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THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

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SALES TAX LAWS AMENDMENT BILL (NO. 1) 1992

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EXPLANATORY MEMORANDUM

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

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### **A. General Outline**

The Sales Tax Laws Amendment Bill (No. 1) 1992 will reduce the rate of sales tax that applies to certain passenger motor vehicles, from 20% to 15%.

2. The change will apply to any taxable dealing with motor vehicles that occurs on or after 27 February 1992.

### **B. Financial Impact**

3. The cost of the proposed change will be \$40m in 1991-92, \$185m in 1992-93, rising to \$275m by 1995-96.

## C. Background

### Goods are taxed at different rates

4. Most goods 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* (the (E & C) Act). Goods included in any Schedule to the 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%.

### Taxation of motor vehicles

5. Under the current law, motor vehicles are taxed at either the 20% or 30% rate. Vehicles taxed at the 20% rate are listed in the Fourth Schedule, which covers commercial motor vehicles, and the Fifth Schedule, which covers passenger motor vehicles with a wholesale sale value of \$30,505 or less. Vehicles that are motor cars or station wagons (including four-wheel drive vehicles) that have a wholesale sale value above \$30,505 are taxed at 30% (item 61 of the Second Schedule).

6. The threshold amount of \$30,505 is the wholesale sale value equivalent of the motor vehicle depreciation limit determined under section 57AF of the *Income Tax Assessment Act 1936*. This threshold amount is calculated by a formula set out in item 61 of the Second Schedule. The current motor vehicle depreciation limit is \$45,462.

7. Motor vehicles that are specially fitted out for transporting disabled persons in wheelchairs are taxed at 20% regardless of their wholesale sale value. This is achieved by excluding such vehicles from item 61.

## D. Explanation of the amendments

8. The Bill will reduce, from 20% to 15%, the rate of tax applicable to certain passenger motor vehicles. Vehicles that will qualify for the 15% rate of tax will be passenger motor vehicles of the kind referred to in heading 8703 in Schedule 3 to the *Customs Tariff Act 1987*. The reduction in the rate will apply to both Australian-manufactured and imported vehicles.

### Definition of 'passenger motor vehicles'

9. '*Passenger motor vehicles*' for the purposes of heading 8703 are defined to be motor cars and other motor vehicles (including station wagons and racing cars) designed for the carriage of 2 or more persons. These vehicles will include sedans, coupes, taxi-cabs, station wagons, four-wheel drive cars that are not off-road vehicles, tourers and similar passenger vehicles that:

- (a) if imported, are classified under heading 8703; or
- (b) if manufactured in Australia, would be classified under that heading if they had been imported into Australia.

[Clause 6]

10. Vehicles that are specifically excluded from the definition of passenger motor vehicles are ambulances, hearses, police vans, amphibious vehicles and off-road vehicles.

[Clause 6]

**Note:** The definition of passenger motor vehicles is contained in Additional Note 5 to Chapter 87 in Schedule 3 of the *Customs Tariff Act 1987*.

11. Only passenger motor vehicles that have a wholesale sale value of \$30,505 or less will be eligible for the reduced tax rate of 15%. The only exception to this rule will be vehicles that are specially modified to transport disabled persons while seated in wheelchairs.

### Motor Vehicles not covered by heading 8703

12. Motor vehicles that are **not** *passenger motor vehicles* for the purposes of heading 8703 under the *Customs Tariff Act* will continue to be taxed at the 20% rate. Vehicles taxed at the 20% rate will include panel vans, delivery vans, utilities, dual cabs, jeeps, trucks, off-road four-wheel drive vehicles, lorries and motor buses.

13. The only exception to the 20% tax rate will be off-road four-wheel drive vehicles that are motor cars or station wagons and which have a wholesale sale value above \$30,505. These vehicles will be taxed at 30%.

14. Item 1 in the Fourth Schedule covers motor vehicles 'of a kind ordinarily used for commercial purposes'. The item will be amended so that it now applies to all motor vehicles not taxable at the 15% or 30% rates (with the exception of certain vehicles specifically excluded from the item). It will apply to vehicles whether or not they are of a kind used for commercial purposes.

[Clause 5]

#### The definition of 'sales tax rate'

15. Item 61 in the Second Schedule to the (E & C) Act contains the formula used to calculate the wholesale sale value threshold above which vehicles are taxed at 30%. One of the components of the formula is the '*sales tax rate*', which is specified to be the rate of tax applicable to goods covered by the Fifth Schedule (currently 20%). The reduction in the Fifth Schedule rate to 15% would have the effect of increasing the wholesale threshold amount. In order to avoid this, the formula will be amended to retain the *sales tax rate* at 20% (i.e. 0.2).

[Clause 4]

#### Amendments to the rate of tax

16. Sales Tax is imposed by the *Sales Tax Acts (Nos. 1-9) 1930*. The Bill will amend these Acts to impose a tax rate of 15% on motor vehicles covered by the Fifth Schedule.

[Schedule to the Bill]

### E. Commencement date

17. The Bill will come into effect on 27 February 1992.

[Clause 2]

18. The Bill will apply to taxable dealings with passenger motor vehicles that occur on and after 27 February 1992.

[Clause 8]





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