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South African vehicle owners overburdened by taxes

South Africa, 28 January 2021: While the pandemic has had a dramatic impact on business and industrial landscapes, both locally and abroad, one of the industries that has had to adapt or die quickly is the automotive industry, in all its facets. This has meant rethinking the way it does business and what stimulus packages would help to get it firing on all cylinders again.

“Motor manufacturers and importers certainly rallied to the flag with active and meaningful support for fighting the virus, right from its onset in March 2020, and subsequently they have been very supportive of their retail dealer networks,” says Mark Dommissie, the chairperson of the National Automobile Dealers’ Association (NADA).

“We are very proud of the way in which most of our members have been able to manage their businesses through this crippling pandemic which has, in some cases, involved making tough decisions such as right-sizing, retrenching staff and even considering options to relocate premises.

“What the industry needs now is a significant financial stimulus package from the government which will allow the industry to accelerate its recovery processes. The most effective way to increase sales will be to make new vehicles more affordable by reducing the huge portion of the purchase price that goes to the government in various forms of taxation,” explained the NADA chairperson.

“These taxes make up only a part of the massive tax burden that motorists and transport operators have to ultimately bear, which includes for example the highly taxed fuel levy, annual licence fees, controversial toll fees, and a tyre levy,” added Dommissie.

As an example, tax on the purchase price of a vehicle costing R450 000 currently sits at 42% (R189 000). This percentage is made up mainly of customs duties and an ad valorem duty on a sliding scale, in excess of 30% for vehicles costing more than R1-million.



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Add in the CO2 tax, increased during lockdown last year, that does not necessarily go to financing environmental projects. In addition, there is VAT, which currently sits at 15%, as well as an additional tax accounting to a portion of unrebated import duty. Most OEMs still pay tax on imported vehicles as they do not have sufficient Production Rebate Credit Certificates to rebate the full import duty of 25%.

All these taxes are cumulative, and this is why the average tax on a premium vehicle reaches 42%. All these taxes go straight to the fiscus.

*“We are therefore very pleased that **naamsa** has taken a strong stance on the subject of taxation and has requested the government to cut taxes, by removing the carbon tax on exhaust emissions and reducing the ad valorem duty, which is a value-based tax on items considered a luxury in South Africa. This has the potential to reduce the 42% cumulative tax amount to between 35 and 38%. Most vehicles should certainly not be termed luxury items in a country with an unreliable and inconvenient public transport system,”* commented Dommissie.

A presentation made by **naamsa** last year to the government showed that making vehicles more affordable could boost new sales by about 28 000 units. The presentation also showed that the reduction in ad valorem tax would have a neutral impact on taxes as the tax on increased sales would offset the lower rate of tax per vehicle. The tax shortfall on new vehicles amounts to about R1.2-billion per month based on 12 000 fewer cars being sold each month currently.

“Heavily taxed fuel is another burden vehicle users have to bear. It is the biggest single cost factor for most transport operators and improving the quality of fuel to suit the latest low emission engines seems to have been put on the backburner,” continued Dommissie.

Taxes and levies on fuel presently make up almost 70% of the fuel price. The Basic Fuel Price (BFP), which is made up of the international oil price combined with the rand/US dollar exchange rate, made up the largest component of the fuel price between 2009 and 2014.



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However, according to lobby group Outa, the government's increasing taxes and levies applied over the past decades – as well as a big drop in the oil price in April 2020 – has resulted in the BFP component now accounting for only about 30% of the retail fuel price.

The various taxes and levies that make up the “non-petroleum related costs” comprise the fuel levy, Road Accident Fund, wholesale and retail profit markings, and a few smaller transport and storage costs. Outa said that in 2009 the combined value of these charges amounted to R3.61 or 49% of the total retail fuel price. Currently it stands at R9.48 and makes up 68% of the fuel price, despite the reduction in the international oil price.

“Organisations such as Outa repeatedly call on government to stop continually using fuel levy increases as a means of boosting the fiscus, as it is another force impacting negatively on the country’s economic recovery,” concludes Dommissie.

NADA is a constituent association of the Retail Motor Industry Organisation (RMI).

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NOTES TO EDITORS

ABOUT NADA

The National Automobile Dealers' Association (NADA) is a professional body representing the interests of business persons who own, operate and manage new passenger and commercial vehicle franchise motor dealerships and qualifying used vehicle only outlets in South Africa. There are currently 1,326 NADA members. NADA members make up 85% of all new franchise dealerships in South Africa. South Africa currently has approximately 1,600 new franchised automotive dealerships comprising R48-billion worth of investment. It employs 60,000 personnel directly and a further 25,000 indirectly.

NADA is a proud constituent association of the Retail Motor Industry Organisation (RMI) and has affiliations with a number of similar organisations world-wide.

NADA is committed to enhancing the image of the retail motor business; facilitating the interface between dealers and the motor manufacturers and importers who supply them; building rewarding relationships between dealers and their customers; and bringing relevant issues facing its members to the attention of government at all levels.

As a major role player in the automotive industry, NADA and its members are strong supporters of complying with the Retail Motor Industry Organisation and the Consumer Protection Act's Codes of Conduct for the Automotive Industry. In all forums, NADA is the fully representative and respected voice of the retail motor industry in South Africa.



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