

VACC Submission
2016 Victorian State Budget

January 2016



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About VACC

The Victorian Automobile Chamber of Commerce (VACC) is pleased to make a submission to the Victorian State Government as preparations are made for Victoria's 2016 state budget.

VACC represents over 5000 small and medium sized businesses in Victoria and has, for nearly 100 years, been a strong and consistent voice for the retail motor industry in the State, and more recently in Tasmania.

Amongst its industry roles, VACC is charged with a responsibility to communicate to Government where policy and planning matters adversely affect operations in the industry, and in particular, amongst VACC member businesses.

Currently, there are a number of budgetary and policy issues that VACC believe should be remedied to assist the predominantly small to medium sized business that dominate the retail motor industry in Victoria.

Victorian retail automotive industry

The automotive retail service and repair industry in Victoria consists of approximately 15,000 businesses employing over 76,000 personnel and this sector contributes \$10.8 billion to Victoria's Gross State Product (GSP). The industry is also a large employer of apprentices, with small business owners contributing to the training of 6,000 apprentices annually.

Executive summary

In making this submission, VACC acknowledges the current Victorian Government's commitment to the wellbeing and development of the State.

The retail automotive industry is a significant contributor to the Victorian economy, but is facing transformative structural change that is placing increasing pressure on business profits and growth.

These pressures are greatly increased under regressive taxes such as payroll tax.

And while apprenticeship training is the key to future automotive business viability, training has been undermined by state and federal policy decisions in recent years, via cuts to employer incentives and wage increases. This has led to a marked decrease in apprentice hiring and commencements in Victoria, as well as nationally.

Also, flexible vehicle registration payments, improvements to the current roadworthy certificate system and regulation of unlicensed motor car traders will help consumers and business in the year ahead.

VACC Recommendations

The following recommendations are intended to assist Government in protecting our local economy and businesses.

Payroll tax

During 2015, through the engagement of the industry, a strong message has been communicated to VACC from industry regarding the impacts of payroll tax on businesses, and in particular, the punitive nature of this tax as it forms a disincentive for growth and expansion of enterprises.

VACC asks the Victorian Government, as part of its budget considerations, to begin removing payroll tax in Victoria. If the tax removal cannot be achieved in the short term, VACC asks the Government to:

- Reduce the current payroll tax rates in Victoria (currently 4.85%) with the eventual elimination of this tax.
- Increase the payroll tax free threshold level at which business are required to pay this tax from \$550,000 to \$1,000,000 (in-line with other jurisdictions).
- Reintroduce payroll tax exemptions for eligible new trainees and apprentices, as currently exist in NSW, QLD and WA. This measure would exclude apprentice and trainee wages from payroll tax for the full duration of their training. It would also reduce apprentice hiring costs for Victorian employers and support job creation.
- Don't introduce any new taxes or increase existing taxes on small business.

Apprenticeship training

Changes to apprenticeship and traineeship policies and financial incentives by Federal and State governments, have seen the numbers of young people commencing an apprenticeship fall to their lowest levels in recent years.

In order to address this decline, VACC calls on the Victorian Government to instigate the following measures:

- Reduce apprenticeship training fees.
- Redirect part of the \$20 million of Victorian Training Guarantee funding to boost apprenticeships/traineeships in the retail automotive sector through promotion of traditional trades and industry support in retention.
- Improve targeted funding for apprentice training. Due to reliance on using the latest technology and equipment, automotive trade qualifications are highly expensive to deliver for training providers. Funding training delivery based on delivery method and required equipment levels will improve training outcomes for the automotive industry.

Regulation of unlicensed Motor Car Traders

VACC urge the Victorian Government to make improved allocations, in its budget, to properly regulate and prosecute unlicensed motor car traders. This issue has accelerated in recent years, with a proliferation of enterprises working under the guise of scrap metal dealers, when they are actually dealing in the sale and dismantling of vehicles.

Legitimate Licensed Motor Car Traders (LMCTs) are experiencing difficulty remaining sustainable against unfair competition from growing numbers of operators who have no obvious or outward appearance of compliance with regulatory requirements or established industry standards.

- As part of its 2016 budget allocation, VACC asks the Victorian Government to properly fund the office of the regulator to undertake a broad audit of non-licensed personnel and enterprises that are trading in vehicles, vehicle parts and vehicle recycling.

Flexible vehicle registration payments

Victoria remains the only state or territory that does not allow for flexible vehicle registration and TAC payment options.

By providing affordable payment options, this will reduce the number of unregistered vehicles and help the Victorian community and business better budget for what is a considerable cost, and often the greatest annual household cost per annum.

- VACC calls on the Victorian State Government to introduce a flexible vehicle registration i.e. quarterly (3months) or half yearly (6 month) registration instalments and TAC charges payment option for consumers and industry.

E-Roadworthy system - odometer reading inclusion

Industry is frustrated with the red tape and productivity losses incurred by small business operators from an antiquated paper-based roadworthy certificate (RWC) system. The RWC system causes significant downtime and loss of productivity for automotive repairers and a suspected productivity loss in VicRoads.

- An electronic Roadworthy system is recommended similar to the NSW model. Electronic storing of odometer readings is an essential feature of an e-Roadworthy system. This would help stamp out odometer fraud as the database could be checked in real time for odometer reading integrity. Once initial implementation costs are absorbed, significant savings for Government/VicRoads can be expected.

Key Positions

Payroll tax and business growth

Structural change is currently having a significant and detrimental effect across the automotive industry. Profit margins are being eroded in many workshops and the imposition of supply industries, insurance and finance for example, have reduced overall profitability within many enterprises. Many employers are operating marginal businesses and will be forced to amalgamate or exit the industry in the coming years.

The need for workshops to operate in larger economies of scale and to find efficiencies through highly segmented labour tasks and job specialisation will force decisions of expansion onto many employers. Compounding decisions to grow their businesses, employers will factor in the additional burden of payroll tax where they move from under the payment threshold to within it. This factor alone may be sufficient for small marginal businesses to just walk away from their business rather than wear the impacts of the tax, should they seek to expand their operations and employ more staff.

During 2015 through the engagement of the industry, a strong message has been communicated to VACC from industry regarding the impacts of payroll tax on business and, in particular, the punitive nature of this tax as it forms a disincentive for growth and expansion of enterprises.

Notwithstanding the sheer size of the income generated from payroll tax in Victoria (\$5.1 billion in 2014/15 which represents 28 per cent of all state tax income) and the obvious support this provides to Government, it remains the case that this tax has a detrimental effect on the operations of businesses which fall within the payroll tax thresholds. VACC discussions with industry consistently return a view that this is a lazy tax that results in dampening viabilities in the small to the medium business sectors and acts as a disincentive for businesses to employ more personnel.

For VACC members, payroll tax discourages further staff employment and wage increases. Reducing this burden is essential if small business in the retail automotive industry is to grow.

There are many compelling reasons as to why payroll tax is an inefficient tax that inhibits business performance:

- The Henry Review into Australia's future tax system recognised the inefficiencies in current arrangements and recommended that state payroll taxes be replaced with revenue from more efficient broad-based taxes that capture the value add of labour¹.
- The tax is impractical as its impositions are pushed onto a business' labour force, irrespective of the value and outputs of that labour. Essentially, payroll tax favours capital intensive business and penalises labour intensive business.
- While some reductions in payroll tax rates have been achieved in Victoria over recent years, these changes have not accounted for the rate of change that has occurred in other business factors, for instance in the rates of pay. As the threshold point for the payment of payroll tax in Victoria has remained relatively constant for nearly two decades, average wages in the State over the same period have increased by 88.3 per cent.
- Based on the average full-time wage, payroll tax captures businesses with as few as seven employees and even fewer if the jobs attract a high salary. It can be a major blow for many businesses that do not have sufficient cash flow, profit or bank balances.
- Large businesses can design company structures to reduce or completely remove their payroll tax obligations. This leaves smaller employers exposed to paying an unfair proportion of payroll tax and competing at a potential disadvantage.
- The grouping provisions² of Australia's payroll tax potentially allow franchised businesses to avoid payroll tax despite being 'controlled' by a single entity via a franchise agreement. In determining whether multiple employers are centrally controlled, the grouping provisions consider only ownership, instead of a definition that captures actual entity control. For example, a billionaire hotel owner can be exempt from payroll tax while the hotel management company leasing the hotel building must pay payroll tax on jobs required for daily hotel operations. These grouping provisions means payroll tax costs jobs and benefit some businesses over others by distorting competition based on ownership structure.
- VACC has concerns that the differences between thresholds and jurisdictions is significant with Victorian employers being penalised with the lowest dollar exemption point at which payroll tax is payable. This position not only penalises employers, but also leaves the State vulnerable to businesses exiting Victoria when businesses decide to expand, or not starting up new enterprises in the state.
- The most obvious example of this disparity can be seen at the extremes of the threshold scales with Victoria's payroll tax threshold cutting in at \$550,000.00 against a threshold for the ACT at \$1,850,000.00, a staggering difference of \$1,300,000.00.

VACC recommendations

VACC calls on the Victorian Government, as part of its budget considerations, to begin removing payroll tax in Victoria. If the tax removal cannot be achieved in the short term, VACC asks the Government to:

¹ Review into Australia's Future Tax System-Part 12-recommendation 57

² The Act contains grouping provisions that add together wages of two or more 'businesses'. Where two or more businesses form a 'group', the wages of those businesses are aggregated. Only one member of the group is entitled to claim the deduction amount.

- Reduce the current payroll tax rates in Victoria (currently 4.85%) with the eventual elimination of this tax.
- Increase the payroll tax free threshold level at which business are required to pay this tax from \$550,000 to at least \$1,000,000 (in-line with other jurisdictions)

Reintroduce payroll tax exemptions for eligible new trainees and apprentices, as currently exist in NSW, QLD and WA. This measure would exclude apprentice and trainee wages from payroll tax for the full duration of their training. It would also reduce apprentice hiring costs for Victorian employers and support job creation.

These measures will help correct the current imbalances with payroll tax in Victoria and improve business confidence, investment and employment.

Apprenticeship training

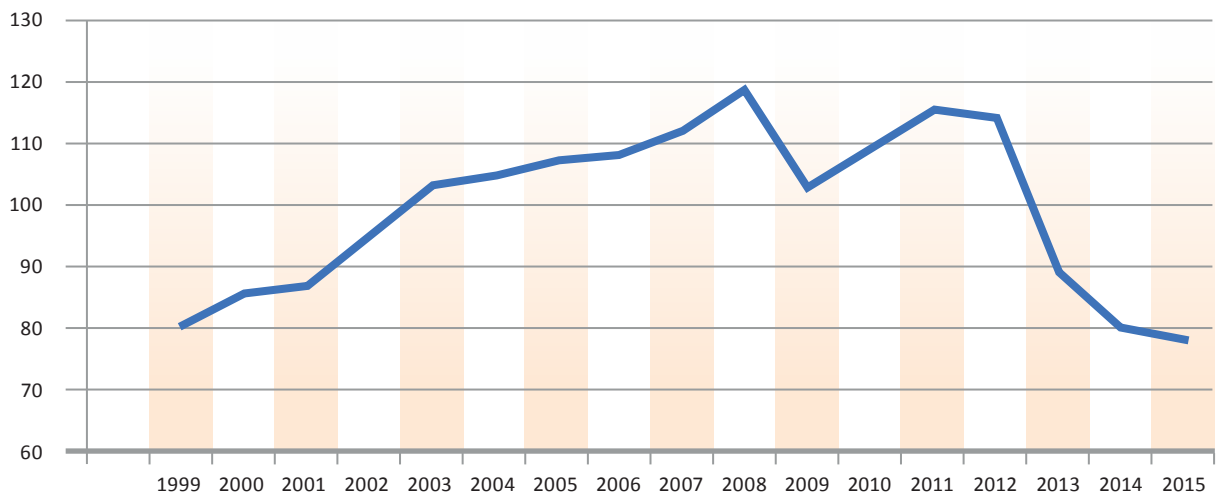
Investment in skills development remains a high priority for business and the VACC appreciates the government’s role in cementing industry as the key driver in skills development through the Vocational Education and Training System (VET).

Apprenticeship training is, naturally, key to the long term viability of the retail automotive industry. However, the VACC has been increasingly concerned that the investment by both State and Federal government in the VET system has fallen in real terms across mainstream programs.

As a result, the value of apprenticeship training has been undermined by state and federal policy decisions in recent years, via cuts to employer incentives, wage increases and redirection away from industry retention/support programs (mentoring) to Apprenticeship Support Services with little capability to address retention. This has resulted in a prominent decline in apprenticeship and traineeship commencements since 2011/12.

Apprenticeship and Traineeship commencements Year to June for age group 19 years and under (000)

(Since commencement of the New Apprenticeships model in 1998)



Source: NCVER/ ACCI National data

VACC supports the basic underpinning of the structure of the VET system being the development of training packages that are reviewed to reflect changes in occupations and skill needs, and supports the new contestable model overseen by industry. This new system needs to be sufficiently resourced to achieve the outcomes of a responsive system and should not be seen as a cost cutting exercise.

A holistic review of apprenticeships is required that takes into account policy decisions made by both levels of Government, as well as changes to the economic and workplace environment that is impacting on this dramatic reduction in opportunities.

VACC recommendations

While VACC welcomes current initiatives to revive the Victorian TAFE system, we also recommend the following measures to further boost apprentice training:

- Reduce apprenticeship training fees.
- Government should identify a suite of qualifications with high employment outcomes and attach training funding and employer incentives in a program aimed to boost apprenticeship and trainee numbers in Victoria.
- Redirect part of the \$20 million of Victorian Training Guarantee funding to boost apprenticeships/traineeships in the retail automotive sector.
- Improve targeted funding for apprentice training. Due to reliance on using the latest technology and equipment, automotive trade qualifications are highly expensive to deliver for training providers. Funding training delivery based on delivery method and required equipment levels will improve training outcomes for the automotive industry.

These measures would help arrest the slide in apprenticeship and trainee commencements by reducing the cost of apprentice hiring and incentivising the uptake of apprentice employment by small and medium businesses.

Regulation of unlicensed Motor Car Traders

VACC urge the Victorian Government to make improvements in its budget, to improve regulation and prosecution of unlicensed motor car traders. This issue has accelerated in recent years with a proliferation of enterprises working under the guise of scrap metal dealers, when they are actually dealing in the sale and dismantling of vehicles.

Legitimate Licensed Motor Car Trades (LMCT's) are finding it more difficult to achieve sustainability against unfair competition from growing numbers of operators who have no obvious or outward appearance of compliance with regulatory requirements or established industry standards.

By their nature and business design, unlicensed traders avoid regulation, and its associated costs, with limited oversight by the state government. Such widespread non-compliance assists unscrupulous operators to launder stolen vehicles through motor wreckers or scrap metal dealers with little or no risk.

VACC has advised the Victorian Law Reform Commission in its submission to the Inquiry Use of Regulatory Regimes in Preventing the Infiltration of Organised Crime into Lawful Occupation, that the infiltration of a licensed industry or occupation can be easily achieved under current industry conditions. These conditions encourage the potential laundering of vehicle parts and currency and have wider international implications where high value vehicle parts are exported by unlicensed traders.

Task Force Discover was an Inter-agency Task Force (ITF) funded by the National Motor Vehicle Theft Reduction Council and led by Victoria Police Crime Command. In an audit of 400 Victorian motor wrecking and scrap metal businesses by the ITF, it was revealed that 70 per cent of businesses visited did not hold the required authorisation to trade (i.e. the correct licence or registration) or being non-compliant to some degree with the conditions of their business licence or registration.

Discussions VACC has held so far with the Victorian Government on this matter have not resulted in any significant change and this situation further encourages the growth of a secondary car parts market.

VACC recommendation

- As part of its 2016 budget allocation, VACC calls on the Victorian Government to properly fund the office of the regulator to undertake a broad audit of non-licensed personnel and enterprises that are trading in vehicles, vehicle parts and vehicle recycling.

This measure would ensure the sustainability of legitimate Licensed Motor Car Traders and help ensure compliance regulatory and protect industry standards.

Flexible vehicle registration payments

Motor vehicle registration fees have increased dramatically in recent years and are a source of financial hardship for many Victorian motorists and business.

Victoria remains the only state or territory that does not allow for flexible vehicle registration and TAC payment options.

By providing affordable payment options, this will reduce the number of unregistered vehicles and help the Victorian community and business better budget for what is a considerable cost, and often the greatest annual household cost per annum.

Furthermore, over 69,000³ ordinary Victorians have voiced their wish for flexible Motor vehicle registration payments.

VACC recommendation

Introduce quarterly (3months) or half yearly (6 month) motor vehicle registration instalments and TAC charges payment for Victorian motorists and industry.

³ <https://www.change.org/p/victorian-state-premier-the-hon-daniel-andrews-mr-john-merritt-chief-executive-vic-roads-provide-affordable-payment-arrangements-for-all-victorian-motorists-in-renewing-their-vehicle-registrations-provide-installment-options-of-3-6-or-12-months>

E-Roadworthy - odometer reading inclusion

Industry is frustrated with the red tape and productivity losses incurred by small business operators from an antiquated paper-based roadworthy certificate (RWC) system. The RWC system causes significant downtime and loss of productivity for automotive repairers and a suspected productivity loss in VicRoads.

Improvement to the roadworthy system via electronic storing of data will also improve consumer protections.

VACC recommendation

An electronic Roadworthy system is recommended similar to the NSW model. Electronic storing of odometer readings is an essential feature of an e-Roadworthy system. This would help stamp out odometer fraud as the database could be checked in real time for odometer reading integrity. Once initial implementation costs are absorbed, significant savings for Government/VicRoads can be expected.