

2 April 2013

The Hon. Julie Bishop MP
Deputy Leader of the Opposition
414 Rokeby Road
SUBIACO WA 6008

Mark Smith
Unit 1, Parkland Villas
52 Liege Street
WOODLANDS WA 6018

Dear Ms Bishop

RE: IMPROVING MANUFACTURING IN AUSTRALIA; REDUCE
GOVERNMENT SUBSIDIES IN THE MOTOR VEHICLE INDUSTRY BY
TARGETING AUSTRALIAN PRODUCED MOTOR VEHICLES WITH
SALARY SACRIFICE (NOVATED LEASE) SPECIFIC ARRANGEMENTS
THROUGH THE AUSTRALIAN TAXATION SYSTEM

Executive Summary

The Australian Government (both Labour and Coalition) provide subsidies, tariffs and protection to the manufacturing industry in the production of Australian made motor vehicles (so does all other countries where motor vehicle production is located). It is estimated that Australian subsidises an amount of about \$500 million over a four year Future Estimates period. This is to support the direct employment of about 50,000 employees in motor vehicle production but also about 200,000 employees in small and medium-sized businesses that supply local parts and other ancillary supplies. Separately, through the Australian taxation system via Salary Sacrifice and a Novated Lease arrangement, an employee can purchase a new or used vehicle, which is manufactured by **any** motor vehicle company across the world. By specifically targeting Salary Sacrifice arrangements to locally produced motor vehicles, Government subsidies can be considerably reduced (or even eliminated) while at the same time providing a tremendous boost to Australian manufacturing.

Background

Manufacturing – Motor Vehicles

There are three major motor vehicle manufacturers in Australia – GM Holden, Ford, Toyota. A small manufacturer, TOMCAR has recently started. It is estimated that direct manufacturing employees about 50,000 people. Parts and ancillary supplies employ about 200,000. Of the 13 countries world wide which manufactures motor vehicles, everyone provides Tariffs Protection Subsidies – the bailout of GM and Chrysler in the US with billions of dollars in the GFC is just one small example. Australia is no exception. To provide jobs, research and development, manufacturing industries etc., the Australian Government (both political Parties) have also provided these options over decades. To provide a motor vehicle manufacturing industry, it has many down stream benefits to the total country economy via diverse manufacturing skill sets and research and development.

The total new car sales in Australia for 2011 & 2012, was over one million each year. However, only about 200,000 of these were motor vehicles manufactured in Australia. The rest were imported at great cost to our balance of payments position. The Australian motor vehicle manufacturing has been in decline and it still is. Many jobs have been lost and rather than restructure, businesses are closing. Many motor vehicle manufacturers have left Australia for cheaper employment countries.

The manufacturing of motor vehicles should be encouraged and supported – can there be a better way?

Salary Sacrifice – Novated Lease

Salary Sacrifice (Salary Packing, Flexible Remuneration Package) under the Australian Taxation systems allow for certain products or services to be paid in Pre-Tax rather than Post-Tax income – hence a saving of the tax component that would normally go to Government Revenue. Via a Novated Lease arrangement an employee can purchase a new or used motor vehicle and ongoing repayments are made in Pre-Tax income. Generally the tax saving per annum by this arrangement is about \$2,000. That is, \$2,000 which does not get to Government Revenue. The car purchased can be of (generally) any make or size and from manufacturers the world over. Taxation office figures are hard to obtain but with Liberal Party resources, I am sure actual figures can be found. It is my estimation

that of the one million new cars purchased in Australia in 2012 at the very least, 100,000 imported cars would be via Salary Packaging. Further of those 100,000, I would estimate at least one quarter would be large 4 wheel drive vehicles. As we know, large 4x4 vehicles use more fuel (greenhouse), are mainly only used in city traffic causing congestion (accidents?) and road deterioration (greenhouse). As mentioned earlier the balance of payment to import these vehicles is also significant. Taking the 100,000 imported vehicles, which are Salary Packaged (numbers to be verified), and the annual tax saving of about \$2,000, this would equate to a ***further subsidy of \$200 million per annum*** that Australian taxpayers are providing to overseas manufacturers.

Conclusion

By targeting the Salary Packaging arrangements to **only** Australian manufactured motor vehicles, we would be encouraging the production, development and growth of this and many other manufacturing industries. This would also provide diversification away from the mining industry. There would be no additional costs to the taxpayer as the Salary Packaging arrangements are already in place (going to foreign Governments and industries). Over the forward estimates and phase-in period, the Australian taxpayer would save the \$500 million in subsidies. Employment, research & development, industries, diversification, balance of payment and taxation revenue (employees paying tax) would all be significantly enhanced. We would just be allowing Australian employees to benefit from utilising the existing Australian Taxation System.

Author

Mark Smith, age 58, Retired, address above (Curtin Electorate) telephone #0409 378 992, email address smiths@iinet.net.au. Thirty Seven (37) years in Financial services industry, last 15 as small business owner of a Financial Planning Practice, which provided considerable Salary Packaging advice and services. As a past small business owner and employer, I relate to the Liberal Party ideals and philosophy. As such, if the Liberal Party was to further research, develop and take this idea to the next election as a major 'plank' to boost Australian manufacturing, and should the Liberal/Coalition win Government and implement this idea, then a very small consultation fee (one tenth of one basis point - 0.001%) of the subsidy savings over four year estimates should seem appropriate.

I would be happy to consult and work with Liberal/Coalition Government to bring this idea to reality and save considerable money to the Australian taxpayer.

References Included

- Article from Dr. Remy Davison – first published in “The Conversation”, republished with permission on the “Business Spectator” website 19 July 2012. – “The Ghost in the Auto Manufacturing Machine” 3 pages.
- Article by Andrew Whittaker published on the “Business Spectator” website 4 April 2012 – “Parting Manufacturing’s Sea of Red” 2 pages.
- Wikipedia – Automotive Industry in Australia – 30 March 2013 – 4 pages.
- Deloitte Motor Industry Services – Source VFACTS, December 2011 – 1 page.

Next Step

In due course, could you please confirm that you have received this material, and then in due course, if this material/idea (with or without my assistance and input) will be used as an Election proposal to be implemented when the Liberals/Coalition is elected. I am happy to have further discussions.

Thank you for your consideration.

Regards,

Mark Smith

