MITSUBISHI MOTORS

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The Secretary
Review of Business Taxation
Department of the Treasury
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Dear Sir

The following is a response by Mitsubishi Motors Australia Ltd ("MMAL") to the Ralph Committee Discussion Paper (Paper two), released on 22nd February 1999.

As a domestic manufacturer of motor vehicles in Australia MMAL is generally supportive of tax reforms. The proposals raised in that paper in the areas of fringe benefits tax and depreciation however may impact adversely on MMAL.

Chapter 38 of the Discussion Paper entitled "Towards a Better Regime for Taxing Fringe Benefits" discusses a number of "options". MMAL is concerned that the options proposed that may be considered favourable to commerce and industry as a whole appear to be <u>at the expense of the motor vehicle industry</u>, and in particular the domestic vehicle manufacturing industry.

## 1.0 Motor vehicle manufacturing industry in Australia

The domestic motor vehicle manufacturing industry is important to the Australian economy for the following reasons:

- The motor vehicle manufacturers and the component makers are a major provider of employment.
- The domestic vehicle manufacturers and component makers earned $2.7 billion in export receipts in 1998.
- The motor vehicle industry is currently one of the highest taxed industries under the wholesale sales tax (WST) regime. The contribution by the domestically produced vehicles is thus a significant proportion of all WST collections by the Government. In addition the industry contributes

approximately half of all FBT collections (being mainly fleet vehicles of the type produced in Australia).

## 2.0 Fringe Benefits Tax reform

MMAL supports the proposal to abolish the fringe benefits tax on entertainment.

MMAL is also supportive of a reduction in the rate of FBT to align it with the marginal tax rate that applies to employees who most commonly package a motor vehicle as part of their remuneration, being those falling within the salary band $50k - $75k. The marginal tax rate for employees in this salary band under "A New Tax System" is 40%[1].

**MMAL is strongly opposed to any proposals that would increase the taxable value of motor vehicles for fringe benefits tax purposes to offset the fall in revenue as a result of the abolition of entertainment from the FBT regime, or the revenue fall due to reductions in the scope of the car parking fringe benefit. There is no justification for the motor vehicle industry to carry the burden of FBT concessions that are granted to all sectors of commerce and industry.**

Much is said in the paper about the "concessional" nature of the statutory formula method for determining the taxable value of a motor vehicle. The statutory formula was developed as an administratively simple method of determining taxable value of vehicles as an alternative to the operating cost method. Any increases in the taxable value of motor vehicles under the statutory formula method or the "minimum (or presumed) business usage" proposal will lead to an additional FBT compliance burden and other negative impacts. While this will not assist industry generally, it is likely to cause significant harm to the local vehicle manufacturers. Such impacts may include:

- forcing some vehicle operators to return to the operating cost method, causing an additional compliance burden;
- over time, a substitution of cheaper cars (smaller cars which are all imported), for the larger cars which comprise fleets now and which are generally manufactured in Australia[2];
- the cashing out of vehicles by employees who currently package a vehicle as part of their remuneration.

The Ralph paper states that it has not addressed "the issue of the explicit stimulus [of the 'concessional' valuation of car benefits under the statutory

[1] It is noted that the Treasurer has already indicated that fringe benefits tax will continue to be paid by employers rather than taxing the benefits in the hands of employees.

[2] Business and Government fleets on which FBT is generally paid currently account for between 60-75% of the total production of the local manufacturers.

formula] to the vehicle industry."[3] This is a tacit admission that there is no evidence that the statutory formula is concessional and consequently, no evidence that the formula contributes an "explicit stimulus". Without a detailed analysis of the likely impacts of a change in the valuation, any changes to the taxable value are viewed with concern.

The progressive reduction in tariffs in Australia and the problems arising out of the transition from the WST to the GST regime has already placed a significant burden on the domestic motor vehicle manufacturing industry. This has had the greatest impact on South Australia and Victoria, where the vehicle manufacturers are located and which have the highest concentration of vehicle component manufacturers.

## 3.0 Depreciation reform

It has been proposed that depreciation rates for taxation purposes be more closely aligned with the effective life of an asset. This option may be prejudicial to a capital intensive industry such as motor vehicle manufacture.

When motor vehicle manufacturers develop new vehicle models, significant expenditure is incurred on tooling. This very large outlay of funds usually occurs at a time when the old model is being "run-out". It is therefore a critical time for a vehicle manufacturer: cash inflow is declining while cash outflow is at a peak. The ability to accelerate the tax write-off of this tooling assists in the management of the vehicle manufacturer's cash flow.

Provided tooling expenditure reverts to the pre-accelerated depreciation status that applied to acquisitions made prior to 13 March 1991, MMAL could accept a general reduction in accelerated depreciation if it is accompanied by a reduction in the corporate tax rate.

Yours faithfully

**Mitsubishi Motors Australia Ltd**
**M.T. Quinn**
**Managing Director**

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[3] Discussion Paper 2: Building on a strong foundation, Chapter 38, page 774.