



Powering Australia – Electric Car Discount	
Party:	Australian Labor Party
Summary of proposal: This proposal has 2 components for temporary concessions for passenger electric vehicles (EVs) priced below the luxury car tax (LCT) threshold for fuel efficient vehicles. <ul style="list-style-type: none">• Component 1 – Eligible EVs would be exempt from remaining import tariffs.• Component 2 – Eligible EVs would be exempt from Fringe Benefits Tax (FBT). This proposal would be announced and take effect from 1 July 2022.	

Costing overview

The proposal would be expected to decrease the fiscal balance by around \$360 million and underlying cash balance by around \$357 million over the 2022-23 Budget forward estimates period. In fiscal balance terms, this reflects a decrease of around \$321 million in revenue and an increase of around \$40 million in expenses.

The proposal would have an ongoing impact beyond the 2022-23 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables) over the period to 2032-33 is provided at Attachment A.

The costing estimates for this proposal are particularly sensitive to assumptions about the magnitude and timing of the take up of new electric passenger vehicles. These assumptions are highly uncertain and are dependent upon a number of factors, such as:

- technological improvement in electric vehicle manufacturing
- breakthroughs in new electric vehicle battery chemistries
- the continued impact of COVID-19 on the motor vehicle manufacturing industry and automakers' commitment to EVs
- investment in charging infrastructure (including public, home and workplace fast charging facilities) across Australia
- fuel economy regulation and policies restricting new internal combustion vehicle sales, as well as policies to support electric vehicle uptake in different states and territories
- fluctuations in global and Australian oil prices.

Table 1: Financial implications (\$m)^{(a)(b)}

	2022-23	2023-24	2024-25	2025-26	Total to 2025-26
Fiscal balance	-47.0	-72.9	-99.7	-140.8	-360.4
Underlying cash balance	-45.9	-71.8	-99.5	-139.7	-356.9

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

(b) PDI impacts are not included in the totals.

Key assumptions

The Parliamentary Budget Office (PBO) has made the following assumptions in costing this proposal.

- Consistent with guidance provided prior to the election¹, in the absence of a clear public statement to the contrary the PBO has assumed that this commitment would be ongoing.
- A decrease in the cost of ownership would cause an increase in the number of passenger EVs sold in Australia.
 - The behavioural response would not be expected to have a material impact on the price of eligible vehicles.

Tariff exemption for passenger EVs

- The country of origin for imported electric vehicles would not materially change over the medium term.

FBT exemption for passenger EVs

- That car fringe benefits are provided to employees mostly through salary packaging in a novated car leasing arrangement. The FBT collected from other forms of car fringe benefits would be minimal.
- Most salary packaging arrangements, where employees choose to forego cash salary in favour of payments toward the lease and operating costs of a private vehicle, would use the statutory formula method for the calculation of the taxable value for car fringe benefits.
- The average term of a novated car lease for salary packaging arrangements would be 4 years.
- In the absence of this proposal, there would be no FBT revenue collected on EVs as employees would make post-tax contributions from their salary to reduce the taxable value of car fringe benefits to zero. The salary sacrificing for any additional finance and operating costs of a novated car lease would be made on a pre-tax basis.
 - Under the proposal, where eligible EVs are made exempt from FBT, employees would no longer need to avoid an FBT liability so would increase their pre-tax contributions by the same amount they were previously making post-tax contributions. This would reduce their effective taxable income by a corresponding amount.
- In the absence of a behavioural response to the proposal, the proportion of new vehicle purchases made under salary packaging arrangements would be the same for electric and non-electric vehicles.

¹ [PBO general election guidance 2 of 4, 2021 - The election commitments report: overview](#)

- Around 12% of new passenger vehicles were purchased under salary packaging arrangements in 2020-21.

Methodology

Tariff exemption for electric passenger vehicles

The number and value of electric vehicles expected to be imported from each relevant country of origin under the current policy was estimated for each year, adjusted for the assumed behavioural responses. The relevant tariff rate for each country of origin was then applied to these estimates to derive forgone revenue under the proposal.

FBT exemption for electric passenger vehicles

This proposal would effectively remove the requirement to make a post-tax contribution for eligible vehicles. It would allow all finance and operating costs associated with electric passenger vehicles to be deducted from pre-tax salary and give rise to a reduction in taxable income.

The personal income tax revenue forgone as result of this change is derived by multiplying the reduction in taxable income by the average marginal tax rate for individuals. The reduction in taxable income is equivalent to the employee contribution which was made from their post-tax salaries to reduce their FBT liabilities in the absence of this proposal.

The average marginal tax rate for individuals who are able to benefit from salary packaging arrangements was estimated based on a 16 per cent sample of personal income tax returns for the 2018-19 financial year.

Interaction with fuel excise

Removing import tariff and FBT for eligible EVs would reduce the cost of purchasing these vehicles, increase the take-up of electric passenger vehicles and as a result, decrease in consumption of fuel. This would lead to a reduction in expected fuel excise revenue as less fuel is consumed. The additional take-up of passenger EVs as a result of the proposal was calculated as the assumed behaviour responses above.

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.²

Data sources

Australian Bureau of Statistics, [Survey of Motor Vehicle Use, Australia, 12 months ended 30 June 2020](#), Australian Government, 2020, accessed 02.03.2021.

Australian Bureau of Statistics, [Motor Vehicle Census, Australia, 31 Jan 2021](#), Australian Government, 2021, accessed 02.03.2021.

Department of the Treasury, *2010-11 Budget*, Australian Government, 2010.

Department of the Treasury, *2022-23 Budget*, Australian Government, 2022.

² https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Costings_and_budget_information

Climate Works Australia, *The State of Electric Vehicles in Australia*, Climate Works Australia, Melbourne, 2018.

Department of the Environment and Energy, *Australia's Emissions Projections 2017*, Australian Government, 2017.

Department of Infrastructure, Transport, Regional Development and Communications, *Electric Vehicle Uptake: Modelling a Global Phenomenon*, Australian Government, 2019.

Electric Vehicle Council, *State of Electric Vehicles 2020*, Electric Vehicle Council, Sydney, 2020.

Energeia, *Australian Electric Vehicle Market Study*, Energeia, Sydney, 2018.

International Energy Agency, *Global EV Outlook 2020*, International Energy Agency, Paris, 2020.

SL Mabit and M Fosgerau, *Demand for alternative-fuel vehicles when registration taxes are high*, Technical University of Denmark, Lyngby, 2010.

Selectus, 2021. Novated lease calculator. [Online]

Available at: <https://www1.selectus.com.au> [Accessed 02.03.2021].

The ATO provided the latest data on electric and non-electric vehicle sales, LCT and FBT.

The Treasury provided the motor vehicle sales projection as at the 2022-23 Budget.

Attachment A – Powering Australia – Electric Car Discount – financial implications

Table A1: Powering Australia – Electric Car Discount – Fiscal balance (\$m)^(a)

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Tax revenue													
Administered tax													
<i>Forgone tariff</i>	-20.0	-28.0	-40.0	-58.0	-78.0	-103.0	-133.0	-168.0	-350.0	-423.0	-497.0	-146.0	-1,898.0
<i>Forgone personal income tax</i>	-15.0	-30.0	-46.0	-70.0	-104.0	-144.0	-196.0	-258.0	-360.0	-487.0	-639.0	-161.0	-2,349.0
<i>Interaction with fuel excise</i>	-0.8	-2.3	-4.5	-6.1	-8.5	-11.7	-16.2	-22.1	-30.5	-41.0	-55.8	-13.7	-199.5
Total – revenue	-35.8	-60.3	-90.5	-134.1	-190.5	-258.7	-345.2	-448.1	-740.5	-951.0	-1,191.8	-320.7	-4,446.5
Expenses													
Departmental													
<i>Australian Taxation Office</i>	-11.2	-12.6	-9.2	-6.7	-6.8	-6.8	-6.8	-6.8	-6.9	-6.9	-6.9	-39.7	-87.6
Total – expenses	-11.2	-12.6	-9.2	-6.7	-6.8	-6.8	-6.8	-6.8	-6.9	-6.9	-6.9	-39.7	-87.6
Total (excluding PDI)	-47.0	-72.9	-99.7	-140.8	-197.3	-265.5	-352.0	-454.9	-747.4	-957.9	-1,198.7	-360.4	-4,534.1

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

Table A2: Powering Australia – Electric Car Discount – Underlying cash balance (\$m)^(a)

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Tax receipts													
Administered tax													
<i>Forgone tariff</i>	-19.0	-27.0	-40.0	-57.0	-77.0	-103.0	-133.0	-167.0	-346.0	-421.0	-495.0	-143.0	-1,885.0
<i>Forgone personal income tax</i>	-15.0	-30.0	-46.0	-70.0	-104.0	-144.0	-196.0	-258.0	-360.0	-487.0	-639.0	-161.0	-2,349.0
<i>Interaction with fuel excise</i>	-0.7	-2.2	-4.3	-6.0	-8.3	-11.4	-15.8	-21.6	-29.8	-40.2	-54.5	-13.2	-194.8
Total – receipts	-34.7	-59.2	-90.3	-133.0	-189.3	-258.4	-344.8	-446.6	-735.8	-948.2	-1,188.5	-317.2	-4,428.8
Payments													
Departmental													
<i>Australian Taxation Office</i>	-11.2	-12.6	-9.2	-6.7	-6.8	-6.8	-6.8	-6.8	-6.9	-6.9	-6.9	-39.7	-87.6
Total – payments	-11.2	-12.6	-9.2	-6.7	-6.8	-6.8	-6.8	-6.8	-6.9	-6.9	-6.9	-39.7	-87.6
Total (excluding PDI)	-45.9	-71.8	-99.5	-139.7	-196.1	-265.2	-351.6	-453.4	-742.7	-955.1	-1,195.4	-356.9	-4,516.4

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

Table A3: Powering Australia – Electric Car Discount – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances (\$m)^{(a)(b)}

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Fiscal balance	-1.0	-2.0	-4.0	-7.0	-11.0	-17.0	-26.0	-39.0	-59.0	-90.0	-131.0	-14.0	-387.0
Underlying cash balance	..	-2.0	-4.0	-6.0	-10.0	-16.0	-25.0	-37.0	-57.0	-86.0	-126.0	-12.0	-369.0

- (a) As this table is presented as a memorandum item, these figures are not reflected in the totals in the table above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary³.
- (b) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

³ [Online budget glossary – Parliament of Australia \(aph.gov.au\)](https://aph.gov.au)