Nexia Australia

# FBT-exempt electric cars

## For employees

March 2023

Your employer is liable for Fringe Benefits Tax (FBT) on certain benefits provided to you and related parties. Some benefits are expressly exempt from FBT, and from 1 July 2022 that includes certain electric cars. If you package a car as part of your remuneration, this is now a differentiating factor when it comes time to change cars – petrol, electric or hybrid?

The following information will help you make these decisions.

### Who bears the FBT cost – you or your employer?

Where your employer provides a car to you, it will generally fall into one of two categories:

1. Your employer bears any FBT liability
2. You bear any FBT cost as part of packaging the car into your remuneration

The first category usually reflects circumstances where there is an inherent need for a car in order for you to carry out your employment duties. An example might be a travelling sales representative. In this case, the cost of providing the car – including any accompanying FBT – is simply a cost of business borne by your employer.

The other category is where by agreement you choose to package a car into your remuneration under a salary-sacrifice arrangement. In this case, you sacrifice some remuneration in return for your employer funding the costs of providing the car – again, including any accompanying FBT. In other words, with or without the car, your total remuneration package amount will be the same. The amount of each component (salary, superannuation, etc) will be different, but will add up to the same total.

### Which cars are FBT exempt?

There are three key criteria for an electric car to be FBT exempt:

1. The car was first "held and used" on or after 1 July 2022
2. The car is a "zero or low emissions vehicle", and
3. The car's retail price when sold new is below the luxury car tax threshold for fuel efficient vehicles.

A car might have been purchased new before 1 July 2022, but it will nonetheless meet the first criterion provided the first time it was used was on/after 1 July 2022.

A second-hand car can qualify, but only where it was first held and used by the original owner on/after 1 July 2022. Thus, no car first held and used before 1 July 2022 will ever qualify, either for the original or any subsequent owners.

A "zero or low emissions vehicle" is any of the following:

- Battery electric vehicle
- Hydrogen fuel cell electric vehicle
- Plug-in hybrid electric vehicle

All of the above vehicles have an electric motor for propulsion. In addition, a battery electric vehicle has neither a fuel cell nor an internal combustion engine. A hydrogen fuel cell electric vehicle also does not have an internal combustion engine, but does have a fuel cell for converting hydrogen to electricity. A plug-in hybrid electric vehicle includes an internal combustion engine for propulsion and/or generating electricity.

For plug-in hybrids, the exemption ceases on 1 April 2025. However, where your employer has a financially-binding commitment to continue providing a particular plug-in hybrid vehicle to you before that date, the vehicle will continue to be exempt for as long as that commitment remains in place. Once there is a change in 'commitment' post that date, the vehicle will no longer have access to the exemption.

The luxury car tax threshold for fuel efficient vehicles for the 2022-23 income year is $84,916 (including GST). A second-hand car will meet this criterion if its new-car price was below the threshold, irrespective of its second-hand price.

Your employer providing you with a home charging station is not exempt. Also, as the exemption is only for "cars", electric motor bikes and trucks are not included.

### Illustrative scenarios

**Your employer bears the FBT**

Where you are in the first category above – that is, any FBT liability on a car provided to you is borne by your employer as a cost of business – your employer has a financial incentive to switch to an exempt electric car when it comes time to update. The simple reason is that they will save the FBT cost no longer being incurred. For example, if your employer provides a $50,000 petrol car to you, including funding all running costs, they will incur an annual FBT liability of up to around $10,000. However, if your employer switches to providing an exempt electric car, they'll now incur no FBT cost.

**You bear the FBT**

Where you are in the second category above – that is, you choose to package a car into your remuneration under a salary-sacrifice arrangement – the exemption provides no financial incentive for your employer. Rather, it is you, the employee, who is motivated to choose an electric car. Whatever the components of your remuneration package (salary, superannuation, benefits, FBT, etc), they must total to your agreed remuneration package figure. So, with FBT now removed from the equation, the void is filled by additional salary and superannuation.

Here's an illustrative comparison of a $200,000 remuneration package that includes providing an $80,000 car (figures are approximates):

| Remuneration component | Petrol car $ | FBT-exempt electric car $ |
|---|---|---|
| Salary | 146,000 | 160,000 |
| Superannuation | 17,000 | 19,000 |
| Car expenses (incl interest & depreciation) | 22,000 | 22,000 |
| GST credits in car expenses | (1,000) | (1,000) |
| FBT | 16,000 | N/A |
| **Total remuneration cost** | **200,000** | **200,000** |

In both cases, your employer's total remuneration cost is the same agreed package figure of $200,000. Yet, with the FBT-exempt electric car, the $16,000 FBT cost is replaced with approximately $14,000 additional salary and $2,000 additional superannuation. So, although your employer's total remuneration cost remains the same, you have about an extra $8,500 in your pocket each year (ie, extra $14,000 salary, less 39 cents tax and Medicare levy) plus a little more superannuation.

It must be noted that the above does not take account of the fact that an electric car is generally more expensive than an equivalent petrol car. Thus, the $80,000 electric car will likely be smaller and/or have fewer features than the $80,000 petrol car.

## Novated leases

Novating a leased car has been a popular packaging strategy over the years. The effect it can produce is akin to getting a tax deduction for your lease payments (even if the car's use is 100% private), resulting in more after-tax dollars in your pocket.

That would still be the case with an FBT-exempt electric car, but you could now go a step further, and salary package the car's running costs as well. The effect would similarly be akin to getting a tax deduction for the running costs (again, even where 100% private use), leaving even more after-tax dollars in your pocket.

### Illustrative scenario

Imagine that you earn a salary of $150,000, and you lease a car with total operating costs (including lease payments) of $22,000 per year. Even where the car is 100% used privately, here are approximate numbers illustrating the potential additional funds in your pocket:

| | No packaging $ | Package car $ |
|---|---|---|
| Salary base | 150,000 | 150,000 |
| Car operating costs (pre-tax, ex GST) | N/A | (20,000) |
| Salary received | 150,000 | 130,000 |
| Tax & Medicare levy | (44,000) | (36,000) |
| Car operating costs (after-tax, incl GST) | (22,000) | N/A |
| Net available funds | 84,000 | 94,000 |
| **Additional funds in your pocket** | | 10,000 |

### Reportable fringe benefits

Although your employer incurs no FBT liability when providing an exempt electric car to you, it remains a reportable fringe benefit. This means your employer needs to notionally calculate the taxable value of the benefit as if it were subject to FBT. Accordingly, consideration ought to be given to whether maintaining a valid log book and tracking operating costs will result in a lower taxable value than the statutory method. The former entails greater administrative costs compared to the latter. However, where the car is packaged under a salary-sacrifice arrangement like in the examples above, your employer needs to track operating costs in any case as part of measuring your remuneration.

If the total notional taxable value of the car and certain other fringe benefits provided to you is greater than $2,000 for the year, the grossed-up taxable value figure must be disclosed on your annual payment summary.

Alternatively, your employer can elect to notify reportable fringe benefits through Single Touch Payroll. Although the reported fringe benefit amount does not add to your taxable income, it is taken into account when calculating various means-tested government benefits and certain obligations (eg, repaying HECS/HELP debt).

### We can help

Talk to your trusted Nexia advisor about how we can help you make decisions that will maximise the value to you from your car-packaging arrangements.


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