Parliamentary Budget Office - Election Policy Costing

NSW Parliament • Parliament House, Macquarie Street Sydney NSW 2000

Referred By:	Australian Labor Party	Proposal No:	A030
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Proposal Title: Additional duties on luxury cars – two higher brackets

Cluster: Treasury

General Government Sector Impacts

	2018-19 $'000	2019-20 $'000	2020-21 $'000	2021-22 $'000	4 year Total $'000
Expenses (ex. depreciation)	-	-	-	-	-
Depreciation	-	-	-	-	-
Less: Offsets	-	-	-	-	-
Revenue	-	40,000	45,000	46,000	131,000
Net Operating Balance:	**-**	**40,000**	**45,000**	**46,000**	**131,000**
Capital Expenditure	-	-	-	-	-
Capital Offsets	-	-	-	-	-
Net Capital Expenditure:	**-**	**-**	**-**	**-**	**-**
Net Lending/(Borrowing):	**-**	**40,000**	**45,000**	**46,000**	**131,000**

Total State Sector Impacts

Net Lending/(Borrowing):	**-**	**40,000**	**45,000**	**46,000**	**131,000**

Notes and costing assumptions

The policy is to establish two additional brackets of motor vehicle stamp duty: for vehicles $100,000 or more, $4,100 plus $7 for every $100 or part thereof over $100,000; for vehicles $150,000 or more, $7,600 plus $9 for every $100 or part thereof over $150,000, from 1 July 2019. Existing exemptions and concessions will be maintained.

Background

Motor vehicle duty is duty on an application to register a motor vehicle for use on NSW roads under the *Road Transport Act 2013*. It is paid when a new vehicle is being registered for the first time, registration is being transferred to another person, registration is issued in another name or an imported second hand vehicle is first registered in NSW.

Current motor vehicle duty rates are:

Vehicle value	Rate
$0 – 44,999	$3 for every $100 (or part of $100)
$45,000 and over	$1,350 plus $5 for every $100 (or part of $100)

The proposed new duty rates will be:

Vehicle value	Rate
$0 – 44,999	$3 for every $100 (or part of $100)
$45,000 - $99,999	$1,350 plus $5 for every $100 (or part of $100)
$100,000 - $149,000	$4,100 plus $7 for every $100 (or part of $100)

Notes and costing assumptions continued:

Timeframe

The costing is based on data as at 5 March 2019.

The costing is based on 2017-18 annual data for the number and value of vehicles attracting registration duty by value range. Duty payable was calculated by applying the existing rates and the proposed rates to the number of vehicles and average value of vehicles in the various vehicle value ranges in the 2017-18 data. The percentage change in revenue at the new rates was then applied, with two adjustments, to motor vehicle duty revenue forecasts contained in the 2018-19 NSW Pre-Election Budget Update. This implicitly assumes the 'structure' of new or changed vehicle registrations - the numbers of and value of vehicles in the various vehicle value ranges - will be similar in future to that in 2017-18.

Concessions

The first adjustment is for concessions. Not all vehicles attract full duty, since concessions apply in some instances (e.g. a concessional rate of duty for vehicles modified for use by disabled persons). The revenue calculated to have been received by applying the full duty rates, both the current and proposed duty rates, to the 2017-18 data does not take account of the effect of concessions in reducing revenue. Applying this 'raw' revenue change to future revenue might overstate the revenue gain, as the concessions would continue under the proposed policy.

The revenue change applied to forecasts of future revenue was moderated using the ratio of actual revenue received to calculated revenue received using the old rates for 2017-18.

Behavioural changes

The second adjustment is for anticipated behavioural changes with a higher rate of duty at the top end of the vehicle value range. Other things being equal, an increase in duty rates would increase the on-road cost of higher valued vehicles, which may reduce demand for such vehicles.

The extent of this behavioural response to an increase in motor vehicle prices - or price elasticity of demand - is uncertain. In 2008, vehicle producers told a Commonwealth House of Representatives Tax and Revenue inquiry into proposed changes to the Commonwealth Luxury Vehicles Tax that the proposed tax increase, equating to an increase of around 3.1% on the price of a $100,000 car, would reduce demand by 10% to 20%. That implies a demand elasticity of between -3.22 and -6.45, i.e. for every 1% increase in vehicle price, demand would decline by between 3.22% and 6.45%.

Studies (such as the Bureau of Infrastructure, Transport and Regional Economics tables of elasticities at https:// bitre.gov.au/tedb/pdf/table2B12.pdf, and the Victoria Transport Policy Institute, Understanding Transport Demands and Elasticities, 27 February 2017) generally give price elasticities of demand for motor vehicles ranging from -0.02 to -1.6. The Commonwealth Tax and Revenue Committee (see previous paragraph) noted also a 'general consensus' that price elasticity of demand 'is considerably lower for luxury cars at the higher end of the market than for standard cars', and that the increase in Luxury Car Tax was likely to result in sales of vehicles slightly above the tax threshold decreasing and sales below the threshold increasing.

We use a price elasticity of demand of -0.6, which is the mid-point (-0.8) of the range noted above, reduced a little for the lower price elasticity expected for higher valued vehicles. In other words, we assume an increase in the price of vehicles by 1% could be expected to reduce demand for high valued cars by 0.6%.

Since the on-road cost increase from the proposed increase in duty rates is fairly minor (ranging from 0.3% for vehicles valued between $100,000 and $150,000, to 2.7% for vehicles over $300,000) the elasticity impact is minor. Additionally, we assume that the elasticity impact will be not to reduce demand for higher valued vehicles entirely, but to shift demand to vehicles valued just below the immediately lower threshold at which the duty increase occurs.

Notes and costing assumptions continued:

Impact in 2019-20 The revenue gain in 2019-20 is a little below that in later years because, with stamp duty on motor vehicles generally paid a month in arrears, a change of duty from 1 July 2019 will not affect revenue until August 2019. In NSW, taxpayer-assessed revenues (including stamp duty) are recognised when the funds are received by the tax collecting agency, as this is when the revenues can be reliably measured. We have not taken into account any possible shifting forward of vehicle purchases to avoid the increases in duty from 1 July 2019.