

## **ASPIA Response to Productivity Commission Draft Findings – February 2014**

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The Productivity Commission is seeking submissions to its position paper on Australia's Automotive Manufacturing Industry.

### **1. Removing the prohibition of second-hand vehicle imports**

Currently that position paper states that

"the policy rationale for prohibiting large-scale importation of second hand vehicles into Australia is weak."

This submission seeks to expand on the potentially negative impact relaxing this prohibition could have on the several hundred thousand Australian taxpayers who currently lease vehicles as business fleets or under a salary packaging arrangement.

#### **1.1 Increased cost to holders of leased vehicles**

The Commissioner's view, as stated, is that "experience for New Zealand suggests that the importation of second hand vehicles may put downward pressure on second hand car prices & increase consumer choice in the second hand market".

While ASPIA agrees that increased choice/competition and decreased overall vehicle prices are a good thing, we note that any measure that has the specific effect of decreasing *used* car values without a corresponding decrease in *new* vehicle prices will have the following detrimental effects on lease holders:

- lease rentals will become more expensive as the 'residual value' – i.e. the second hand value of the car at the end of the lease, will fall relative to the purchase value (we have estimated that the average impact will be approximately \$650 in additional lease payments per year, per vehicle); and
- holders of current vehicle leases may find themselves faced with an unexpected residual value payment obligation if their car has a second-hand value substantially lower than that expected when the lease was initially financed.

For businesses that lease a fleet of vehicles this impact is magnified: i.e. a drop in second hand (i.e. residual) values across a 300 car fleet could equate to approximately \$195,000 in additional lease payments each year.

#### **1.2 Significant exposure for vehicle lease providers**

For organisations in the business of supplying lease financing the immediate impact on residual risk position could lead to significant financial impairments.

For example, an organisation with \$400 million residual risk position on operating lease vehicles could potentially experience a loss of \$80 million if this change was implemented.

### 1.3 ASPIA proposal: 5 year implementation timeframe

ASPIA is not opposed to the proposed changes in principle as any reduction in the cost of Australian vehicles is a welcome outcome.

However we note that up front announcement of the change with a delayed implementation timeframe – i.e. an announcement of a 5 year implementation horizon – would enable individual and business leaseholders, as well as industry lease providers, the opportunity to better manage the financial risk associated with the change.

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## 2. Removing the FBT exemption for light commercial vehicles

The position paper also considers the removal of the FBT exemption for light commercial vehicles (“work-use vehicles”) where

“use is generally limited to travel between home and work and to other infrequent or incidental use

The Position Paper indicates that several initial submissions suggest that the exemption may be being abused by some taxpayers:

Diver Consolidated Industries suggested that the FBT exemption is being used for work vehicles ‘that are not true work vehicles, i.e. 4-door pick-up trucks and utilities, effectively passenger car substitutes’

ASPIA wishes to note that the current FBT exemption delivers necessary tax relief for businesses that utilise a fleet of commercial vehicles. Its removal would cause an undue and unfair financial burden on those organisations to address a risk that, in ASPIA’s experience, is low.

ASPIA suggests that a better compliance outcome would be achieved through the following changes:

1. Provide a clearer legislative definition of the “minor, infrequent and irregular” private use requirement; and
2. Amend the exemption to include a substantiation requirement – e.g. a logbook that confirms employee use of the vehicle meets the legislative requirements for exemption.

It is noted that this approach would operate to significantly reduce any abuse of the exemption currently occurring without penalising employers/employees who legitimately provide employees with work-use vehicles that are generally unsuitable for private use as a passenger vehicle.

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## About ASPIA

Representing 25 Member organisations across Australia who are responsible for the administration of Fringe Benefits Tax arrangements for circa 750,000 Australian employees, ASPIA provides a focus for the discussion of the overarching legislative and taxation issues affecting providers within the growing outsourced Salary Packaging industry and their corporate and individual employee clients.

ASPIA ensures that the industry has a voice across the areas within both Government and the Tax Office to ensure consultation occurs and that this organisation provides Government and Treasury with the leverage available from the collective membership of the association.

The association also sets minimum guidelines in relation to service and inter-provider engagement as well as providing a complaints handling facility for member firms customers.

For more information please visit: [www.aspia.com.au](http://www.aspia.com.au)

Yours sincerely,

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ASPIA