is the automotive industry and Australian motoring. With GST / LCT (luxury car tax); stamp duties; registration; licensing; insurance, finance and related costs; and fuel excise; the automotive industry and road transport in all forms is an area worthy of further testing of a simplified broad tax base.
- Part of this investigation could include the normalisation of registration costs across jurisdictions, removal of stamp duties, cohesive national registration and licensing models, the removal of fuel excise and the examination of alternative user pricing methodologies. Of critical importance will be to ensure revenue neutrality, tax simplification, and no disadvantage to those less well off in the community.
- Investigations should include the greater use of technology and data in the context of a user pricing system that might be aligned or a component of a simplified tax system. However, the issue of telematics is complex requiring further detailed investigations, with potential impacts across several portfolio areas. Privacy implications will also need to be thoroughly investigated as well as issues surrounding data ownership and access.
- Nonetheless, more than a dozen US States are currently investigating user pays systems, with Oregon State ready with the launch of its own program on 1 July 2015.
- OReGO is a voluntary alternative user pays solution and the introduction of this program follows an extensive community engagement program and Task Force investigations lasting several years, culminating in the introduction of legislation in 2013.
- The voluntary 'mileage-based' road user charging system, OReGO, was created to address diminishing fuel tax returns and 'create a fair, reliable source of revenue to fund transportation projects'.¹
 - Oregon volunteers will pay a road usage charge for the amount of miles they drive, instead of a fuel tax.
 - The OReGO road usage charge is set at 1.5 cents per mile.
 - Volunteers will get a credit on their bill to offset the fuel tax they pay at the pump.
 - Volunteers will have their choice of secure mileage reporting options offered by OReGO's private-sector partners.
 - Volunteers' personal information will be kept secure and private.
 - The first phase of OReGO is limited to 5,000 cars and light-duty commercial vehicles.
- This innovative approach, believed to be a first in the United States, also points to the greater use of technology using telematics and data in determining usage.
- AMIF / MTAA Limited are not advocating a headlong rush into an alternative user pay pricing model for all road users.
- However, issues of telematics and data access and use; and the identification of simplified taxation that reduces costs for automotive businesses and consumers are worthy of detailed investigation as part of a more efficient and simplified tax system.

¹ www.myorego.org retrieved at 11.45 am 28 / 05 / 2015

7. Improvements to Capital Gains Tax (CGT) and Fringe Benefit Tax

- Many of AMIF MTAA Limited's member business constituents are undergoing unprecedented, generational change leading to significant structural adjustment.
- This structural adjustment is causing some businesses to close, others to change business models and others to consider changes to succession within family enterprises.
- Of critical importance is reviewing issues surrounding the Capital Gains Tax – particularly its restrictions and impediments in achieving successful transition and restructuring.
- Many businesses operate through family trusts as a means of legitimately managing CGT application and allowing orderly transition from, particularly, one generation to the next. The proposed changes to Division 7A of the *Income Tax Assessment Act* may address some these issues, and should be immediately acted on.
- The compliance burden associated with 7A must be eased by excluding related entity transfers and allowing trusts to retain cash for working capital purposes.

8. Improved consultation and understanding of sector specific issues

- As previously mentioned, efforts to reduce red tape and compliance requirements are welcomed.
- Also welcomed are the consultation processes already evident with the Tax Review process.
- AMIF / MTAA Ltd believe more will need to be done to properly engage the community and create a conversation regarding proposed changes.
- Such changes should be thoroughly tested as far as practicable through the review process for practical application as well as adherence to economic theory or macro objectives.
- It has been the unfortunate experience of AMIF / MTAA Limited that unforeseen consequences can occur including adding to compliance burdens, when policy and regulatory changes are contemplated, but fail to examine their practical application.
- An example is a court judgement relating to the application of GST and LCT to rebates or incentive payments between an automobile manufacturer and dealer. It is clear from feedback from industry sector participants and subsequent conversations with representatives of the Tax Office, that communication and treatment options for an ATO ruling on that court judgement were less than ideal. There was a lack of recognition that to meet the compliance requirements the draft ruling entailed, it would require significant changes to the operating systems of some dealerships. Financial modelling of the intent of the ruling was cumbersome and rectification of these issues time and resource consuming.
- As the Task Force settles towards preferred options as it moves through the review process, peak industry associations should be partnered to comprehensively 'test' theories and the practical application of proposed changes through focus groups of members and business constituents. This will assist in improving communication through 'grass route' dialogue and increased 'ownership' of the process and eventual outcomes.

If there are any further questions or you would like further clarification on the points raised within this submission, please contact Mr Richard Dudley, CEO of AMIF and MTAA Limited at richardd@amif.com.au.

Yours sincerely

National Secretariat
Australian Motor Industry Federation
Motor Trades Association of Australia Limited

1 June 2015