

Luxury car tax

What is luxury car tax (LCT)?

From 1 July 2000, the 45 per cent wholesale sales tax on luxury cars was replaced by a 25 per cent LCT. It is in addition to any GST payable on luxury cars and will generally be paid when a car is sold or imported at the retail level.

Cars with a GST-inclusive value above the LCT threshold will be subject to LCT.

What cars are subject to LCT?

The term 'car' includes passenger vehicles designed to carry a load of less than two tonnes and fewer than nine passengers, including station wagons, four-wheel drive vehicles, and all limousines, regardless of their passenger carrying capacity.

In general, the LCT value of a car includes the value of any parts, accessories or attachments supplied or imported at the same time as the car.

What is the LCT threshold?

The LCT threshold is a GST-inclusive value equal to the car limit which may change each year. The LCT threshold for the 2002-03 financial year is \$57,009. This threshold is used in the examples in this guide.

As the car limit is reviewed each financial year, you will need to use the threshold that applies in the year in which the car is sold.

What cars are not subject to LCT?

Luxury car tax does not apply to a car above the LCT threshold if:

- it was sold by a retail sale in Australia before 1 July 2000
- it was imported into Australia before 1 July 2000 and nobody was entitled to quote for sales tax purposes
- there was an application to own use (AOU) of the car before 1 July 2000 for sales tax purposes, and a special credit under section 16 of the GST Transition Act does not apply
- the date of the supply of the car is more than two years after the date of the car's local manufacture or date of entry for home consumption
- it is a prescribed emergency vehicle
- it is not GST-free and is specially fitted out for transporting disabled people seated in wheelchairs
- it is a motor home or campervan, or
- it is a commercial vehicle that is not designed for the principal purpose of carrying passengers.

LCT does not apply to a private sale of a luxury car.

What is a commercial vehicle?

A commercial vehicle is a motor vehicle designed principally for carrying goods.

What is the basis for determining whether a vehicle is designed principally for carrying goods or passengers?

Where a vehicle with a load carrying capacity of less than two tonnes is designed to carry both passengers and goods, the basis for determining if the vehicle is principally designed for carrying passengers, is whether or not the majority of the designed load capacity is attributable to passenger carrying capacity.

The passenger carrying capacity is to be determined by multiplying the designed seating capacity (including the driver's) by 68kg, which is the figure adopted for the purposes of the application of the Australian Design Rules.

If the resulting total passenger weight exceeds the remaining load capacity, the vehicle is to be treated as being designed for the principal purpose of carrying passengers and as such will be subject to LCT.

Is LCT payable on the full value of the car?

No. LCT will apply when a car's GST-inclusive value exceeds the LCT threshold. LCT is only payable on the GST-exclusive value above the threshold.

Is there an input tax credit for LCT?

No. Unlike the GST, no input tax credit is available for LCT, regardless of whether the luxury car is used within the business or for private purposes.

Who pays LCT?

Any entity, including retailers, wholesalers and manufacturers, that makes a taxable supply of a luxury car, may have a liability for LCT. Importers (including private buyers) who make a taxable importation of a luxury car will also pay LCT.

When is LCT payable?

LCT is payable on all taxable supplies or taxable importations of luxury cars unless the recipient of the car provides a quote, in the prescribed form, to the supplier or to Customs. The quotation system is designed to prevent LCT becoming payable before the car is sold or imported at the retail level.

Who is entitled to quote?

Registered entities will be entitled to quote their Australian business number (ABN) in relation to the supply or importation of a luxury car where they have the intention of using the car for one of the following purposes, and for no other purpose:

- holding the car as trading stock, other than holding the car for hire or lease
- carrying out research and development for the manufacturer of the car, or
- exporting the car in circumstances where the export is GST-free.

How is LCT payable?

When entities that are registered (or required to register) for GST make a taxable supply of a luxury car, they must include the amount of LCT payable on their *Business activity statement* (BAS). They must remit LCT to the Tax Office together with the GST payable.

Unless they have quoted, importers will pay LCT to Customs when they import a car.

How is LCT calculated on a taxable supply?

The following formula is used to calculate LCT:

$$\frac{25}{100} \times \frac{10}{11} \times (\text{luxury car tax value} - \text{luxury car tax threshold})$$

EXAMPLE

You sell a car worth \$80,000 plus \$8,000 GST. The LCT value is \$88,000. The LCT threshold for 2002-03 is \$57,009.

LCT payable is calculated using the following steps:

Step 1. Calculate the amount subject to LCT. This is the LCT value, minus the LCT threshold.

$$\$88,000 - \$57,009 = \$30,991$$

Step 2. As the \$30,991 amount includes GST, the next step is to multiply this amount by 10/11 to exclude GST.

$$10/11 \times \$30,991 = \$28,173.64$$

Step 3. Step 2 gives the GST-exclusive value that exceeds the threshold. Multiply this by the LCT rate of 25 per cent to calculate the LCT payable.

$$25/100 \times \$28,173.64$$

$$= \$7,043.41$$

Add the LCT to the GST-inclusive price to give the amount payable on the supply. \$88,000 (GST-inclusive) + \$7,043.41 (LCT)

$$= \$95,043.41$$

You would include \$8,000 GST and \$7,043.41 LCT on your BAS.

How is LCT calculated on a taxable importation?

Importers are responsible for working out the amount of customs duty, GST and LCT payable to Customs.

Where an importer does not quote, the amount of LCT payable on a taxable importation of a luxury car is calculated using the following formula:

$$\frac{25}{100} \times \frac{10}{11} \times (\text{luxury car tax value} - \text{luxury car tax threshold})$$

EXAMPLE

You import a car with a customs value (including vehicle and parts) of \$45,000. You pay \$1,500 for freight and insurance to transport the vehicle to Australia.

LCT payable is calculated using the following steps:

Step 1. Calculate the customs duty payable. From 1 January 2000, the rate of customs duty is 15 per cent of the customs value.

$$15/100 \times \$45,000 = \$6,750$$

Step 2. Calculate the value of the taxable importation by adding the customs value, customs duty and transport and insurance costs.

Customs value - \$45,000

Customs duty - \$6,750

Transport and insurance - \$1,500

Total - \$53,250

Step 3. Calculate the GST payable. This is 10 per cent of the value of the taxable importation.

$1/10 \times \$53,250 = \$5,325$

Step 4. Determine the LCT value. The LCT value is the sum of the value of the taxable importation value and the GST.

$\$53,250 + \$5,325 = \$58,575$

Step 5. Calculate the amount subject to LCT. This is the LCT value, minus the LCT threshold.

$\$58,575 - \$57,009 = \$1,566$

Step 6. As the resulting amount includes GST, the next step is to multiply it by 10/11 to exclude GST.

$10/11 \times \$1,566 = \$1,423.64$

Step 7. Multiply this by the LCT rate of 25 per cent to calculate the LCT payable.

$25/100 \times \$1,423.64 = \355.91

The total amount you pay Customs is:

Customs duty - \$6,750

GST payable - \$5,325

LCT payable - \$355.91

How is LCT calculated on a taxable importation?

The LCT payable on a taxable supply of a luxury car is reduced by the sum of all LCT that was payable for any previous supply or importation of the car. This means that once LCT has been paid on a car, no more LCT will be payable unless the value of the car increases. If the LCT value does increase and there is another taxable supply, LCT will only apply to the extent of the increase.

EXAMPLE

You sell a car for \$95,043 on which LCT of \$6,050.33 has previously been paid.

As the price of the car includes GST and LCT, you need to take out the GST and LCT on the amount above the threshold by using the following formula.

$(\text{Price} - \text{LCT threshold}) \div 1.35$

$(\$95,043 - \$57,009) \div 1.35 = \$28,173.33$

Multiply this by the LCT rate of 25%

$$\$28,173.33 \times 25\% = \$7,043.33$$

To work out the amount LCT now payable, you need to reduce this amount by the LCT previously paid of \$6,050.33.

$$\$7,043.33 - \$6,050.33 = \$993 \text{ LCT payable.}$$

To calculate the GST payable, work out the LCT value

LCT value = Price - luxury car tax payable on the supply

$$\$95,043 - \$993 = \$94,050$$

GST payable will be 1/11th of this amount

$$1/11\text{th of } \$94,050 = \$8,550 \text{ GST payable}$$

You will include \$993 LCT and \$8,550 GST in your BAS.

Where a luxury car is sold to an eligible person with a disability or eligible disabled veteran, to what extent is the car GST-free?

Where a luxury car is sold GST-free to an eligible person with a disability or an eligible disabled veteran, the value of the car up to the car limit will be GST-free. GST and LCT will be payable on any amount in excess of that limit.

When the sale of a car is GST-free (as described above) to an eligible person with a disability or eligible disabled veteran, the LCT value of the car will need to include an amount equal to the amount of GST that would otherwise have been payable. A notional GST amount is imputed in the LCT value for purposes of calculating the LCT payable.

The value of the car for these purposes does not include the value attributable to modifications made to the car solely for the purpose of adapting it for driving by, or for transporting, an eligible person with a disability or disabled veteran.

Need more information?

To help you understand and become part of the tax system, the Tax Office will send out the materials you need. In the meantime, you can obtain a range of tax reform information by:

- phoning **13 28 66**
- downloading information from the website at **www.taxreform.ato.gov.au**
- obtaining A Fax From Tax on **13 28 60**
- phoning the TTY service on **1300 555 727**, if you have a hearing or speech impairment
- writing to us at PO Box 9935 in your capital city, or
- if you do not speak English and need help from the Tax Office, phone the Translating and Interpreting Service (TIS) on **13 14 50**.

If you have any questions regarding importation of luxury cars:

- phone the Customs Information Centre on **1300 363 263**, or
- download information from Customs website at **www.customs.gov.au**

Disclaimer and guarantee

The information in this publication is current at November 2002 and we have made every effort to ensure it is accurate. However, if something in the publication is wrong or misleading and you make a mistake as a result, you will not be charged a penalty. You may have to pay interest, depending on the circumstances of your case.

You are protected under GST law if you have acted on any GST information in this publication. If you have relied on GST advice in this Tax Office publication and that advice has later changed, you will not have to pay any extra GST for the period up to the date of this change. Similarly, you will not have to pay any penalties or interest.

If you feel this publication does not fully cover your circumstances, please seek help from the Tax Office or a professional tax adviser. Since we regularly revise our publications to take account of any changes to the law, you should make sure this edition is the latest. The easiest way to do this is by checking for a more recent version on our website at www.ato.gov.au

© Commonwealth of Australia 2002

This work is copyright. Apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission from the Commonwealth. Requests and inquiries concerning reproduction and rights should be addressed to Commonwealth Copyright Administration, Department of Communications, Information Technology and the Arts, GPO Box 2154, Canberra ACT 2601 or by email Commonwealth.copyright@dcita.gov.au

