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Senate Standing Committees on Economics

PO Box 6100

Parliament House

Canberra ACT 2600

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Dear Sir/Madam,

### **TREASURY LAWS AMENDMENT (ELECTRIC CAR DISCOUNT) BILL 2022**

On behalf of the Institute of Public Accountants I submit our comments on the Treasury Laws Amendment (Electric Car Discount) Bill 2022 (EV Bill).

We welcome the opportunity to provide feedback and make the following comments for consideration.

Tax incentives are an important way to influence behaviours. The slow take up of EV's in Australia will benefit from tax incentives. Already some States and Territories are offering their residents cash rebates and other incentives to encourage individuals to transition away from conventional fuel powered vehicles. Until now there has been no nation-wide incentive for EV buyers, except the slightly higher Luxury Car Threshold (LCT). The higher LCT threshold for fuel-efficient vehicles, has already come into effect (from July 1, the threshold for fuel-efficient vehicles was increased by 6.6 per cent to \$84,916, while for all other vehicles it's up by only 3.9 per cent to \$71,849). That being said, each state has their own EV strategies and respective incentives for EV buyers (See Annexure 1).

All things been equal, this initiative should lead to an increase in the take up of EV's in Australia by improving the cost effectiveness of this option through the removal of the FBT impost. This is particularly attractive for the corporate leasing or salary packaging segment of the market, and this will have the added benefit of creating a future supply for the secondary market, at hopefully a lower entry point for those who wish to purchase such vehicles in the future. No one knows what an EV will be worth at the end of the lease term, so there is some uncertainty around resale values. It's not a case of an EV not lasting the distance, but more about technological advances and battery performance which could easily be eclipsed by future models on offer.

The FBT exemption for a \$60,000 EV using the statutory formula is \$11,732, so removing this impost is significant. This adds to what some states are offering in the form of free stamp duty and in some cases a cash rebate.



The FBT exemption in relation to EV's is only good for employees who have the ability to salary sacrifice, so it's unfortunately not available to everyone to reduce the high cost of procuring such vehicles. It only makes EV's affordable for a select few. The other, more important issue, is lack of supply of EV's, which is contributing to inflated prices, something not addressed by the Government when it talks about affordability.

Below is an illustration to compare the total cost of an EV versus Petrol car of the same Manufacturer's Suggested Retail Price (MSRP) at the end of 5-year period:

***Illustration II: Cost of EV vs. Petrol Car after FBT exemption (for a NSW buyer who has a 5-year novated lease)***

	<b>Electric (A\$)</b>	<b>Petrol (A\$)</b>
<u>Purchase cost</u>		
<b>Price (MSRP)</b>	63,900	63,900
<b>Dealer's fee</b>	1,725	1,725
<b>Stamp duty</b>	2,381	2,381
<b>Registration &amp; CTP</b>	1,107	1,107
<b>Free Stamp duty (NSW state)</b>	(2,381)	0
<b>Rebate (NSW state- only for the first 25,000 buyers)</b>	(3,000)	0
<b>Driveway Price (Post-incentive)</b>	63,732	69,113
<u>Annual running cost</u>		
<b>Insurance &amp; Registration</b>	2,879	2,500
<b>Electricity/Fuel</b>	486	1,500
<b>Service &amp; maintenance</b>	650	1,300
<b>Total running costs (p.a.)</b>	4,015	5,300
<b>FBT Payable (p.a.)</b>	0	12,495
<b>Total cost at the end of 5 years</b>	83,807	158,088
<b>Saving with an EV</b>		74,281

Note: This example is for illustrative purposes only. All tax rates are as prescribed by the ATO for the period ending from 31 March 2023. It was assumed this is for an EV buyer in NSW who drives on average 37 km/day. Service costs obtained from manufacturers website where available, Tyre costs: A\$400 p.a. Fuel: \$2.0/litre. Electricity: \$0.30/kWh.

Adapted from Zecar website.

The EV Bill contains the following costings as detailed in the explanatory memorandum.

## Financial impact

This proposal is estimated to have the following financial impact:

All figures in this table represent amounts in \$m.

2022-23	2023-24	2024-25	2025-26
-20.0	-40.0	-55.0	-90.0



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If you extrapolated the above amounts into number of vehicles based on a purchase price of, say \$60,000, the corresponding result would be 1,705 vehicles in 2022-23, 3,409 in 2023-24, 4,688 in 2024-25 and 7,671 in 2025-26. In the context of the number of vehicles sold in Australia for 2021 calendar year (1,050,000 units) it represents a very small percentage of new car sales and therefore will have a negligible impact on reducing Australia's carbon emission from the transport sector.

Some of the additional comments we like to add are as follows:

- As the start date applies from 1 July 2022, early adopters of EV's cannot benefit from this FBT concession;
- Whilst the benefit will be exempt from FBT, it will still result in a reportable fringe benefit for employees. The reportable amount is the 'grossed-up' value of the fringe benefit and therefore will form part of an employees adjusted taxable income. We assume that this is an intended policy outcome to limit other potential benefits/entitlements. Employers will still be required to perform FBT calculations to administer this benefit as a result;
- The FBT exemption is to be reviewed after 3 years. There is no commitment beyond the first three years to ensure benefits are maintained for participants that have entered into salary sacrifice agreements in good faith if the exemption was to end in three years' time. This adds a level of uncertainty and represents a relevantly short time frame prior to the potential expiration of the initiative;
- Private buyers and sole traders of EV's cannot access these significant savings as it only applies to employees. This significantly limits the impact of the proposed changes as the majority of vehicles purchased would not be eligible. The Governments assertion that this initiative makes the take up of EV's more affordable is misleading and should be qualified accordingly;
- EV's may require installation of charging equipment on the premises of the employee. It is unclear whether the FBT exemption extends to the salary packaging of such equipment. There will also be some administrative issues around the cost of private electricity used to charge such vehicles and the FBT treatment. These issues will need to be addressed by the ATO once the legislation has passed through a Law Companion Guide or other administrative guidance.

Notwithstanding some of the issues we have canvassed above, we are generally supportive of measures that increase the attractiveness of EV's. Australia lags our international peers when it comes to EV use. Transport is the third largest source of emissions and therefore transitioning to zero or low emissions vehicles is an important part of Australia's effort in meeting its reduction in carbon emissions.

The main point we wish to make is that there are other measures which would have a far greater short-term benefit to the environment than this measure. Some of the measures proposed are revenue positive initiatives which could be re-directed towards other measures to encourage greater uptake of EV's.



Given the cost of EV's, their limited supply and the lack of infrastructure, it seems the cost of this initiative is not warranted, particularly given the small number of vehicles that is anticipated to take advantage of this initiative over the three-year exemption period. It would be more appropriate to introduce this policy once some of these constraints were less influential. For example, by creating a fuel efficiency standard for Australia. Its absence is discouraging carmakers from bringing EVs to Australia. The limited supply of EV's brought to Australia are sold out very quickly in minutes, so one of the most important obstacles in Australia is, how to unlock more supply. Tesla which only produces EV's is one of few manufacturers not affected by fuel efficiency standards, and the only manufacturer that's bringing (EV) models into Australia at scale.

Lever the Government has at its disposal that warrant consideration are as follows:

#### **1. FBT exemption dual cabs overly generous**

This FBT concession is overly generous when not applied for its intended policy purpose. There is strong anecdotal evidence that it is being widely abused. The cost of this FBT exemption is difficult to quantify, but given the popularity of these types of vehicles, the cost to the taxpayer would be substantial. There is no work requirement for these types of vehicles but there are strict criteria for their use in order to qualify for the exemption. Tightening of the eligibility around this FBT exemption will generate two significant benefits as follows:

- Diesels represent a significant portion of vehicles that fall under this category. For many years now, dual cab Utes have dominated overall car sales. Of the top ten vehicles sold in Australia, 4 models are dual cabs, and this has been the situation for many years, pointing to the popularity of this category. Many of the models in this category would not meet overseas emission standards in many countries and our tax system is subsidising their use; and
- Cost saving to the Government which could be applied to broaden incentives for the transition to EV's. The cost saving refers to the ability of employees to use pre-tax dollars to fund a car benefit not in accordance or policy intent of the FBT exemption.

The marketplace is awash with the belief that these types of vehicles are 100% tax deductible regardless of their private usage, and without having to worry about FBT as these vehicles are considered exempt from FBT.

Whilst we know this isn't entirely accurate, we believe many have acted on such information without being aware of exactly what is required for a vehicle to be considered as exempt from FBT. The ATO does not devote a lot of compliance resources to reviewing whether employers can access this FBT exemption.

Briefly, cars, utilities, vans, and motorcycles with a load-carrying capacity of under one tonne, and where the principal purpose is not for carrying passengers may fall within this FBT exemption, but only where the private use meets certain criteria. It is not the car itself that is exempt, it is the private use of the car that may be eligible for an exemption.



ATO Practical Compliance Guideline PCG 2018/3 provides guidelines as to when the private use of a dual cab vehicle may be exempt from FBT. PCG 2018/3, sets out the Commissioners view of what constitutes minor, infrequent, and irregular private use. Under the PCG, minor, infrequent, and irregular private use includes:

- No more than a 2 km private travel diversion between home and work;
- No single return private journey in the FBT year that exceeds 200 km; and
- No more than a total of 1,000 km of private travel in the FBT year.

As stated above, due to low level of enforcement of the strict criteria, there is strong anecdotal evidence that a contributing factor towards the popularity of these high emission vehicles is in part due to the perceived FBT exemption.

## **2. Fuel standards – dirtiest in the world**

Australia is known to have some of the dirtiest fuel in the world, yet there are still no fuel efficiency standards that stack up with the rest of the world. The first recommendation of the International Energy Agency's Global EV Outlook 2022 acknowledges the fundamental role of CO2 standards in promoting EV adoption, encouraging these measures for "all countries seeking to hasten the transition to electromobility".

While the Federal Chamber of Automotive Industries (FCAI)'s voluntary emissions standard has led to some small reductions in the past year, the federal government should be exploring the viability of mandating stricter standards. Furthermore, a recent analysis from the Australia Institute estimates the opportunity cost of Australia's inaction on "robust fuel efficiency standards" since 2015, including \$5.9 billion in fuel costs and lost emissions reductions that could have been "equivalent to a year's worth of domestic flights". Cars purchased today and in the last decade will continue to use our roads for years to come, meaning it is equally as critical to minimise carbon emissions per fuel-emitting vehicle as it is to directly incentivise the immediate uptake of EVs.

Our closest neighbour New Zealand has recently introduced improved fuel efficiency standards to catch up with Europe to promote the take up of EV's.

## **3. Stricter standards for vehicle imports**

Delaying the implementation of stricter standards for vehicle imports will continue to leave Australia behind as a dumping ground for inefficient vehicles, whilst Europe, Japan, and others continue to innovate and significantly reduce their emissions from transport. This is also resulting in a shortage of EV supply in Australia, with consumers often waiting several months or having to make a purchase as soon as stock is replenished.

Over 80 per cent of the world has vehicle import standards in line with Euro 6, whereas Australia's standard remains consistent with Euro 5. The importance of advancement from Euro 5 to Euro 6 was indicated as early as 2006. Thus, there is a significant opportunity, and ultimately, a pressing need for the Government to advance from the hesitancy of its predecessor and put Australia back on track with the rest of the world. Otherwise, vehicle



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manufacturers will remain reluctant to increase the supply of EVs, instead offloading their higher emissions vehicles that are banned in other jurisdictions.

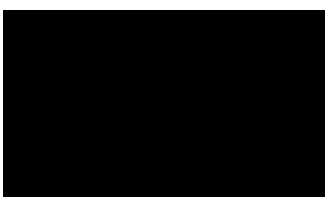
#### **4. Exemptions for public transport**

Making public transport FBT exempt could potentially have far greater greenhouse savings. There has long been calls for this exemption. Since cars are projected to remain responsible for about half of transport-greenhouse gas emissions, economic mechanisms must be used to deter car use while investing in more environmentally sustainable transport.

We understand that this initiative was an election promise and the Government is delivering on this commitment, however from a sustainability perspective it will have less impact than many of the alternatives that the Government has under its control.

If you would like to discuss our comments, please do not hesitate to contact me directly.

Yours sincerely



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General Manager, Technical Policy



Institute of Public Accountants

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**Annexure 1: Summary of EV Incentives in Australia (as of 25<sup>th</sup> July 2022)**

EV Strategy	Federal	ACT	NSW	NT	QLD	SA	TAS	VIC	WA
<b>Rebates</b>	N/A	N/A	A\$3,000 rebate for the first 25,000 new EVs*	N/A	A\$3,000 rebate for the first 15,000 buyers of EVs*	A\$3,000 rebate on the first 7,000 EV buyers*	N/A	A\$3,000 rebate on the first 4,000 EV buyers*	A\$3,500 rebate on the first 10,000 new EV buyers*
<b>Registration fee exemptions/ discounts</b>	N/A	2 years' free registration for new EVs* and 20%	Discounts are available (depending on the tare weight	Waived from 1 July 2022 to 30 June 2027	Lowest car registration for BEVs	3 years free registration for new EVs and hydrogen fuel cell	2 years' free registration for EVs.	A\$100 discount on registration annually	N/A





		discount for older EVs	and purpose )			vehicles.			
Stamp duty exemptions	N/A	Fully exempt-new EVs	Fully exempt for new and used EVs*	Waived for the sale of plug-in EVs*	Lower stamp duty rates than Internal Combustion Engine (ICE) cars	N/A	Fully waived for new and used EVs	EVs are exempt from the "luxury vehicle" rate of stamp duty	N/A
Other incentives	Labour's Proposed Electric Car discount (waive of import tariff and FBT exemption)	A\$15,000 interest free loan for new EV buyers*	N/A	The EV Charger Grants Scheme to buy and install EV chargers*	Up to A\$2000 to install EV smart chargers at home*	N/A	N/A	N/A	N/A
Tax	LCT threshold for fuel-efficient vehicles increased up to \$84,916 from 1 <sup>st</sup> July 2022.	N/A	Road user charge is deferred till 1 July 2027*	N/A	N/A	Road user charge is deferred till 1 July 2027* (the new SA government is seeking to repeal this legislation)	N/A	Road user charge from 1 <sup>st</sup> July 2021 and an increase from 1 July 2022* (currently challenged by a High court case)	Road user charge is deferred till 1 July 2027*
Uptake goal	Net-zero by 2050 (subject to the revisions by new government)	Net-zero emissions (not just from cars) by 2050.	50% of all new cars sold to be EVs by 2030 and Net-zero by 2050.	Government fleet to increase to 200 vehicles by 2030.	50% of new passenger vehicle sales to be zero emission by 2030, and 100% of Government fleet passenger vehicles to be zero emission by 2026	SA Government aims for EVs to be "common choice" by 2030 and the "default" by 2035	100% of Government's fleet to be electric by 2030.	50% of all new cars sold to be EVs by 2030 and 100 percent by 2040 and Net-zero by 2050	25% of Government's fleet electric by 2025/26 and Net zero by 2050

Note: There are certain terms and conditions applied (denoted by \*) for the rebates and other incentives such as maximum cost of the EV and time constraints. More details are available under each state's EV strategy.





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## Annexure 2

### Standards for vehicle imports

[https://ec.europa.eu/commission/presscorner/detail/en/MEMO\\_06\\_409](https://ec.europa.eu/commission/presscorner/detail/en/MEMO_06_409)

<https://dieselnet.com/standards/eu/ld.php>

- Euro 5 stage 2009/10, Euro 6 entering into force in 2014/15
- Widespread adoption of Euro 6 in the EU was achieved around 2015

[https://www.infrastructure.gov.au/sites/default/files/migrated/vehicles/environment/emission/files/Emission\\_Standards\\_for\\_Petrol\\_Cars.pdf](https://www.infrastructure.gov.au/sites/default/files/migrated/vehicles/environment/emission/files/Emission_Standards_for_Petrol_Cars.pdf)

- Meanwhile, adoption of Euro 6 continues to be contemplated in Australia, beginning the previous Government's Ministerial forum on vehicle emissions – [consultation in 2020](#).
- Delays in 2021: <https://www.abc.net.au/news/2021-10-14/australia-dumping-ground-for-polluting-cars-euro-6-standards/100535418>

### Australian fuel standards

[Australia Institute key findings:](#)



- Fuel efficiency standards have been adopted in around 80% of the global car market, but not in Australia.
- In 2018, the average carbon dioxide intensity for new passenger vehicles in Australia was 169.8gCO<sub>2</sub>/km compared to 129.9gCO<sub>2</sub>/km in the United States, 120.4gCO<sub>2</sub>/km in Europe and 114.6gCO<sub>2</sub>/km in Japan
- Australian motorists have paid billions more for expensive foreign oil to fuel gas guzzling cars which have been rejected by the rest of the world.
- Richie Merizan, Climate & Energy Program Director at the Australian Institute: “Unfortunately it is everyday Australians bearing the cost. Australian motorists have paid billions more for expensive foreign oil to fuel gas guzzling cars which have been rejected by the rest of the world.”

#### [Voluntary standards implemented by the automotive industry](#) (2020):

- Down to an average of 146.5g CO<sub>2</sub>/km in 2021 from 150g in 2020 for passenger cars/light SUVs (MA) and 212.5g CO<sub>2</sub>/km in 2021 from 218g in 2020 for heavy SUVs and light commercial vehicles (MC+NA).
- Federal Chamber of Automotive Industries (FCAI) calling for the industry led voluntary emissions standard to be mandated by the Federal Government.

#### [International Energy Agency Global EV Outlook 2022](#)

- Stringent vehicle efficiency and/or CO<sub>2</sub> standards have promoted EV adoption in most leading EV markets and should be adopted by all countries seeking to hasten the transition to electromobility.

### **Infrastructure**

<https://electricvehiclecouncil.com.au/wp-content/uploads/2021/10/2021-EVC-carsales-Consumer-attitudes-survey-web.pdf>

Over 3000 respondents between 5-12 July 2021

- 40% of respondents would be encouraged to purchase an electric vehicle if government subsidies were able to assist with the initial purchase cost
- 92% of respondents agreed public charging infrastructure was important in encouraging them to buy an electric vehicle
- 85% discouraged by current accessibility to charging infrastructure, 87% discouraged by purchase cost – similar significance

#### [World Bank](#)

- “Our research shows that right now, subsidising charging infrastructure is much more cost effective than subsidising the purchases of electric vehicles”
  - o “4-7 times more cost-effective for promoting EV adoption than providing consumer subsidies”
- Having said that, Norway (67% EV market share) “has the most aggressive purchase incentives for EVs in the world – at an average of around \$8,800 per vehicle from 2014-2018.”



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Research from the World Bank found subsidising charging infrastructure anywhere from “4-7 times more cost-effective for promoting EV adoption than providing customer subsidies”. Having said that, Norway (67% EV market share) is described as having the most significant purchase incentive in the world - \$8,800USD between 2014-18. However, given the geographical differences of Australia, the availability of public charging infrastructure to enable long-distance trips is of comparable concern to the purchase price. This shone through in the Electric Vehicle Council’s Consumer Attitudes Survey, in which 85% of respondents indicated they were discouraged by the current accessibility of charging infrastructure, whereas 87% were discouraged by purchase cost.