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AUTHOR: JAMES JENNINGS SECTION: SPECIAL REPORT ARTICLE TYPE: NEWS ITEM
AUDIENCE : 219,242 PAGE: 5 PRINTED SIZE: 339.00cm² REGION: National MARKET: Australia
ASR: AUD 18,064 WORDS: 531 ITEM ID: 1779107942

04 FEB, 2023

EVs up to $10,000 cheaper under new FBT rules

Weekend Australian, Australia

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Tax break means more second-hand vehicles will become available,

reports JAMES JENNINGS

Electric vehicles could be almost $10,000 cheaper following passage of the government's Electric Car Discount bill late last year, a program that is likely to put further upward pressure on demand.

Under the legislation, designed to fast-track uptake and subsequently increase the amount of second-hand EVs in the market, businesses and employees will be exempt from Fringe Benefits Tax (FBT) on eligible company fleet and novated lease purchases.

Fleet and lease sales are a significant component of the total new car market and vehicles purchased under salary-sacrifice arrangements or via company fleets are often sold after three or four years as relatively new, second-hand vehicles. That means potentially thousands of second-hand EVs – many still under warranty – could become available in the next few years.

The benefit applies to vehicles under the $84,916 Luxury Car Tax threshold, meaning the vast majority of EVs imported to Australia – including the popular Tesla Model 3 and Model Y, Hyundai Kona Electric, BYD Atto 3, Kia EV6, MG ZS EV and Hyundai Ioniq 5 – are eligible for the new tax break.

Calculations by tax advisory firm BDO Australia show businesses purchasing a $48,000 electric vehicle for an employee's use would receive an annual FBT saving of approximately $9385.

Employees who use a novated lease to salary sacrifice into a car are also in for a nice surprise, as the new rules could make it more beneficial to buy an EV than a car with solely a combustion engine.

Under a standard novated lease agreement, part of the lease cost is paid using pre-tax income and part is paid using post-tax income, in order to reduce any resulting FBT taxable value to zero. But via the Electric Car Discount, which removes the FBT component, the total contribution made by an employee may now be made from pre-tax amounts, resulting in significant tax savings. According to BDO Australia's calculations, an employee earning $150,000 and salary sacrificing $25,000 annually in lease payments and running costs could be as much as $9250 better off than an employee paying for an EV with after-tax income.

Novated leasing has changed the game for the average tax-paying punter wanting something nice in the driveway, and the flexibility to upgrade at the end of the lease term.

Alternatively, the employee can make a "balloon" or "residual" payment at the end of the lease to take private ownership. This is not expected to trigger a separate fringe benefit.

The new FBT exemption on EVs applies only to passenger cars, which will make some Chinese companies like LDV, which rolled out Australia's first production-built electric ute recently, most unhappy. Priced at near $93,000, the LDV eT60 was never going to make the threshold anyway without some significant discounting.

How to save on an EV with a novated lease

	NO SALARY SACRIFICING	SALARY SACRIFICING
Salary	$150,000	$150,000
Lease cost (pre-tax)	$0	-$25,000
Cash salary	$150,000	$125,000
PAYG tax	-$40,567	-$31,317
Net Pay	$109,433	$93,683
Lease (post-tax)	-$25,000	$0
Net	$84,433	$93,683
Savings	**$0**	**$9250**

**PAYG withholding amounts based on resident tax rates for 2022-23 and excluding the 2% medicare levy*

Source: BDO Australia