FBT on Electric Vehicles

Summary

Since 1 July 2022 a Fringe Benefits Tax (FBT) exemption has applied to the provision of electric vehicles subject to certain conditions.

A car fringe benefit is classified as an exempt benefit if the following conditions are satisfied:

a) The benefit is provided in the course of employment for a current employee
b) The car is a zero or low emissions vehicle when the benefit is provided, and
c) The value of the car at the time of its first retail purchase is below the luxury car tax threshold for fuel efficient vehicles ($91,661 in 2026-27).

The legislation aims to exempt cars that are zero or low emission vehicles, from fringe benefits tax, that are held by employers and made available for private use to their employees.

Proposed changes from 2026 federal budget announcement

As a result of the 2026-27 Federal Budget on 5 May 2026, there are proposed changes on the FBT treatment of zero or low emissions vehicles.

Up until 31 March 2027, full FBT exemption remains in place for all eligible zero or low emissions vehicles. From 1 April 2027, the full FBT exemption only applies to eligible zero or low emissions vehicles provided after that date purchased for $75,000 or less (reducing from the luxury car tax threshold for fuel efficient vehicles - $91,661 in 2026-27).

Eligible zero or low emissions vehicles provided between 1 April 2027 and 31 March 2029 purchased above $75,000, but below the luxury car tax threshold for full efficient vehicles, will receive a 25% FBT discount for the 2028 and 2029 FBT years (where previously, a full FBT exemption would have been applied).

From 1 April 2029, the full FBT exemption will be removed, and the 25% FBT discount will apply to all eligible zero or low emissions vehicles below the luxury car tax threshold.

Existing arrangements will retain the FBT discount that was in place when the arrangement commenced. **These changes are not yet legislated.**

Zero and Low emissions vehicles

A zero or low emissions vehicle is defined as either:

→ A battery electric vehicle: a motor vehicle that uses only an electric motor and is not fitted with a fuel cell or internal combustion engine.
→ A hydrogen fuel cell electric vehicle: a vehicle that uses an electric motor, is equipped with a fuel cell for converting hydrogen to electricity and is not fitted with an internal combustion engine.
→ A plug-in hybrid vehicle: a vehicle that uses an electric motor, takes and stores energy from an external source or electricity, and is fitted with an internal combustion engine for the generation of electrical energy. ***NOTE:*** plug-in hybrids are not deemed a zero or low emission vehicle from 1 April 2025, and thus this exemption no longer applies for these vehicles from that date, unless the vehicle was exempt before 1 April 2025 and there is a financially binding commitment to continue providing private use of this vehicle after 1 April 2025.

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Example of potential annual saving for employer

Description	Up until 1 April 2029	Post 1 April 2029
FBT method used	Statutory Formula	Statutory Formula
Eligible Electric Car Cost*	$75,000	$75,000
Taxable Value (Vehicle cost x 20% statutory percentage)	$15,000	$15,000
FBT Liability without exemption (Taxable value x 2.0802 x 47% FBT rate)	$14,665.41	$14,665.41
FBT Liability where electric vehicle exemption applied	Nil (Fully exempt)	$10,999.05 (25% FBT discount)
Annual saving for employer	$14,665.41	$3,666.36

*Based on an electric vehicle purchased for $75,000 in line with the recent budget announcements.

Reportable Fringe Benefits

Although the taxable value may be exempt or reduced for the employer, the value of the fringe benefit provided to the relevant employee must still be calculated on the full value, as it is to be included in the employees' Reportable Fringe Benefits Amount (RFBA) when lodging their Single Touch Payroll (STP) finalisation and income tax return for the relevant period.

Although the employee will not be directly taxed on this amount, it may have implications for the employee regarding their HELP debt repayment calculations, child support, private health care, or their eligibility for family assistance payments which should be considered.

Salary Sacrificing Arrangement

The legislation allows employees to Salary Package an eligible electric vehicle which could provide a substantial tax benefit to the employee. This arrangement involves the employer paying for the employee's car lease payments and running costs through the employee's pre-tax earnings.

Although this will reduce the employee's take-home income, it is a more tax-effective alternative to the employee receiving their regular income and paying for an electronic vehicle out of post-tax earnings. As a result, this could be an effective tool to attract and retain employees. An example of this can be seen below which uses an employee earning $200,000 gross income per year and the same vehicle details used in the example above.

	No Salary Packaging	Salary Packaging (up to 1 April 2029)	Salary Packaging (post 1 April 2029)
Total remuneration	$200,000	$200,000	$200,000
Less: Salary Sacrificed Vehicle & Running Costs (pre-tax)	Nil	($20,000)	($8,750)
Adjusted Salary	$200,000	$180,000	$191,250
Less: PAYG Withholding (2026 rates including Medicare Levy)	($56,070)	($48,570)	($51,957)
Net Take Home Income	$143,930	$131,430	$139,293
Electric Vehicle Costs (post-tax)	($20,000)	Nil	($11,250)
Net Take Home Income	$123,930	$131,430	$128,043
Savings for Employee (Compared to no packaging)		$7,500	$4,443

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Administration & Compliance

Although a good tax saving, providing these fringe benefits will create additional administration and FBT compliance requirements for the employer. Good records must be kept and calculations made annually for inclusion of Reportable Fringe Benefits on the payroll. It is recommend that employers lodge an FBT return where they have provided an electric vehicle to an employee even though the taxable value is nil.

For vehicles not eligible for the full exemption, from 1 April 2027 or 1 April 2029, employees should keep log books to substantiate any business use if applicable as this may reduce the FBT payable.

Electricity – impact of installing charging unit and/or charging the electric car at the employee's home

The purchase and installation of a home charging station is not a car expense associated with providing a car fringe benefit. This means that these costs will not come under the electric car fringe benefit exemption. These costs may be subject to fringe benefits tax as a property fringe benefit or expense payment fringe benefit if it is the employer who bears these costs. These property or expense fringe benefits are not exempt.

When it comes to charging an electric car at an employee's home, the ATO have confirmed that a vehicles fuel costs include electricity to charge electric cars. The main issue that arises is being able to measure the monetary value of electricity that has been used to power the electric vehicle. Without a separate meter specifically measuring electricity consumption used to charge the vehicle, is it near impossible to determine this value. The ATO has released guidance whereby 'fuel' costs for an electric car can be calculated at a rate of 5.47 cents per km travelled from 1 April 2026 (previously 4.2 cents). This will make reimbursing the employee for these costs (if relevant), and calculating the RFBA that is required to be included in the employee's income tax return, much simpler.

How can Brentnalls SA help?

At Brentnalls SA, we have the knowledge and experience to help you. If you would like to discuss this further please contact one of our professionals.

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