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The Chairperson
Senate Economics Legislation Committee

Dear Chairperson
Re: **Responses to Questions on Notice from 25/8/22. Senate Economics Legislation Committee Inquiry: Treasury Laws Amendment (Electric Car Discount) Bill 2022.**

Thank you for the opportunity to respond to questions on notice put to me from the 25 August 2022 meeting of the Senate Economics Legislation Committee Inquiry: Treasury Laws Amendment (Electric Car Discount) Bill 2022. My responses are detailed below.

Responses to Senators' Questions on Notice raised on 25 August 2022.

1. Senator DAVID POCOCK: With time in mind, I might put a few questions on notice, rather than ask any more, if that's all right. Dr Kraal, I'm really interested in your view on whether or not including hybrid vehicles in this [Electric Car Discount Bill 2022] is a bit like the government saying that they committed to net zero but they are also going to explore for oil and gas. Is this an example of trying to have it both ways, or are there legitimate concerns there?

Response to Question 1
1.1. I thank the Senator for his question. My direct response is that any form of hybrid vehicles should not be eligible for a Fringe Benefits Tax exemption. Hybrid cars use fossil fuels, and will not sufficiently contribute to lowering $C0_2$ emissions to meet Paris Agreement commitments. Tax exemptions for hybrid cars are a poor use of taxpayer dollars.

My submission's 11 recommendations for changes to the Electric Car Discount Bill 2022 are consistent with my point of 'no hybrids'.[1] My submission to the senate committee was based on the collaborative research report:

[1] See Submissions – Parliament of Australia (aph.gov.au)

Mortimore, A; **Diane Kraal;** K-H Lee; C. Klemm; A. Akimov (2022). *Business Fleets and EVs: Taxation changes to support home charging from the grid, and affordability*. Final Report. Fast track project for RACE for 2030.[2]

The abovementioned EV report was researched by Monash University and Griffith University with input from industry partners that comprised the NSW Government, Victorian Government, the Government of South Australia; AGL Australia Ltd, Australasian Fleet Management Association and the Energy Efficiency Council. All parties met on 28 June 2022 to agree on the content of the final version of our EV report before its release.

Our EV report's Fringe Benefits Tax exemption recommendations (pp. 11, 13) only apply to battery electric vehicles (BEVs). Our EV report's glossary (p.161) defines a BEV as an electric vehicle that exclusively uses chemical energy stored in rechargeable battery packs to power at least one electric motor with no secondary source of propulsion.

Our EV report "recommends 17 short-term and long-term tax changes that can accelerate business fleets uptake of battery electric vehicles (BEVs) through home charging of business fleet vehicles at fleet employees' place of residence." (p.11).

1.2. My submission to the senate committee had six (out of eleven) relevant recommendations – to exclude hybrid cars from an FBT exemption.[3] They are reproduced below:

1. Remove all references to 'low emission' vehicles from all the Bill's provisions. Zero emission vehicles should be retained in the Bill.
2. A penalty rate of FBT should apply to petrol, diesel and low emission cars, thus reducing the financial impact of the FBT exemptions from the Bill.

5. Remove all references to hybrid, plug-in hybrid electric vehicles, and low emission vehicles from the Bill's provisions.

7. The Bill should define an electric car as a vehicle that does not use petrol or diesel for energy; and include the example of a hybrid or a plug-in hybrid car.
8. Remove 'plug-in hybrid electric vehicles' from the Bill's detail section.
9. Remove 'plug-in hybrid electric vehicles' from the scope of the new law.

[2] RACE EV and Tax Report < Business Fleets and EVs: Taxation changes to support home charging from the grid, and affordability by racefor2030 - Issuu>. RACE for 2030 is a Co-operative Research Centre, established in 2020 with Australian Government funding. <About Us - RACE for 2030>. The RACE for 2030 facilitates competitive funding for research projects between partner universities and industry.
[3] See Submissions – Parliament of Australia (aph.gov.au)

2. Senator RICE: Thank you. This is also a question on notice. You said that the cost of this [inclusion of hybrid cars in the Electric Car Discount Bill 2022] would be covered by the sliding scale Dr Kraal proposed. Have you modelled that and have you provided that to us? If not, maybe you could.

Dr Kraal: No, we haven't modelled it. We only modelled some selected recommendations because we basically had a one-year project and the idea was to go into phase 2. But you are after that type of modelling?

Senator RICE: I think that would be valuable for the committee. Having that sliding scale with FBT [inaudible].

Dr Kraal: The best thing I might do is find out what they are doing overseas, because we have taken account of what's been successful overseas in those countries that have really lowered their CO2 emission through the greater uptake of EV. I might respond to your question on notice by providing that positive overseas information.

Senator RICE: That would be great.

Response to Question 2

2.1 I thank the Senator for her question. I will give the example of the UK, where a sliding scale has been legislated, based on $C0_2$ levels and used to apply tax on cars. The UK's average passenger vehicle CO_2 emissions in 2019 was 127.7 grams/km compared to Australia's CO_2 emissions in 2019 of 185 g/km (National Transport Commission 2019).

The private use of a company car in the UK gives rise to 'company car' tax, the equivalent of Australia's Fringe Benefits Tax. The UK 'company car' tax levied on a car benefit is based on a graduated scale according to a car's level of CO_2 emissions in grams per kilometre driven, and applied to the price of the car. The price of the car is determined by taking the list price, and adjusting for the price of certain accessories or contributions made to the cost by the employee. The majority of cars registered after January 1, 1998 have an approved CO_2 rating. There is no reduction to the benefit charge for business mileage or for the age of the car.

For the 2022-23 UK tax year, a *snapshot* of 'company car' tax rates, based on CO_2 (g/km) emissions, is as per the table below:

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fleetnews.co.uk/fleet-faq/what-are-the-current-bik-bands-/3/

FleetNews NEWS TOOLS FLEET MANAGEMENT ELECTRIC FLEET CARS PROFILES FLEET200

The tables below shows future BIK tax bands (also known as company car tax) based on CO_2 emissions of your vehicle.

The Chancellor, Rishi Sunak, announced new company car tax rates, where company car tax rates published in 2019 will be adopted and frozen at 2022/23 levels for an additional two years.

To check the zero-emission range for plug-in hybrids, click here.

(If viewing on a smart phone turn to side to view tables)

Cars registered from 6 April 2020:					
CO2 (g/km)	**Electric range (miles)**	**2021-22 (%)**	**2022-23 (%)**	**2023/24 (%)**	**2024/25 (%)**
0	N/A	1	2	2	2
1-50	>130	1	2	2	2
1-50	70-129	4	5	5	5
1-50	40-69	7	8	8	8
1-50	30-39	11	12	12	12
1-50	<30	13	14	14	14
51-54		14	15	15	15
55-59		15	16	16	16
60-64		16	17	17	17
65-69		17	18	18	18
70-74		18	19	19	19
75-79		19	20	20	20
80-84		20	21	21	21
85-89		21	22	22	22
90-94		22	23	23	23
95-99		23	24	24	24
100-104		24	25	25	25
105-109		25	26	26	26
110-114		26	27	27	27
115-119		27	28	28	28
120-124		28	29	29	29

Type here to search

Source: https://www.fleetnews.co.uk/fleet-faq/what-are-the-current-bik-bands-/3/
See also: https://www.gov.uk/calculate-tax-on-company-cars and
https://www.pwc.com/ee/et/assets/document/2022-Global-Automotive_FormatierteVersion.pdf

3. Senator O'NEILL: So, we're talking about pre-COVID. The world's supply chains have changed considerably since then. I think it's really important that the context of that data is on the public record as well as we discuss the detail. We're running out of time, so I might put some more questions on notice, including asking you for a response to NALSPA's [National Automotive Leasing and Salary Packaging Association] submission, particularly around ATO guidance and uncertainty about what's in and what's out, as well as older definitions around FBT eligibility with regard to cars and the question of what a car expense is. So, perhaps you could look at that particularly in their submission, page 4.

Response to Question 3

3.1. I thank the Senator for her question. I have read NALSPA's [National Automotive Leasing and Salary Packaging Association] submission, at page 4. Their background information on the ATO guidance around FBT eligibility with regard to cars and the question of what a car expense is correct, viz., "car expense" is defined to mean an expense incurred "in respect of ... fuel for the car". My view is that the 'fuel for the car' does not include *zero emission car* expenses, such as electricity for battery charging.

3.2. My submission's Recommendation 11 states that:

> The Bill should be revised… It should also provide examples of car expense payment benefits, car property benefits and car residual benefits in relation to the new law….
>
> For instance, at subsection 53(1) car expense payment benefits, car property benefits and car residual benefits can include home charging infrastructure for zero emission cars, charging meters and any outgoing to purchase the energy to charge the battery of a zero emissions vehicle.[4]

3.3. The NALSPA submission states (p.4) that examples of such [car expense] costs include, but are not limited to:

a. In-home charging infrastructure and support services (e.g., in addition to the equipment cost, the ancillary costs of installation, equipment upgrade where necessary and ongoing maintenance);
b. Road user charges (applicable on a jurisdictional basis - e.g., the road-user charge for Victorian registered zero and low emission vehicles);
c. Vehicle battery replacements; and
d. Vehicle subscription costs (e.g., Tesla's Premium Connectivity subscription to enable access to Live Traffic Visualisation, Satellite-View Maps, etc.).

I would agree with car expenses as listed in (a) for zero emission vehicles; as well as any outgoing to purchase the energy to charge the battery for zero emission vehicles. These items are supported by the literature on overseas tax support; and overseas tax regulations and legislation.
I do not agree with NALSPA's items listed in (b) (c) and (d) as these are not evident in overseas tax regulations and legislation.

Yours Sincerely

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[4] See Submissions – Parliament of Australia (aph.gov.au)