

Luxury car tax

From 1 July 2000, sales tax on luxury cars was replaced by GST and luxury car tax. Like wine equalisation tax, luxury car tax was designed to maintain price relativities, that is, ensure the price of luxury cars fell by about the same amount as the price of cars just under the luxury car tax threshold following the removal of sales tax and the introduction of GST. In effect, luxury car tax ensures that buyers of luxury cars continue to pay more tax than buyers of cars priced under the luxury car tax threshold.

Cars with a GST-inclusive value exceeding the luxury car tax threshold are subject to luxury car tax. Luxury car tax is payable only on the GST-exclusive value that exceeds the threshold. The following formula is used to calculate luxury car tax (LCT) payable:

$$\text{LCT} = \frac{25}{100} \times \frac{10}{11} \times (\text{LCT tax value} - \text{LCT threshold})$$

The luxury car tax threshold for the 2002–03 financial year was increased from \$55,134 to \$57,009, and the luxury car tax rate is 25%.

Entities registered (or required to register) for GST, including retailers, wholesalers and manufacturers that make a taxable supply of a luxury car, are liable to pay luxury car tax. Importers (including private buyers) that make a taxable importation of a luxury car are also liable to pay the tax. Entities that make a taxable supply of a luxury car must report the amount of luxury car tax payable on their activity statement and remit the amount, together with the GST payable.

Luxury car tax adjustments

Unlike GST, no input tax credit is available for luxury car tax, regardless of whether the luxury car is used within a business or for private purposes.

However, circumstances may occur in a period after the supply or importation of a luxury car that alter the amount of luxury car tax previously paid and mean luxury car tax becomes refundable, or an amount becomes payable in a later tax period. The registered entity then needs to make a decreasing or increasing adjustment on its activity statement.

An entity has a **decreasing** luxury car tax adjustment if any of the following circumstances occur after the taxable supply or importation:

- There is a decrease in the price of the car. This may happen if luxury car tax was calculated on the price in a past tax period and the amount was included on the activity statement for that tax period. During a later tax period the supplier and the purchaser agreed that the price paid should decrease. The supplier needs to calculate the luxury car tax on the new price and then work out the difference between the luxury car tax previously paid and what would be payable using the new value.
- The supplier has written off a bad debt or a debt has been overdue for 12 months in respect of the supply of a luxury car.
- An entity did not quote its ABN at the time of the purchase or importation and the car is now used for a quotable purpose. For example, a dealership did not quote its ABN when purchasing a luxury car because the car was to be used by an executive of the dealership. However, when the car was delivered the executive did not use the car but instead it was held as trading stock.
- The sale is cancelled.

An entity has an **increasing** luxury car tax adjustment if:

- There is an increase in the price of the car.

- An entity quoted its ABN at the time of the purchase or importation and now uses the car for a purpose other than a quotable purpose. For example, a dealership quoted its ABN when purchasing a luxury car because the car was to be held as trading stock. However, when the car was delivered, it was used by an executive of the dealership.
- The supplier previously claimed a decreasing adjustment in respect of a bad debt or a debt overdue for 12 months or more and has now recovered all or part of the debt.
- An entity had a decreasing adjustment and now uses the car for a purpose other than a quotable purpose.

Luxury car tax collected

Since the introduction of the luxury car tax in 2000–01, luxury car tax collections (including Customs collections) have increased by 54% – from \$170.8 million in 2000–01 to \$262.7 million in 2002–03 (table 12.6). Revenue collected from luxury car tax accounted for less than 1% of total Tax Office revenue from 2000–01 to 2002–03 (table 12.8).

During these past financial years, the most significant increase in luxury car tax collections occurred in 2001–02 when luxury car tax collections reached \$219.9 million – an increase of 29% from the previous financial year. However, this increase was mainly due to the addition of an activity statement payment during the 2001–02 financial year. In 2002–03 luxury car tax collections increased by 19% compared to the 2001–02 collection due to a significant increase in luxury car sales driven by low interest rates, combined with numerous new model releases.

Companies have consistently accounted for the largest share of luxury car tax collections since 2000–01. On average, they accounted for 77% of total luxury car tax collections each year (table 12.6).

Table 12.6: Luxury car tax collections, by entity, 2000–01 to 2002–03 financial years

Entity	2000–01 ¹		2001–02 ²		2002–03 ³	
	\$	%	\$	%	\$	%
Company	131,802,801	77.7	167,101,488	76.4	199,122,460	76.1
Trusts & individual	36,760,380	21.7	49,515,745	22.6	60,006,427	22.9
Partnership	1,173,568	0.7	2,159,412	1.0	2,502,635	1.0
Tax Office collections	169,736,749	100.0	218,776,645	100.0	261,631,522	100.0
Customs collections ⁴	1,086,399		1,121,285		1,079,665	
Total	170,823,148		219,897,930		262,711,187	

1. Estimated collections as at 30 June 2001.
2. Estimated collections as at 30 June 2002.
3. Estimated collections as at 30 June 2003.
4. Customs collects luxury car tax on taxable importations.

In 2002–03, 25% (\$65.2 million) of total Tax Office luxury car tax collections were from entities that sent less than \$1 million luxury car tax to the Tax Office; 49% (\$128.4 million) were from entities that sent \$1 million to less than \$5 million; and 26% (\$67.9 million) were from entities that sent \$5 million or more. Compared to the previous year, entities that sent \$5 million or more luxury car tax in 2002–03 significantly increased their share of Tax Office luxury car tax collections while entities that sent \$1 million or less than \$5 million showed a significant decrease in their share of luxury car tax collections (table 12.7).

Table 12.7: Luxury car tax collections, by amount sent to the Tax Office, 2001–02 to 2002–03 financial years

Amount sent	Amount collected 2001–02 ¹		Amount collected 2002–03 ²	
	\$	%	\$	%
Less than \$99,999	11,658,285	5.3	10,144,865	3.9
\$100,000–\$499,99	25,689,417	11.7	29,633,599	11.3
\$500,000–\$999,999	18,439,951	8.4	25,485,234	9.7
\$1,000,000–\$4,999,999	123,870,657	56.6	128,416,223	49.1
\$5,000,000 or more	39,118,335	17.9	67,951,601	26.0
Tax Office collections	218,776,645	100.0	261,631,522	100.0
Customs collections ³	1,121,285		1,079,665	
Total	219,897,930		262,711,187	

1. Estimated collections as at 30 June 2002.

2. Estimated collections as at 30 June 2003.

3. Customs collects luxury car tax on taxable importations.