



Australian Government

Commonwealth Grants Commission

2010 REVIEW

MOTOR TAXES

**COMMISSION POSITION PAPER
CGC 2008/09**

SEPTEMBER 2008

Paper issued:	8 September 2008
CGC contact:	Peter Connell, 02 6229 8892, Peter.Connell@cgc.gov.au
State submissions sought by:	30 January 2009, submitted in Word format to secretary@cgc.gov.au

CONTENTS

BACKGROUND	1
PROPOSED ASSESSMENT	1
ONE CATEGORY	3
USED VEHICLE TRANSFERS	4
EXEMPT VEHICLES	5
PRELIMINARY ASSESSMENT	6
CONCLUSIONS	7
ATTACHMENT A: STAMP DUTY EXEMPTIONS	14
ATTACHMENT B: TYPES OF MOTOR TAXES	15

BACKGROUND

- 1 In 2005, the Heads of Treasury undertook a review of horizontal fiscal equalisation. A conclusion of that review was that Commission processes could be simplified. The 2010 Review terms of reference ask the Commission to simplify its assessments, provided to do so is consistent with the principle of equalisation.
- 2 We consider that simplification and equalisation can both be achieved and that simplification will improve the reliability and robustness of the processes and the acceptability of the outcomes. Both objectives can best be achieved through a rigorous application of the assessment guidelines. These guidelines require the 2010 Review assessment methods to:
 - establish a conceptual case for the assessment;
 - support the conceptual case with evidence, which is both comparable and reliable;
 - develop a reliable assessment method; and
 - demonstrate such an assessment would be material¹.
- 3 Our intention is to develop these methods jointly with States. For that reason we have chosen an iterative process. This approach provides States with opportunities to contribute to the development of the final assessments.
- 4 The first iteration of the Motor taxes assessment was presented in discussion paper 2007/03-S *Proposed Methods for Revenue Assessments*.
- 5 This position paper sets out the Commission's preliminary decisions on the Motor tax assessment. These decisions provide the basis on which the Commission seeks to take the Motor tax assessment forward in consultation with States.
- 6 This paper reflects comments provided by the States during State visits and in State submissions received up until 15 August 2008. Comments received after this date will be considered alongside comments received from States in response to this paper.

PROPOSED ASSESSMENT

Overview

- 7 In discussion paper 2007/03-S, staff proposed that the 2010 Review equalisation budget contain a Motor taxes category comprising revenue from taxes and fees on motor vehicles.

¹ For a category to be deemed material, the average expense or revenue is greater than \$50 per capita, or the assessment is likely to redistribute more than \$30 per capita for any State.

8 Staff proposed to assess capacity by developing weights to apply to numbers of vehicles. These weights would reflect the relative taxes that applied to each vehicle type. Weights would be developed for²:

- light vehicles³;
- heavy rigid trucks⁴;
- articulated trucks⁵; and
- new vehicle sales⁶.

State views

9 Most States supported the move to a single Motor taxes category. South Australia and Tasmania did not.

10 Some States queried aspects of the vehicle weights.

- South Australia and the Northern Territory said a weight should be assessed for used vehicle transfers; and
- the ACT said an adjustment should be made to remove vehicles that are exempt from motor taxes.

Commission view

11 The Commission is inclined to assess one motor vehicle category, with an assessment of capacity using weights for light vehicles, heavy rigid trucks, articulated trucks and new vehicle sales.

12 The outstanding issues, which are considered further in the following sections, are:

- whether all motor taxes should be assessed in a single category;
- whether a separate assessment should be made for used vehicle transfers; and
- whether an adjustment should be made to remove vehicles that are exempt from motor taxes?

² Initially, staff proposed assessing a vehicle weight for buses. However, subsequent analysis showed that assessing a weight did not have a material impact on the assessment and there were concerns about the reliability of bus data. Unpublished data from the *Motor Vehicle Census* indicated that over half of the vehicles included in the ABS's bus category were classified as light vehicles.

³ Light vehicles consist of passenger vehicles and light commercial vehicles.

⁴ The ABS defines heavy rigid trucks as motor vehicles with a gross vehicle mass greater than 4.5 tonnes, constructed with a load carrying area. Normal rigid trucks with a tow bar, draw bar or other non-articulated coupling on the rear of the vehicle are included in the heavy rigid truck numbers.

⁵ The ABS defines articulated trucks as motor vehicles constructed primarily for load carrying, consisting of a prime mover having no significant load carrying area, but with a turntable device which can be linked to one or more trailers.

⁶ New vehicle sales would be sourced from ABS *Sales of New Motor Vehicles*, cat. no. 9314.0.

ONE CATEGORY

Proposal

13 Staff proposed a single Motor taxes category.

State views

14 South Australia and Tasmania said stamp duties on motor vehicle registrations and transfers were a ‘flow’ concept, whereas annual registration fees were a ‘stock’ concept. They questioned whether, conceptually, the two types of taxes should be assessed together.

15 Tasmania said the proposed category was a cosmetic simplification, achieved only by partitioning and the choice of vehicle weights.

Analysis

16 The Commission does not intend to assess the two types of taxes together. We have considered three approaches to assessing Motor taxes:

- a disaggregated category approach, comprising:
 - a heavy vehicle category. Its capacity would be assessed using numbers of heavy rigid trucks and articulated trucks, suitably weighted;
 - a light vehicle category. Its capacity would be assessed using the number of passengers and light commercial vehicles; and
 - a stamp duty category. Its capacity would be assessed using the number of new vehicle sales;
- a single category, with capacity assessed using vehicle weights; and
- a single category with separate components for each vehicle type.

17 We believe the two types of taxes are separately assessed under each approach. While the three approaches produce the same assessment outcomes, additional work is required to support separate assessment categories. We consider that this additional work is not warranted in this case. Provided the three approaches produce the same outcomes, our preference is for the third option:

- to assess a single Motor taxes category; and
- to assess each vehicle type as a separate component.

Commission view

18 On materiality and transparency grounds, the Commission intends to assess the three motor taxes as components of a single Motor tax category.

USED VEHICLE TRANSFERS

Proposal

- 19 Staff did not propose assessing vehicle weights for used vehicle transfers because publically accessible data on used car transfers were not readily available.

State views

- 20 South Australia and the Northern Territory said that revenue from stamp duties on motor vehicle registrations and transfers were raised from both new vehicle sales and used vehicle transfers. While more revenue per vehicle was raised from new sales, there were more used vehicle transactions. The Northern Territory said used vehicle transfers accounted for almost half its stamp duty on motor vehicle registrations and transfers.

Analysis

- 21 The Commission sought data from States to allow us to disaggregate stamp duties on motor vehicle receipts into new and used vehicles. We sought details on the number of vehicles, the value of the vehicles and the duty collected for the six years 2001-02 to 2006-07. Some States were not able to supply the data for all years.
- 22 The data that was provided showed that:
- new vehicle sales comprised 28 per cent of all transactions;
 - duty raised from new vehicle sales was around 55 per cent of duty raised; and
 - duty collected per new vehicle sale was around 310 per cent higher than duty collected per used vehicle transfer.
- 23 We used the State supplied data to split stamp duties into:
- the proportion arising from new vehicle sales —55 per cent; and
 - the proportion arising from used vehicle transfers — 45 per cent.
- 24 We also used the State supplied data as our estimate of the number of used vehicle transfers. We have used this data to test the materiality of making a separate assessment of used vehicle transfers. Table 1 shows that, on the basis of the preliminary State data provided, an assessment of used vehicle transfers would be material for Victoria, South Australia, Tasmania and the ACT.⁷

⁷ An assessment is material if it redistributes \$10 per capita for any State.

Table 1 Financial impact of including used vehicles

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Including used vehicles	2.20	-3.73	0.96	10.86	-4.65	-8.19	-24.31	-14.70	2.00
Excluding used vehicles	-4.69	6.24	9.18	1.73	-17.03	-20.22	-11.59	-9.99	3.56
Difference	6.89	-9.97	-8.22	9.13	12.37	12.02	-12.72	-4.72	4.37

Source: Commission simulation.

Commission view

- 25 On materiality grounds, the Commission intends to assess used vehicle transfers, provided reliable and comparable data are available. The ABS does not collect data on these transfers. Therefore, the Commission will have to collect State data on the number of used vehicle transfers to support the assessment.
- 26 States exempt a range of used vehicles from stamp duties. A brief summary of the exemptions granted by New South Wales is provided in Attachment A. The Commission is not in a position to judge the comparability of the exemptions granted by States. Our concern is whether any differences have a material impact on the assessment. States may like to comment on whether these differences would affect the reliability of State provided used vehicle data and whether the differences are likely to have a material impact on the assessment.
- 27 Staff are investigating whether the capacity measure should be the number of new vehicle sales and used vehicle transfers or the values of those transactions.

EXEMPT VEHICLES

Proposal

- 28 Commission staff did not propose making an adjustment for vehicles where they are exempt from motor taxes.

State views

- 29 The ACT said an adjustment should be made to exclude vehicles that are exempt from motor taxes — diplomatic, consular and Australian Government vehicles. The ACT also said that the appropriate materiality threshold to determine whether an adjustment would be material was the \$3 per capita data threshold rather than the \$10 per capita assessment threshold.

Analysis

- 30 The Commission agrees that the appropriate materiality threshold to apply is the \$3 per capita data threshold.

- 31 The Commission currently collects information on the number of diplomatic, consular and Australian Government vehicles to remove them from the existing Light vehicle assessment, as in most States such vehicles are not liable for registration fees and taxes.
- 32 We collected data from the Australian Department of Finance on new vehicle leases undertaken by Australian government agencies that operate subject to the *Financial Management and Accountability Act 1997*. In 2006-07, these new vehicle leases comprised around 7 per cent of new car sales in the ACT (1 198 new leases in the ACT) and 0.5 per cent of new car sales (4 698 new leases) nationally. We have used these data to test the materiality of removing these leases from the number of new vehicle sales.
- 33 Table 2 shows the financial impact of removing exempt vehicles. It shows that:
- it is not material to remove diplomatic, consular and Australian Government vehicles from the number of light vehicles; but
 - it is material to remove diplomatic, consular and Australian Government vehicles from the number of new vehicles sales.

Table 2 Financial impact of excluding diplomatic, consular and Australian Government vehicles

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Light vehicles	-0.02	-0.05	-0.04	-0.05	-0.05	-0.03	2.32	0.24	0.04
New vehicle sales	-0.06	-0.10	-0.10	-0.10	-0.02	0.04	4.18	0.61	0.07
Total	-0.08	-0.16	-0.14	-0.15	-0.07	0.01	6.51	0.85	0.11

Source: Commission simulation.

Commission view

- 34 On materiality grounds, the Commission intends to make adjustments to remove diplomatic, consular and Australian Government vehicles from both light vehicles and new vehicle sales.

PRELIMINARY ASSESSMENT

- 35 The proposed method is to assess five classes of motor vehicles as separate components. Exempt motor vehicles would not be included. The five components are:
- light vehicles;
 - heavy rigid trucks⁸;
 - articulated trucks;

⁸ An analysis has been undertaken on the split of heavy vehicle revenue between heavy rigid trucks and articulated trucks. The share of heavy vehicle actual revenue has been stable over time, one third is raised from heavy rigid trucks and two thirds from articulated trucks.

- new vehicle sales⁹; and
- used vehicle transfers.

36 Tables 3 to 7 show the calculation of assessed revenue for each component:

- Table 3 — light vehicles;
- Table 4 — heavy rigid trucks;
- Table 5 — articulated trucks;
- Table 6 — new vehicle sales; and
- Table 7 — used vehicle transfers.

37 Table 8 brings the five components together and derives assessed revenue for the Motor tax category and the category factor.

CONCLUSIONS

38 The Commission intends to assess Motor tax capacity in five components using actual revenues and weights for vehicle components. Exempt vehicles will be removed.

⁹ State provided data have been used to split stamp duties between new vehicle sales and used vehicle transfers. The State provided data implies 55 per cent is raised from new vehicle sales and 45 per cent from used vehicle transfers.

Table 3 Calculating assessed revenue for the light vehicles component, 2006-07

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Light vehicle component									
A. Passenger vehicles (number)	3 464 250	3 049 224	2 220 568	1 254 426	927 313	275 146	195 855	75 618	11 462 400
B. Light commercial vehicles (number)	599 420	495 649	550 453	268 330	148 920	76 052	20 775	29 960	2 189 559
C. Diplomatic, consular and Australian Government vehicles (number)	2 207	1 322	1 166	658	477	202	3 126	289	9 447
D. Assessed revenue base [D = A + B - C]	4 061 463	3 543 551	2 769 855	1 522 098	1 075 756	350 996	213 504	105 289	13 642 512
E. Actual revenue (\$m)	1 394.3	605.4	750.9	320.0	225.5	70.9	69.2	13.8	3 450.0
F. Average tax rate (\$ per vehicle) [F _{Aust} = E _{Aust} / D _{Aust}]									252.89
G. Component assessed revenue (\$m) [G = F _{Aust} * D]	1 027.1	896.1	700.5	384.9	272.0	88.8	54.0	26.6	3 450.0

Source: Vehicle numbers from ABS's *Motor Vehicle Census*, 9309.0. Number of diplomatic and consular cars from the States, and Australian Government vehicles obtained from the Australian Department of Finance. Revenue data from Budget Analysis.

Table 4 Calculating assessed revenue for the heavy rigid vehicles component, 2006-07

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
A. Actual heavy vehicle revenue (\$m)	184.9	182.1	141.3	114.2	77.8	18.8	3.5	11.3	733.7
Heavy rigid vehicle component									
B. Assessed revenue base (number)	80 539	73 339	63 709	42 538	21 938	7 917	1 689	3 218	294 887
C. Actual revenue ^(a) (\$m) [$C_{Aust} = 1/3 * A_{Aust}$]									244.6
D. Average tax rate (\$ per vehicle) [$D_{Aust} = C_{Aust} / B_{Aust}$]									829.40
E. Component assessed revenue (\$m) [$E = D_{Aust} * B$]	66.8	60.8	52.9	35.3	18.2	6.6	1.4	2.7	244.6

(a) Different tax rates apply to heavy rigid trucks and articulated trucks. About one third of heavy vehicle taxes are raised from heavy rigid trucks and two thirds from articulated trucks. Source: Vehicle numbers from ABS's *Motor Vehicle Census*, 9309.0. Revenue data from Budget Analysis.

Table 5 Calculating assessed revenue for the articulated vehicles component, 2006-07

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
A. Actual heavy vehicle revenue (\$m)	184.9	182.1	141.3	114.2	77.8	18.8	3.5	11.3	733.7
Articulated vehicle component									
B. Assessed revenue base (number)	16 342	22 389	16 734	9 985	6 446	1 491	225	832	74 444
C. Actual revenue ^(a) (\$m) [C _{Aust} = 2/3 * A _{Aust}]									489.2
D. Average tax rate (\$ per vehicle) [D _{Aust} = C _{Aust} / B _{Aust}]									6 570.82
E. Component assessed revenue (\$m) [E = D _{Aust} * B]	107.4	147.1	110.0	65.6	42.4	9.8	1.5	5.5	489.2

(a) Different tax rates apply to heavy rigid trucks and articulated trucks. About one third of heavy vehicle taxes are raised from heavy rigid trucks and two thirds from articulated trucks. Source: Vehicle numbers from ABS's *Motor Vehicle Census*, 9309.0. Revenue data from Budget Analysis.

Table 6 Calculating assessed revenue for new vehicle sales component, 2006-07

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
A. Actual revenue (\$m)	553.8	552.2	286.6	392.6	132.6	38.8	25.4	19.8	2001.8
New vehicle sales component									
B. New car sales (number)	305 933	252 521	223 441	117 158	60 852	18 808	15 594	9 675	1 003 982
C. Australian Government vehicles (number)	1 147	832	656	332	257	114	1 198	162	4 698
D. Assessed revenue base (number) [D = B – C]	304 786	251 689	222 785	116 826	60 595	18 694	14 396	9 513	999 284
E. Actual revenue ^(a) (\$m) [E _{Aust} = 0.55 * A _{Aust}]									1 101.0
F. Average tax rate (\$ per vehicle) [F _{Aust} = E _{Aust} / D _{Aust}]									1 101.80
G. Component assessed revenue (\$m) [G = F _{Aust} * D]	335.8	277.3	245.5	128.7	66.8	20.6	15.9	10.5	1 101.0

(a) Different tax rates apply to new vehicle sales and used transfers. About 55 per cent of stamp duties are raised from new vehicle sales and the remainder from used vehicle transfers. Source: New car sales numbers from ABS's *Sales of New Motor Vehicles*, 9314.0. Australian Government new vehicle purchases obtained from the Australian Department of Finance.

Table 7 Calculating assessed revenue for used vehicle transfers component, 2006-07

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
A. Actual revenue (\$m)	553.8	552.2	286.6	392.6	132.6	38.8	25.4	19.8	2001.8
Used vehicle transfers component									
B. Assessed revenue base (number)	944 837	528 547	512 406	350 478	206 023	63 560	25 913	22 831	2 654 594
C. Actual revenue ^(a) (\$m) [$C_{Aust} = 0.45 * A_{Aust}$]									900.8
D. Average tax rate (\$ per vehicle) [$D_{Aust} = C_{Aust} / B_{Aust}$]									339.35
E. Component assessed revenue (\$m) [$E = D_{Aust} * B$]	320.6	179.4	173.9	118.9	69.9	21.6	8.8	7.7	900.8

(a) Different tax rates apply to new vehicle sales and used transfers. About 55 per cent of stamp duties are raised from new vehicle sales and the remainder from used vehicle transfers. Source: Used vehicle transfers data provided by States.

Table 8 Calculating assessed revenue and category factor for Motor taxes, 2006-07

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
A. Population (number)	6 855 811	5 167 516	4 135 619	2 082 041	1 576 644	491 648	336 691	212 802	20 858 772
Assessed revenues									
B. Light vehicles component (\$m) [Row G, Table 3]	1 027.1	896.1	700.5	384.9	272.0	88.8	54.0	26.6	3 450.0
C. Heavy rigid vehicles component (\$m) [Row E, Table 4]	66.8	60.8	52.8	35.3	18.2	6.6	1.4	2.7	244.6
D. Articulated vehicles component (\$m) [Row E, Table 5]	107.4	147.1	110.0	65.6	42.4	9.8	1.5	5.5	489.2
E. New vehicle sales component (\$m) [Row G, Table 6]	335.8	277.3	245.5	128.7	66.8	20.6	15.9	10.5	1 101.0
F. Used vehicle transfers component (\$m) [Row E, Table 7]	320.6	179.4	173.9	118.9	69.9	21.6	8.8	7.7	900.8
G. Total assessed revenue (\$m) [G = B + C + D + E + F]	1 857.7	1 560.7	1 282.6	733.5	469.3	147.3	81.5	53.0	6 185.6
H. Total Assessed revenue (\$pc) [H = G / A]	270.97	302.03	310.14	352.28	297.64	299.59	242.14	249.02	296.55
I. Category factor [I = 100 * H / H _{Aust}]	91.37	101.85	104.58	118.79	100.37	101.03	81.65	83.97	100.00

Source: Tables 3, 4, 5, 6 and 7. Population is mean resident population.

ATTACHMENT A: STAMP DUTY EXEMPTIONS

- 1 States provide exemptions and concessions from the payment of the stamp duty for both new cars and transfers.
- 2 In New South Wales, duty is not payable if the vehicle has been:
 - left to you in a will;
 - awarded to you as part of a divorce settlement;
 - previously registered in your name in another State or Territory and you have paid duty on that vehicle;
 - purchased by eligible war veterans;
 - transferred from joint names to a single name or from a single name to joint names (married or de facto couples only);
 - used for carrying sick or injured people, provided that it is specially constructed and used mainly or wholly to carry sick or injured people, and / or specially constructed, with an unladen weight of not more than 250 kg, and used solely to carry disabled persons;
 - licensed motor dealers: vehicles which are second hand (including imported vehicles) if the licensed second-hand dealer signs a declaration stating the vehicle is only being held for resale. There are also some exemptions for certain new vehicles registered as demonstration vehicles;
 - registered by exempted organisations involved in charitable activities or welfare;
 - due to administrative errors such as two people (such as two brothers) buy a vehicle but the motor dealer registers it in one name only, or a couple buys a vehicle but the motor dealer registers it in the name of one partner only or the wrong partner
- 3 However, there are differences in other States. For example, Queensland and Northern Territory grant an exemption when the transfer is regarded as a gift and involves the transfer to the registered operator's spouse, parent, child, grandparent, grandchild or to one of their spouses. Victoria, Queensland and the Northern Territory also grant exemptions where the registered vehicle is used in the primary production business of the registered operator. Some States also grant exemptions to charitable and non-profitable organisations but which organisations qualify for these exemptions varies between States.
- 4 The Commission is not in a position to judge the comparable of the exemptions granted by States.

ATTACHMENT B: TYPES OF MOTOR TAXES

- 5 States impose a range of taxes on motor vehicles. The two main types are:
 - an annual flat fee; and
 - a duty on the value of the vehicle.
- 6 Annual registration charges are an example of a flat fee tax. The Commission assessments differentiate between annual charges on heavy and light vehicles. This is because the heavy vehicle fee (the annual fees applying to vehicles with a gross vehicle mass in excess of 4.5 tonnes) are the same in each State. Since 1 October 2001, all States have levied the heavy vehicle charges set by the National Transport Commission. For other vehicles (light vehicles), each State sets its own annual fee. The fee can vary according to the intended use of the vehicle, its weight, the number of cylinders and its engine capacity.
- 7 The stamp duty payable on the registration of a new motor vehicle or the stamp duty payable to transfer the registration of a used motor vehicle are examples of taxes levied on the value of the vehicle. Some States levy these duties on the actual value of the vehicle, others on the market value of the vehicle. The rate of duty can vary according to the value of the vehicle, whether the vehicle is new or used or the use of the vehicle (passenger or commercial).
- 8 States provide exemptions and concessions from the payment of the stamp duty for both new cars and transfers.