



THE CASE FOR A TRUCKING INDUSTRY INVESTMENT ALLOWANCE BRIEF FOR THE TREASURER

25 FEBRUARY 2020

INTRODUCTION AND SUMMARY

The ATA proposes that the Government implement a 50 per cent investment allowance in year one of the purchase of a new truck or trailer.

The investment allowance would be in addition to the existing uniform capital allowance.

There would be a 25 per cent investment allowance for the purchase of late model second hand truck and trailers.

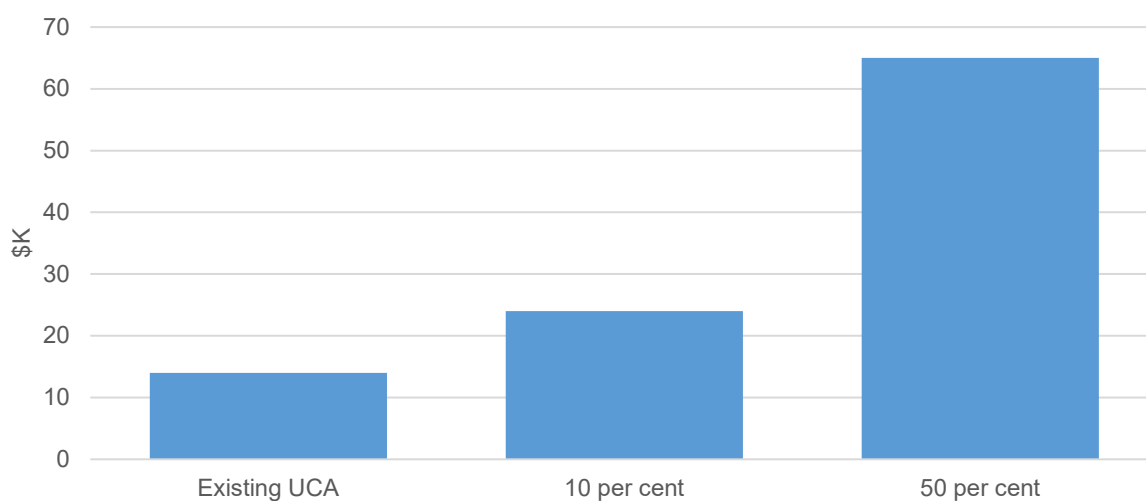
Both investment allowances should be in place for five years (from 2020-21 to 2024-25), to encourage businesses to plan their purchases strategically.

The allowances would:

- facilitate the purchase of about 19,500 new trucks and trailers
- increase the number of trucks and trailers in the fleet with advanced safety features, including electronic stability control (ESC) and autonomous emergency braking (AEB)
- contribute to improving urban air quality. The new Euro V trucks purchased as a result of this plan would emit 67 per cent less carbon monoxide, 58 per cent fewer hydrocarbons, 75 per cent fewer nitrogen oxides and 94 per cent fewer particulates than a truck built in 1996.

IMPACT OF THE ALLOWANCE ON TRUCK AND TRAILER COSTS

Figure 1 sets out the tax saving that a business purchasing a new truck in 2020-21 would receive under the existing UCA using the prime cost method, a 10 per cent investment allowance on new assets and the recommended 50 per cent investment allowance.

Figure 1: Year 1 tax saving on a new \$397,000 prime mover, 2020-21

A 10 per cent investment allowance would only offer a small additional tax saving to a business purchasing a new truck, primarily because trucks already have a 7.5 year effective life. The additional tax saving in year one would not be enough to change truck buyers' behaviour.

A 50 per cent investment allowance, however, would deliver an additional tax saving of some \$51,000.

Second hand trucks and trailers

The second hand market is an important consideration in developing tax policy for the trucking industry.

55 per cent of trucking businesses have a turnover of less than \$200,000 per year. 93 per cent have a turnover of less than \$2 million per year.

Many of these businesses do not have the financial ability to purchase new equipment, but their business operations, urban air quality and road safety would all benefit if they could afford to upgrade to newer (but still second hand) vehicles.

Prices in the second hand market also influence the purchasing behaviour of businesses that buy new trucks and trailers: they sell their second hand vehicles to help finance the new equipment. It is so important that some companies have maintenance and operational policies that aim to maximise the resale value of their equipment.

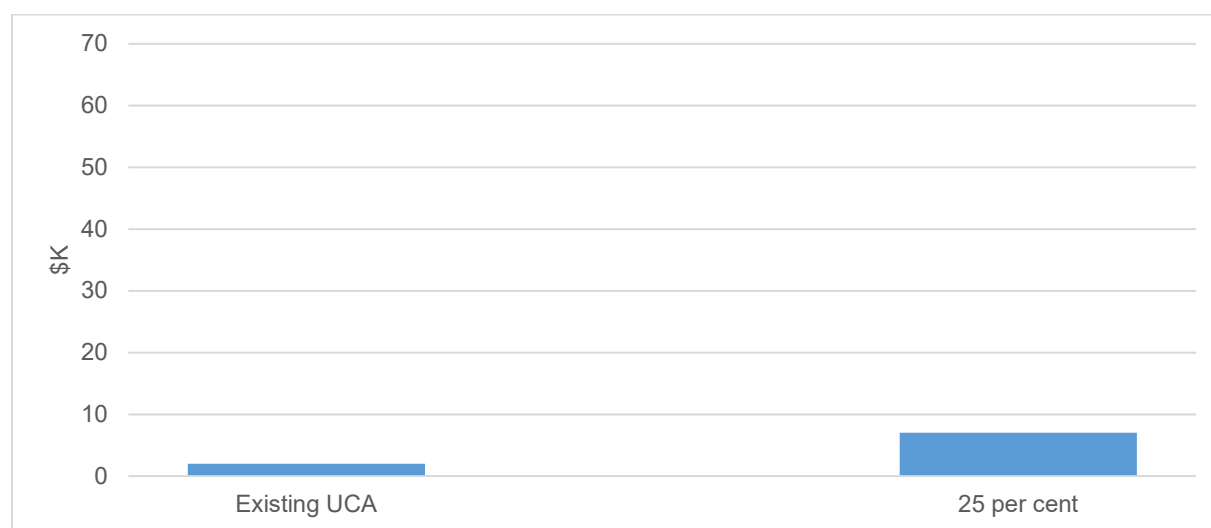
Accordingly, the ATA proposes a **25 per cent investment allowance** for the purchase of second hand trucks and trailers manufactured from 1 January 2015 (table 1).

Table 1: Proposed implementation date, second hand truck and trailer allowance

Vehicle type	Date	Rationale
Truck>4.5t GVM	1 January 2015	ABS brakes required on all new trucks (ADR35/04). These trucks all comply with the current Australian emission standard (ADR80/03, Euro V)
Trailer>4.5t GTM	1 January 2015	ABS/variable proportioning brakes required on new trailers, with minor engineering exceptions (ADR 38/04)

Figure 2 sets out the tax saving that a business purchasing a second hand trailer in 2020-21 would receive under the existing UCA using the prime cost method and the recommended investment allowance.

Figure 2: Year 1 tax saving on a second hand \$80,000 trailer, 2020-21



A 25 per cent allowance would generate an additional tax saving of \$5,000 in 2020-21.

It should be emphasised that these tax savings would be brought forward from later in the effective life of each asset. The cost to the budget would be the financing cost of the bring forward, not the immediate tax savings seen by businesses in year one.

BEHAVIOURAL RESPONSE

In 2019, Australian businesses purchased about 29,000 new trucks and 10,000 truck trailers.

The ATA considers that the proposed investment allowance would increase truck and trailer sales by 10 per cent, with the results of such an increase summarised in table 2.

The 10 per cent estimate should be regarded as conservative.

Table 2: Impact of the measure on new truck and trailer sales

Market segment	2019 sales	1 year increase	5 year increase
Heavy duty truck	12,700	1,270	6,350
Medium duty truck	7,400	740	3,700
Light duty truck >4.5t GVM	8,900	890	4,450
Truck trailer	10,000	1,000	5,000
Total	39,000	3,900	19,500

Case studies of new truck purchasing decisions

ABC Furniture Removals

ABC Furniture Removals operates six furniture removal trucks in a major metropolitan area. The business routinely purchases some \$110,000 in new equipment per year.

The company owner advises that the 50 per cent investment allowance would enable the business to bring forward the purchase of a \$140,000 truck and \$35,000 dog trailer by 12 months. The new truck and trailer would replace a 2002 model truck, which would be sold at auction or traded in for \$15,000-\$20,000.

Unlike the 2002 truck, the new truck would be fitted with front underrun protection, ABS brakes, electronic stability control, autonomous emergency braking and a reversing camera – particularly important for a truck operating in suburban streets.

The company owner anticipates that the 2002 truck would be purchased for farm use or as a local delivery vehicle.

Long Distance Transport

Long Distance Transport owns 35 prime movers, 100 trailers and employs 60 people. The business's value proposition is its safety and reliability; it has a rolling yearly program of fleet upgrades.

The business typically purchases three to six new prime movers per year, with the aim of selling the vehicles before they require costly engine, gearbox and drivetrain servicing.

The company owner advises that the 50 per cent investment allowance would enable the business to turn over 10 prime movers per year rather than six. The increased turnover would enable the company to replace older vehicles purchased between 2010 and 2016.

The company would expect to trade in these prime movers or sell them at auction.

The purchasers of the prime movers manufactured in 2015 and 2016 would be able to claim the 25 per cent investment allowance as an incentive to replace even older trucks with these vehicles.

Although they would be second hand, the 2015 and 2016 prime movers are fitted with ABS brakes, front underrun protection and Euro V emission control technology.

SAFETY BENEFITS

The proposed investment allowances would improve road safety. New trucks are safer than older trucks because they are better designed and have better safety technology.

The last ten years has seen the introduction of the following mandatory requirements for new trucks and trailers:

- **Front underrun protection** for new trucks from 1 January 2012
- **Anti-lock brakes** for new trucks and trailers from 1 January 2015, with trailers able to be fitted with variable proportioning brakes as an alternative
- **Electronic stability control**, which is now mandatory for new model heavy trailers and will be phased in for all new heavy trailers (from 1 November 2019), new model prime movers and short wheelbase heavy trucks (from 1 November 2020) and all new prime movers and short wheelbase heavy trucks (from 1 January 2022).

In addition, the government is considering the responses to a consultation RIS on mandating **autonomous emergency braking** (AEBS). This would be phased in from 1 November 2020 for new model vehicles and 1 November 2022 for all new vehicles.

Some narrow engineering related exceptions apply to these requirements.

The time period of the measure would see increased purchases of trucks and trailers with, first, ABS, then ESC and AEBS. These technologies make vehicles markedly safer on the roads.

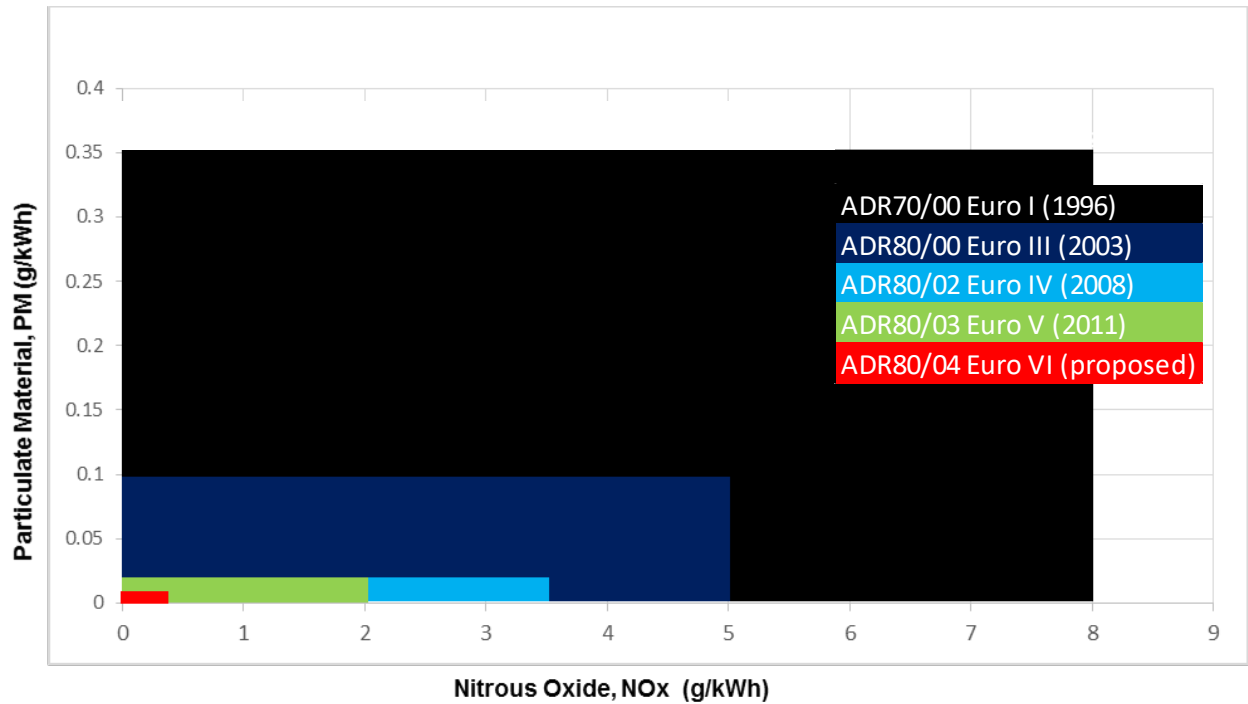
URBAN AIR QUALITY

The Australian Government regulates noxious emissions from on-road trucks through the Australian Design Rules (ADRs). These follow the European (Euro) standards in regulating emissions of carbon monoxide, hydrocarbons, particulates and NO_x.

The aim of reducing noxious vehicle emissions is primarily to improve urban air quality. The Euro standards do not regulate greenhouse gas emissions.

As figure 3 shows, the reduction in the mandated emission limits has been dramatic over time. The new Euro V trucks purchased as a result of this plan would emit 67 per cent less carbon monoxide, 58 per cent fewer hydrocarbons, 75 per cent fewer nitrogen oxides and 94 per cent fewer particulates than a truck built in 1996.

Figure 3: Australian heavy vehicle emission standards



The emission standards apply to new vehicles, not vehicles already in service. There are still very large numbers of trucks on Australia's roads that are not required to comply with any emission standard or only meet earlier generations of the Euro standards.

Encouraging the purchase of new and second trucks that meet the mandated Euro V emission standard or the voluntary Euro VI standard would, over time, contribute to improving the air quality in Australia's major cities.

BENEFITS TO INDUSTRY SUPPLIERS

There is a public perception that Australian automotive manufacturing ended in October 2017. This perception is wrong. The trucking industry is supported by a wide network of suppliers, including businesses that manufacture trucks, trailers and components here in Australia.

Three of those suppliers – Volvo Group Australia, PACCAR Australia and MaxiTRANS – are associate members of the ATA. Daimler is an ATA sponsor.