1990-91

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

SALES TAX LAWS AMENDMENT BILL (NO.1) 1991

EXPLANATORY MEMORANDUM

(Circulated by the authority of the Treasurer,
the Hon. P.J. Keating, M.P.)

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General Outline

The Sales Tax Laws Amendment Bill (No.1) 1991 will reduce the rates of sales tax that apply to 'luxury' motor vehicles to a single rate of 30%. These vehicles are currently taxed at rates that range between 30% and 50%.

The change will apply to any taxable dealing that occurs on or after 13 March 1991.

Financial Impact

The cost of the proposed change will be $15m for 1990-91 and $45m for 1991-92.

Background

Goods are taxed at different rates

Most taxable dealings are subject to sales tax at the "general rate" (which is currently 20%), **unless** the goods are listed in any of the Schedules to the ***Sales Tax (Exemptions and Classifications) Act 1935***. Goods included in any Schedule to that Act are treated as follows:

First Schedule	-	listed goods are exempt from tax
Second Schedule	-	taxed at a rate of 30%
Third Schedule	-	taxed at a rate of 10%
Fourth Schedule	-	taxed at a rate of 20%
Fifth Schedule	-	taxed at a rate of 20%
Sixth Schedule	-	goods are taxed at a progressive rate of tax, between 30% and 50%, as the value of the vehicle increases

Taxation of motor vehicles

Most passenger and commercial motor vehicles are subject to a 20% rate of sales tax (Fourth and Fifth Schedules). There is an exception for passenger motor vehicles that have a wholesale selling price which exceeds the amount determined under the formula in the Sixth Schedule. In these cases, the vehicles are subject to a progressive rate of sales tax starting at 30% and increasing to a maximum rate of 50%.

Motor vehicles covered by the Sixth Schedule

The Sixth Schedule applies to motor vehicles (including cars and station wagons that are four-wheel drive vehicles) with a wholesale selling price that exceeds the threshold amount determined by a formula set out in the Schedule. The threshold amount is calculated by reference to the motor vehicle depreciation limit determined under section 57AF of the ***Income Tax Assessment Act 1936***.

For the current financial year (1990-91), the Sixth Schedule applies to motor vehicles that have a wholesale sale value in excess of $30,233. This is calculated by reference to the current motor vehicle depreciation limit of $45,056.

The Sixth Schedule does not apply to motor vehicles specially fitted out for transporting disabled persons in wheelchairs. These vehicles are taxed at 20%.

Taxing luxury motor vehicles at progressive rates

Each of the Sales Tax Rating Acts (other than the Act taxing royalties) taxes motor vehicles listed in the Sixth Schedule according to a formula set out in those Acts. This formula has the effect of taxing 'luxury' motor vehicles at a progressive rate of tax starting at 30% and increasing to 50% as the value of the vehicle increases.

Explanation of the amendments

The Bill will reduce the rate of sales tax that applies to 'luxury' motor vehicles to 30%.

The existing mechanism for taxing 'luxury' vehicles is:

they are included in the Sixth Schedule to the Sales Tax (Exemptions and Classifications) Act (see discussion under "Background");

they are taxed by the Sales Tax Rating Acts, which imposes a system of progressively increasing rates of tax between 30% and 50% on goods covered by the Sixth Schedule (also discussed under "Background").

The Bill will abolish the progressive rate system on 'luxury' motor vehicles and impose a uniform rate of 30% on these goods. It will do this by:

- repealing the Sixth Schedule [Clause 7]. This Schedule contains only one item and it applies only to luxury motor vehicles;

  amending the Second Schedule (goods taxable at 30%) by including a new item (Item 61) that is identical to the item presently in the Sixth Schedule [Clause 4]. The effect of this amendment is to tax luxury motor vehicles at 30%. There is no difference between the wording of item 61 and the item presently in the Sixth Schedule.

Commercial Vehicles

The Fourth Schedule lists certain commercial motor vehicles that are taxable at 20% but specifically excludes 'luxury' motor vehicles covered by the Sixth Schedule. The Bill will amend the Fourth Schedule to continue to exclude 'luxury' motor vehicles following their transfer to the Second Schedule [Clause 5].

Passenger vehicles

The Fifth Schedule lists certain passenger vehicles that are taxed at the rate of 20% but specifically excludes 'luxury' motor vehicles covered by the Sixth Schedule. The Bill will amend the Fifth Schedule to continue to exclude 'luxury' motor vehicles following their transfer to the Second Schedule [Clause 6].

Consequential Amendments

The mechanism for proposing the progressive rates of tax on vehicles covered by the Sixth Schedule is set out in paragraph 4(c)(a) and section 5 of the ***Sales Tax Acts (Nos.1-9) 1930***. With the repeal of the Sixth Schedule by this Bill, these provisions have no further application and will be repealed [Clause 8].

Section 6 of ***Sales Tax Acts (Nos. 11A and 11B) 1985*** refers to goods not covered by the Sixth Schedule. This reference has also been repealed.

Depreciation Price Limit

The motor vehicle depreciation price limit under the Income Tax law is altered each 1 July in line with movements in the Consumer Price Index. This means that the wholesale sale value will also alter each year. *The Commissioner of Taxation will announce the wholesale sale value and the equivalent retail price that is to apply to 'luxury' motor vehicles from 1 July each year.*

Motor vehicles for transporting disabled persons

Motor vehicles that have a wholesale sale value above the limit because they have been specially fitted out for transporting disabled persons seated in wheelchairs will remain taxable at the general 20% rate. These vehicles are:

- vehicles known as 'Metrocabs' that are specially modified with floor clamps to hold wheelchairs in place and ramps to facilitate wheeled access in and out of the vehicle; and
- other vehicles that are fitted out in a similar fashion to 'Metrocabs'.

Commencement date

The Bill will come into effect on 13 March 1991. [Clause 2]

It will apply to taxable dealings on motor vehicles that occur on or after 13 March 1991 [Clause 9].

> **Note:** Section 3 of the *Acts Interpretation Act 1901* provides that where an Act is expressed to come into operation on a particular day, it shall come into operation immediately after the end of the preceding day. Therefore the amendment will apply to taxable dealings that occur after 12pm midnight on the 12 March 1991.

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