27 April, 1999 *Ref: LRBT15APR.OK*

The Secretary,
Review of Business Taxation,
Department of the Treasury,
Parkes Place,
CANBERRA ACT 2600

Dear Sir,

Re: Submission to the Review of Business Taxation

Thank you for the opportunity of responding to the "A Platform for Consultation" discussion paper on Business taxation.

Attached please find our detailed submission. In brief, it states that we support a 30% company tax rate but request serious consideration of the following:

1. Fringe Benefits Tax (FBT) should remain payable by the employer. However it should not be calculated using the highest marginal rate, but should use the proposed 41.5% marginal rate payable by people in the $50,000-$75,000 income bracket.

2. The proposed changes to the FBT statutory rates should not proceed, on equity, industry policy and other grounds. These changes will undermine vehicle sales to fleets, which provide the critical volume necessary for the survival of local manufacture in Australia. The proposed statutory rates significantly increase the FBT payable, thereby discouraging the employer from providing vehicles for their employees.

3. The depreciation limit is not relevant in an environment where FBT is based upon the capital value of the vehicle. We believe this limit should be removed without any linkage to changes to the Statutory Rate formula.

For further information, please contact John Egan (03 9647 4745) or Paul Smith (03 9647 8465).

Yours sincerely,

O. Komori,
PRESIDENT

encls.

TOYOTA AUSTRALIA's RESPONSE TO THE REVIEW OF BUSINESS TAXATION DISCUSSION PAPER

"A Platform For Consultation (APFC)"

Toyota Australia is a member of the Federal Chamber of Automotive Industries (FCAI) and fully supports the response submitted by that organisation.

In summary, we support the proposal to reduce company tax to 30% but have serious concerns with some other changes, especially the change to Fringe Benefits Tax ("FBT") on vehicles.

(1) BACKGROUND TO TOYOTA AUSTRALIA

Toyota Australia directly employs 4,300 people and its dealer and supplier networks employ many thousands more.

In 1998 it built over 100,000 vehicles, 31,000 of which were exported. It has a major direct impact on the Australian business community, purchasing $900 million worth of components and services locally.

Toyota's investment in Australia has grown to nearly $800 million, including the modern Altona plant which was commissioned in 1995. Next year Toyota will further recognise the needs of Australian motorists by launching a new Australian built large car.

(2) ISSUES OF CONCERN TO TOYOTA.

Toyota would like to comment on the following issues raised in the "A Platform For Consultation" (APFC).

- (2.1) FBT on vehicles.
  - (2.1.1) Replacement of employer tax liability with employee tax liability.
  - (2.1.2) Proposed changes to the statutory rates applying to FBT on cars.
- (2.2) Depreciation limit on vehicles.

Of these issues our major concern is the proposed changes to FBT on vehicles.

(2.1) FBT On Vehicles

We believe that the Australian automotive industry in particular and the Australian manufacturing industry indirectly will be severely impacted by the proposals in this paper.

These proposals put at risk the current industry structure where local manufacturers are highly dependent on sales to company fleets to achieve critical volumes. The current arrangements generate $1.5 billion in FBT, support local industry, and provide private buyers access to late model used vehicles, with associated advantages to the environment and safety.

(2.1.1) Replacement of employer FBT tax liability with employee tax liability

This proposal would allow the benefit to be taxed at the marginal rate of the employee, not at the highest marginal rate of 48.5%, as currently occurs with FBT. We believe that the use of the top marginal rate is clearly inequitable, but believe that the quesiton of equity is resolved in a more simple way by lowering the tax rate used in calculating the FBT. The continued use of the top marginal rate of 48.5% is not justified when:

i) The company tax rate is proposed to fall to 30%.
ii) 81% of taxpayers will have a marginal rate of 31.5%.
iii) The marginal rate for the $50,000-$75,000 bracket is falling from 48.5% to 41.5%.

Thus we support the rejection of this APFC proposal by the Federal Treasurer but request that the rate used in calculating FBT be reduced to the marginal tax rate of the $50,000-$75,000 income level ie 41.5%.

It is noted that leaving FBT payment in the hands of the employer results in an overtaxing of $435 million (pg 775). This alone should be adequate justification for reducing the FBT to 41.5%, instead of making the benefit taxable in the hands of the employee.

(2.1.2) *<u>Proposed change to the statutory rates applying to FBT on cars</u>*

The taxable value of private usage of a motor vehicle is calculated using statutory rates that recognise that the vehicle has both private and business uses.

We strongly oppose any change to these statutory rates, on the grounds of a) equity, b) industry policy and c) other related issues.

(a) *<u>Equity</u>*

The APFC calculates that the benefit of a company vehicle is currently taxed at 34%, ie higher than the proposed company tax rate of 30% and higher than the proposed marginal tax rate of 81% of the Australian population. APFC acknowledges that “If a statutory formula is to be used by a large proportion of relevant taxpayers, it needs to err somewhat in favour of the taxpayer in order to be used” (pg 785).

The calculation of the 34% current tax rate on vehicles will change when GST is introduced. The APFC report uses a “gross up” factor of 1.9417. Our understanding is that this “gross up” factor will increase with GST to 2.129, thereby increasing the current tax rate to 37.3% (34% x 2.129/1.9417). This increase in tax is a further reason in support of our request that the tax rate used in the FBT calculation should be reduced.

The APFC document claims that “the best way to promote efficient decisions about fringe benefits is to ensure that tax does not distort the relative costs faced by the decision makers.” (pg 778). In other words to achieve the stated objective, the APFC proposals should give an employer an equal cost in providing a benefit in the form of a car or as a taxable allowance on top of the base salary.

In order to test FBT on vehicles under the various tax regimes against this criteria, we commissioned KPMG to develop a model giving indicative costs to the employer of providing an equal benefit to the employee through (a) taxable allowance or (b) a company car. In reviewing the APFC proposals we have analysed "Statutory Formula Scale 1".

This analysis suggests that the move to a GST and lower marginal income tax rates under ANTS has already eliminated some or all of the benefits of a company provided car, and that the APFC proposals sharply erode or eliminate the remaining benefits of company cars.
As an example, consider a typical company provided vehicle such as a Toyota Camry V6 Conquest automatic which does 20,000 km per year, 70% of which is private usage.

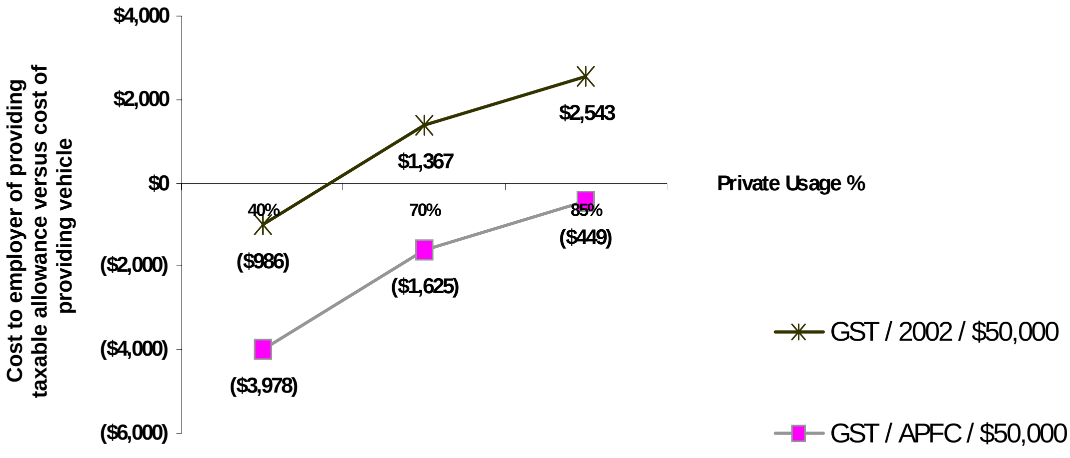
Under the proposed GST/2002 regime (including input credits) there will be a minor benefit of $1,367 to the employer of providing a car instead of an allowance. Under the APFC proposal this will change to a DISADVANTAGE of ($1,625) in providing a car.

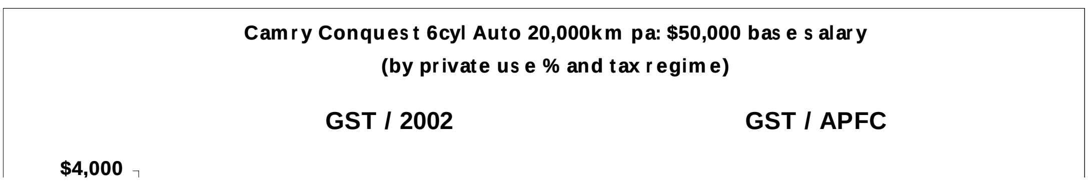
The following graphs show the changes for varying degrees of private usage.

<u>ADVANTAGE/(DISADVANTAGE) TO EMPLOYER</u>
<u>OF PROVIDING COMPANY CAR VS TAXABLE ALLOWANCE</u>:

<u>Based on Toyota Camry Conquest V6 Auto 20,000km p.a. $50,000 Income</u>

		Advantage/ (Disadvantage)
40% private:	**GST / 2002**	($986)
	GST/APFC	($3,978)
70% private:	**GST / 2002**	$1,367
	GST/APFC	($1,625)
85% private:	**GST / 2002**	$2,543
	GST/APFC	($449)





We would also like to strongly emphasise two additional points:

1) APFC "Statutory Formula Scale 1" proposes that the statutory rate should increase as the mileage increases, contrary to the current regime which assumes that as the annual mileage increases, the proportion of the miles used for business purposes will increase. In other words, APFC is proposing that the more a vehicle is a tool of trade, the greater the tax imposition.

   The current approach appears more rational. As the statutory rate is applied to the capital cost of the car, the rate should fall to reflect a greater use of the vehicle for business use. If a vehicle is more heavily used for business it is logical that a smaller proportion of the capital cost is being used to give a private benefit. **Thus we believe that the APFC proposal to increase statutory rates with the mileage travelled is not appropriate.**

2) The cost of giving a car as a fringe benefit is already inflated by state government charges such as workers compensation and payroll tax. This results in the cost to the employer of providing a car being inflated by around 9.5% of the taxable value of the benefit. This should be included in any consideration of the equity of FBT.

(b) Industry Policy

The automotive industry is a major contributor to the Australian economy through its direct employment, rapidly growing exports, and flow on impact on employment and technology transfers to the rest of the economy.

Australian automotive manufacturers are moving towards being competitive in the global automotive markets. However they are heavily dependent on domestic fleet sales to provide the core domestic volumes necessary to support export growth. Sales to company fleets are essential in obtaining this critical volume. This fleet market is already heavily taxed, providing half of all FBT collected. **Further tax impositions have the potential to seriously reduce fleet sales, thereby reducing the critical volumes available to local manufacturers.**

	PROPORTION OF LOCALLY MANUFACTURED CARS GOING TO

MANUFACTURER	BUSINESS FLEET (1998) SOURCE VFACTS
Ford	40.2%
Holden	40.3%
Mitsubishi	47.9%
Toyota	25.9%
Average Of Local Manufacturers	**37.6%**

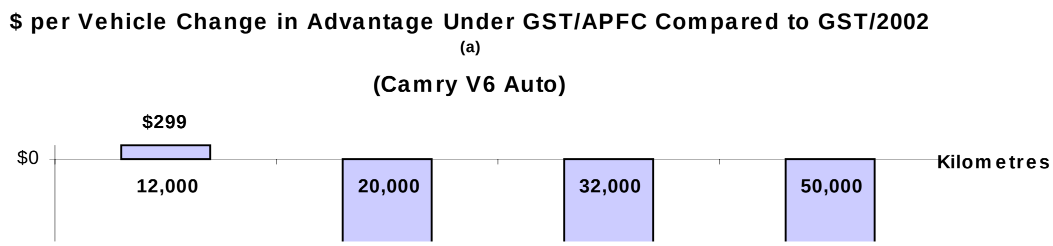
Sales to business made up more than one in every three passenger vehicles built and sold in Australia in 1998 and more than one in four of all cars sold in Australia. An added tax impost on companies using these vehicles will inevitably reduce sales, causing both direct and indirect impacts on employment and investment in this industry. This taxation increase will disproportionately affect locally manufactured vehicles due to their fleet dependency.

Note that the import share has already moved from 19% (1988) to 52.7% (1998). Further taxation of fleet (which is predominantly locally made), will increase the import penetration at the cost of locally made product, with consequent impact on the Current Account Deficit.

We have not yet been able to quantify the impact on sales of vehicles to business. However it will be quite significant as the APFC proposals significantly reduces the attractiveness to the employer providing a vehicle rather than a taxable allowance.

The following chart shows the true impact of the APFC proposals, by showing how the advantage/(disadvantage) changes between GST 2002 and GST APFC. For example:

CAMRY V6 AUTO $50,000 INCOME	ADVANTAGE/(DISADVANTAGE) $		
KM p.a.	**GST 2002**	**GST APFC**	**Total Difference**
12,000	(1,115)	(816)	299
20,000	1,367	(1,625)	(2,992)
32,000	5,090	(2,091)	(7,181)
50,000	7,831	(546)	(8,377)



We do not believe that the drop in fleet sales will be offset by an increase in private purchasers. Private buyers tend to keep their vehicles significantly longer, so dramatic drops in the total market can be expected. This will not only have the impact mentioned above but will directly reduce the tax collected on vehicles. Thus one of the key objectives of the APFC of revenue neutrality will not be achieved.

(c) Other Issues Relating To FBT

i) Inflation impact

The impact of the APFC is such that the vehicle cost to the employer will be higher than under the current tax regime.

Cost to employer of providing a vehicle (Camry Conquest V6 Auto 20,000km, 85% private use):

NOW	GST/2002	GST/APFC
$17,783	$15,177	$18,169

Thus the expected cost down due to the replacement of Wholesale Sales Tax with GST is lost under the APFC proposal, and the cost will actually go up slightly. This may have a significant impact on the government's projected inflation impact of GST introduction. The government has assumed a substantial reduction in motoring costs, but the impact of APFC proposals would appear to negate this for business users.

ii) Administrative Complexity

The APFC proposals will encourage the replacement of company vehicles by cash allowances. Extensive administration of these allowances will be required to ensure both efficiency and equity. This will add further administration complexity.
Also, many companies are locked into the current arrangements with their staff. Where companies are unable to replace these arrangements, they will be penalised by the APFC proposals.

(2.2) Depreciation Limit On Vehicles

We support the FCAI ongoing position that the depreciation limit on motor vehicles has not been relevant since the introduction of FBT in 1986, which was based on the capital value of the vehicle.

The original intention of the depreciation limit on motor vehicles, when first introduced during 1974, was to remove the perceived advantage which was afforded to businesses which purchased luxury vehicles.

However as stated, the introduction of the FBT legislation during 1986 effectively has eliminated any business advantage ever since. Thus we believe this limit should be removed without any linkage to changes to the Statutory Rate formula.

(3) SUMMARY

Toyota supports the proposed change to a 30% company tax rate, but requests that serious consideration be given to the following points:

4. Fringe Benefits Tax (FBT) should remain payable by the employer. However it should not be calculated using the highest marginal rate, but should use the proposed 41.5% marginal rate payable by people in the $50,000-$75,000 income bracket.

5. The proposed changes to the FBT statutory rates should not proceed, on equity, industry policy and other grounds. These changes will undermine vehicle sales to fleets, which provide the critical volume necessary for the survival of local manufacturer in Australia. The proposed statutory rates significantly increase the FBT payable, thereby discouraging the employer from providing vehicles for their employees.

6. The depreciation limit is not relevant in an environment where FBT is based upon the capital value of the vehicle. We believe this limit should be removed without any linkage to changes to the Statutory Rate formula.

For further information, please contact John Egan, (03 9647 4745) *or*

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