FBT – Electric Cars

The take up in electric cars has been significant, driven not only by the price of petrol but also by the FBT position adopted by the Federal Government. The Federal Government introduced a concession that meant certain electric cars (subject to eligibility criteria) provided to an employee was treated as an exempt benefit.

The Government conducted a review of the exemption which identified concerns about the exemption's increasing fiscal cost and distributional effects. In other words, it appears that the policy idea had not been well thought through and it cost too much to maintain. As such, amendments to the concession are proposed so that the level of FBT benefit depends on a number of factors.

Electric cars (meeting certain eligibility criteria) that are provided to an employee under a commitment made on or after 1 April 2027 receive concessional FBT treatment, with the level of concession depending on:

- When the commitment to provide the car benefit was made; and
- The base value of the car at the time the employer first holds the car provided to the employee (or associate).

To receive a 100 per cent discount on FBT, the eligible car must:

- Be provided to the employee as a car benefit under a commitment made on or after 1 April 2027 and before 1 April 2029; and
- Have a base value of $75,000 or less at the time the employer first holds the car provided to the employee.

To receive a 25 per cent discount on FBT, the eligible car must:

- Be provided to the employee by their employer as a car benefit under a commitment made on or after 1 April 2027; and
- Have a base value of more than $75,000 but not more than the fuel-efficient car limit.

The effect of the above is that, longer term, electric cars will only be marginally more tax effective than petrol cars and the range of cars able to access the concession will be limited given the price ceiling.

Accessing the concession is subject to the employer providing the employee with the car under a commitment. A commitment is not defined, however, guidance indicates that a commitment is entered into at the point that there is a commitment to the transaction, and it cannot be backed out of.

Caution should be had in relation to changing arrangements concerning a vehicle as this can move the vehicle from 100% exempt to 25% exempt (or fully taxable). A commitment may cease because a new commitment is made in relation to the same car. A new commitment in relation to the same car includes:

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- Refinancing the car;
- Altering the terms of an existing contract (for example, the lease term or residual value);
- Fitting accessories to a leased car if that results in lease payments being increased (examples of accessories include window tinting, luggage racks or bull bars);
- Changing employers even if the employers are within the same corporate group;
- An employee transferring to another government department and ownership of the car remaining the same (in this case, the new employer has committed to the application and availability of the car – the fact that the car continues to be owned by the former employer is not relevant).

Taxpayers providing electric cars to their employees may wish to review and revise the arrangements with a view to ensuring compliance with the proposed categories. For example, if a car is to be refinanced, employers may wish to enter into and complete that refinancing discussion before 1 April 2029 with a view to preserving the exemption status.