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Date: 22nd November 2018
To: Chair, Senate Select Committee on Electric Vehicles, Parliament House Canberra.
Re: Fringe Benefits Tax arrangements and Electric Vehicles – Questions on notice.

Dear Senator Storer,

The Australian Electric Vehicle Association (AEVA) has compiled a response to questions taken on notice regarding the Fringe Benefits Tax arrangements and how this applies to electric vehicles in the workplace.

AEVA Vice President, Clive Attwater has detailed in the attached documents how the current arrangements disadvantage EV drivers, using either means of calculating the taxable value of the vehicle. This negates the markedly lower running costs (and associated public health benefits) of an EV. Some suggestions are made to address this issue, as well as removing various exclusions which favour the internal combustion vehicle, particularly those applied to dual-cab utilities.

If you have any further queries, please feel free to get in touch using the details above.

Sincerely,

Greg Partridge, AEVA President

Response to the questions posed by the Senate Select Committee on Electric Vehicles to the Australian Electric Vehicle Association re Fringe Benefits Tax and Salary Sacrifice

Fringe Benefits Tax

The committee has heard that EV owner/operators are disadvantaged by the current fringe benefits tax (FBT) rules in comparison to conventional internal combustion engines vehicles. The committee understands that the taxable value for car FBT can be calculated by two methods—statutory formula method and operating cost method. Owners must use the statutory formula unless they elect to use the operating cost method. However, owners can use whichever methods results in the lower taxable value.

Are you able to provide your understanding of the effect of FBT on EVs and using both taxable value methods provide a worked comparative example?

Fringe benefits tax (FBT) is a tax that employers pay on certain benefits they provide to their employees – including their employees' family or other associates. FBT is calculated on the **Taxable Value** of the fringe benefits provided.

The fringe benefit for vehicles provided is based on a calculated Taxable Value. The Taxable Value is then **Grossed Up** by a factor – currently 2.0802 – to represent the nominal pre-income tax value of the benefit to the employee, and the **FBT rate** – currently 47% – applied to the grossed-up value to determine the tax payable by the employer.

The Taxable Value can be calculated by one of two methods, the **Statutory Method** or the **Operating Cost Method** (sometimes called the Log Book Method)

A comparison is made between the Hyundai Kona BEV and the Toyota RAV4, both 'moderately priced' small SUVs as a worked example. The purchase and operating costs for the Kona are nominal as the final Australian sale and fixed maintenance pricing has not been confirmed. The example assumes that the vehicle is held for five full FBT years and there is no employee contribution[1]. A brief summary of the calculations and results is presented below. The detailed calculations are included in the attachment.

Method A – Statutory Formula:

Taxable Value = (Cost of Car inc GST x Statutory Rate x (Days Held ÷ 365)) - Employee Contributions

The statutory rate is currently 20%. The tax paid is proportional to the capital value less any employee contribution. However, the employee contribution may be zero if the vehicle is provided as part of their salary package.

[1] The calculated **dollar difference** doesn't change regardless of the employee's contribution, if the employee's dollar contribution is the same for the different vehicle types.

As electric vehicles currently have significantly higher capital cost (but lower running costs) than internal combustion vehicles, they will pay a higher tax under this method.

The FBT amount is payable each year that the vehicle is provided to the employee, albeit the capital value is discounted by 1/3 in year four and beyond, reducing the tax payable. The calculation below shows the tax payable each year over the five year period.

Purchase price:

- Hyundai Kona BEV $60,000 (incl GST) (indicative – final pricing not released)
- Toyota RAV4 $31,253 (incl GST)

	Kona	Rav4	Difference
Year 1	$11,732.33	$6,111.21	$ 5,621.11
Year 2	$11,732.33	$6,111.21	$ 5,621.11
Year 3	$11,732.33	$6,111.21	$ 5,621.11
Year 4	$7,821.55	$4,074.14	$ 3,747.41
Year 5	$7,821.55	$4,074.14	$ 3,747.41
Total	**$50,840.09**	**$26,481.92**	**$ 24,358.16**

The BEV purchase cost is about $29,000 higher than the petrol hybrid without FBT. Adding the higher FBT over five years, the cost premium is nearly doubled to $54,000. For shorter holding periods the total difference is less, but the cost per year higher.

We note that the FBT calculated under this method also disadvantages higher capital cost but more fuel-efficient cars such as (non-plug-in) hybrids (e.g. Prius, Camry Hybrids, etc.).

Operating cost method:

This method requires a log book to be kept for a 12-month period and renewed on a 5 yearly basis assuming 'there is no material change in the usage of the vehicle'. This method is much less frequently used because of the higher administrative costs involved and the difficulty in getting some staff to adequately comply with log book keeping requirements[2].

Taxable Value = (Total Vehicle Costs x Private Use Percentage) - Employee Contribution

Total Vehicle Costs include:

- Fuel

[2] An accounting firm consulted estimates that 80% of their clients use the Statutory Method, with those using the operating cost method typically being incorporated small businesses with the business owner's car having a small proportion of private use.

- Repairs, tyres, routine maintenance
- Registration
- Insurances
- Depreciation (at 25% pa of the written down value)
- Imputed Interest (for 2019 the 'statutory' interest rate is 5.2%)

Vehicle costs will vary greatly depending on operating circumstances (kilometres driven per year, urban vs highway, length of period held, etc.). At the present time the lower operating costs (primarily for fuel) are not low enough to offset the higher capital cost generally making the Total Vehicle Costs higher for EVs than for ICE vehicles[3]. Accordingly, the tax paid will be higher, albeit the difference is very much less than for the statutory method.

	Kona	Rav4	Difference
Year 1	$ 4,546.28	$ 3,669.06	$ 877.21
Year 2	$ 4,018.69	$ 3,091.36	$ 927.33
Year 3	$ 3,186.89	$ 2,658.09	$ 528.80
Year 4	$ 2,563.03	$ 2,333.13	$ 229.90
Year 5	$ 2,095.14	$ 2,089.41	$ 5.73
Total	**$ 16,410.03**	**$ 13,841.06**	**$ 2,568.97**

Operating assumptions:

- Annual distance 25,000 km
- Personal use 25%
- Petrol price $1.50 per litre
- Electricity price commercial off-peak, 10.5 cents/kWh (best case)
- Insurance, registration, tyres and maintenance benchmarked from RAV4 fleet vehicles. EV fixed price maintenance packages have not been published yet but may be lower.

Currently the Total Vehicle Costs are typically 20%-50% higher in the first year with an electric vehicle compared to a combustion only vehicle. This translates directly to a 20% to 50% higher FBT payment in the first year. Over time the difference will fall as EV capital share falls with depreciation so that by year 5, costs are more nearly comparable.

In the long term, EVs will become capital cost competitive and have lower total costs from year 1, at which time they will have an FBT advantage using this method.

[3] Currently there are a few applications (taxis, urban delivery vehicles and some trucks in the 4-10 tonne range, exceeding 50,000 km per year in travel distance) where the lower operating costs of BEVs and PHEVs are sufficient to fully offset the higher capital costs of these vehicles. However, none of these applications are likely to be liable for FBT.

Other considerations

- FBT applies only where there is a private use component. In the short term, fleets may limit EVs to vehicles in the fleet where there is no private use component to avoid this additional cost, reducing the scope for EV uptake in fleets.
- The higher capital cost/lower running cost of BEVs makes it attractive to hold them for longer periods, five to seven years. By this time lower cost BEVs are likely to be on the market. The relatively higher cost early EVs purchased today will continue to impose this additional tax cost using the statutory method as long as they are held, providing an incentive to trade them earlier than they otherwise would.

Vehicle FBT vehicle classifications

As a result of the ATO's current definition of FBT (and what constitutes a 'car') some fleets, particularly local governments, have purchased super cab and dual cab utilities (often 4x4's) for those drivers with 'commuter use' entitlements, taking vehicles home at night. These vehicles are technically not regarded as a 'car' for FBT purposes by the ATO and, as such, are exempted from FBT for commuter travel and 'minor and infrequent' personal use.

As there are currently no dual cab utes available as electric vehicles in Australia, this tax driven purchasing decision further reduces the fleet vehicles that may be purchased as an EV.

The ATO has issued a working paper which is liable to change this ruling and include these vehicles, or a component of their use, into the FBT calculation. This taxation change may see some fleet operators rethinking their purchasing habits and provide an opportunity to consider purchasing EV's in their fleet to replace dual cab utilities where a utility is not required as a 'fit for purpose' vehicle.

Suggested responses to the disadvantages created by the Statutory Rate Method

As the Statutory Formula method is most widely used and disadvantages EVs most severely, it is suggested that the formula be amended:

- For battery-only electric vehicles (BEVs) that the Statutory Rate be reduced to 10% for the next FBT year, and then raised by 2% each subsequent year for 5 years by which time EVs are expected to reach price parity with internal combustion engine vehicles.
- For plug-in hybrid vehicles (PHEVs) that the Statutory Rate be reduced to 15% for the next FBT year and then raised by 1% each subsequent year.

It is also suggested to:

- Eliminate or modify the exemption of dual cab utilities from FBT per the ATO working paper.

Salary Sacrifice

The committee has heard that EV owners/operators are disadvantaged by the current salary sacrifice arrangements in comparison to conventional internal combustion engines vehicles. Are you able to provide your understanding of the effect of salary sacrifice on EVs and provide a worked comparative example?

A salary sacrifice arrangement is also commonly referred to as salary packaging or total remuneration packaging. It is an arrangement between an employer and an employee, where the employee agrees to forgo part of their future entitlement to salary or wages. This is in return for the employer providing them with benefits of a similar value.

Salary sacrifice arrangements can be quite complex and depend on the employee's salary, marginal tax rate, distance driven and other factors all of which affect whether there is an advantage in making an employee contribution or not and the final net income received.

However, for all these arrangements the size of the salary sacrifice required for a vehicle will increase if the employer FBT payment increases. As can be seen in the FBT worked examples above, the FBT payable on an EV is bigger for EVs of comparable size and performance, adding an additional tax cost to the higher overall cost of EVs at this time.

But the structure of salary packaging means that employees derive little benefit, if any, from their lower running costs, even if the capital cost is the same. A typical package in the commercial world, states something like: We the employer will pay no FBT – so you the employee will either:

- reimburse us for any FBT liability, or
- make contribution towards costs to cover FBT, or
- make salary package adjustments, or
- combination of the above.

If two vehicles have the same cost price leading to the same Statutory Formula FBT Taxable value – let's say $40,000 @ 20% = $8,000 FBT Taxable Value.

Vehicle 1, is an ICE. The employee pays $3,000 of fuel costs during the year themselves – Adjusted Taxable Value (subject to FBT or salary adjustment) would be $5,000 after employee contribution.

Vehicle 2, is a BEV. The employee pays $500 for electricity for the year (same km's as vehicle 1 but lower cost) so Adjusted Taxable Value would be $7,5000 after employee contribution.

Because the higher running costs of the ICE (if paid or salary packaged by employee) can be used to reduce FBT Taxable Value and therefore the amount reimbursed to the employer, there is little or no financial incentive to choose the EV over the ICE despite the lower energy cost. Perhaps perversely, some people would rather pay higher fuel costs than higher tax.

Clearly if the BEV has a higher capital cost, the cost to the employee is higher again while at the same time *they gain no benefit* from the lower running costs.

There is an additional issue in that there is no readily recognised tax office method for acknowledging the cost of energy supplied at a residence for recharging electric vehicles unless they are separately metered and billed (as in public charging station receipts).

We believe the ATO needs to provide guidance on an accepted method of assessing this electricity cost, such a use of agreed Wh/km for EVs (or classes of EVs) x km travelled (end minus start odometer readings) x electricity tariff where the relevant 'rates' are statutory or supported by taxpayer's documentation, as is permitted for petrol/diesel fuel in the absence of a complete record of all refuelling events (as might be provided by a fleet fuel card).

Kona SUV

Year 1

Method A – Statutory percentage method	
Original cost including GST	$ 60,000.00
Statutory percentage	20%
Days available for private use	365
Gross taxable value	$ 12,000.00
Less employee contributions	0
Taxable Value	**$ 12,000.00**
Gross up rate	2.0802
Grossed up Taxable Value	$ 24,962.40
FBT rate	47%
FBT payable	$ 11,732.33

Method B – Log book method	
Written down value	$ 60,000.00
Depreciation rate	25%
Benchmark interest rate	5.25%
Lease charges	0
Depreciation	$ 15,000.00
Interest	$ 3,150.00
Fuel	$ 450.00
Insurance, registration, maintenance	$ 2,370.00
Total costs	$ 18,600.00
Private percentage (per log book)	25%
Private share of costs	$ 4,650.00
Employee contributions	
Taxable value	**$ 4,650.00**
Gross up rate	2.0802
Grossed up Taxable Value	$ 9,672.93
FBT rate	47%
FBT payable	$ 4,546.28

Year 2

Method A – Statutory percentage method	
Original cost including GST	$ 60,000.00
Statutory percentage	20%
Days available for private use	365
Gross taxable value	$ 12,000.00
Less employee contributions	0
Taxable Value	**$ 12,000.00**
Gross up rate	2.0802
Grossed up Taxable Value	$ 24,962.40
FBT rate	47%
FBT payable	$ 11,732.33

Method B – Log book method	
Written down value	$ 45,000.00
Depreciation rate	25%
Benchmark interest rate	5.25%
Lease charges	0
Depreciation	$ 11,250.00
Interest	$ 2,362.50
Fuel	$ 450.00
Insurance, registration, maintenance	$ 2,379.00
Total costs	$ 16,441.50
Private percentage (per log book)	25%
Private share of costs	$ 4,110.38
Employee contributions	
Taxable value	**$ 4,110.38**
Gross up rate	2.0802
Grossed up Taxable Value	$ 8,550.40
FBT rate	47%
FBT payable	$ 4,018.69

Rav 4 SUV

Year 1

Method A – Statutory percentage method	
Original cost including GST	$ 31,253.20
Statutory percentage	20%
Days available for private use	365
Gross taxable value	$ 6,250.64
Less employee contributions	0
Taxable Value	**$ 6,250.64**
Gross up rate	2.0802
Grossed up Taxable Value	$ 13,002.58
FBT rate	47%
FBT payable	$ 6,111.21

Method B – Log book method	
Written down value	$ 31,253.20
Depreciation rate	25%
Benchmark interest rate	5.25%
Lease charges	0
Depreciation	$ 7,813.30
Interest	$ 1,640.79
Fuel	$ 3,062.00
Insurance, registration, maintenance	$ 2,495.00
Total costs	$ 15,011.09
Private percentage (per log book)	25%
Private share of costs	$ 3,752.77
Employee contributions	
Taxable value	**$ 3,752.77**
Gross up rate	2.0802
Grossed up Taxable Value	$ 7,806.52
FBT rate	47%
FBT payable	$ 3,669.06

Year 2

Method A – Statutory percentage method	
Original cost including GST	$ 31,253.20
Statutory percentage	20%
Days available for private use	365
Gross taxable value	$ 6,250.64
Less employee contributions	0
Taxable Value	**$ 6,250.64**
Gross up rate	2.0802
Grossed up Taxable Value	$ 13,002.58
FBT rate	47%
FBT payable	$ 6,111.21

Method B – Log book method	
Written down value	$ 23,439.90
Depreciation rate	25%
Benchmark interest rate	5.25%
Lease charges	0
Depreciation	$ 5,859.98
Interest	$ 1,230.59
Fuel	$ 3,062.00
Insurance, registration, maintenance	$ 2,495.00
Total costs	$ 12,647.57
Private percentage (per log book)	25%
Private share of costs	$ 3,161.89
Employee contributions	
Taxable value	**$ 3,161.89**
Gross up rate	2.0802
Grossed up Taxable Value	$ 6,577.37
FBT rate	47%
FBT payable	$ 3,091.36

	Kona SUV				Rav 4 SUV			
	Method A Statutory percentage method		Method B Log book method		Method A Statutory percentage method		Method B Log book method	
Year 3	Original cost including GST	$ 60,000.00	Written down value	$ 33,750.00	Original cost including GST	$ 31,253.20	Written down value	$ 17,579.93
	Statutory percentage	20%	Depreciation rate	25%	Statutory percentage	20%	Depreciation rate	25%
	Days available for private use	365	Benchmark interest rate	5.25%	Days available for private use	365	Benchmark interest rate	5.25%
	Gross taxable value	$ 12,000.00	Lease charges	0	Gross taxable value	$ 6,250.64	Lease charges	0
	Less employee contributions	0	Depreciation	$ 8,437.50	Less employee contributions	0	Depreciation	$ 4,394.98
	Taxable Value	**$ 12,000.00**	Interest	$ 1,771.88	**Taxable Value**	**$ 6,250.64**	Interest	$ 922.95
			Fuel	$ 450.00			Fuel	$ 3,062.00
			Insurance, registration, maintenance	$ 2,379.00			Insurance, registration, maintenance	$ 2,495.00
			Total costs	$ 13,038.38			Total costs	$ 10,874.93
			Private percentage (per log book)	25%			Private percentage (per log book)	25%
			Private share of costs	$ 3,259.59			Private share of costs	$ 2,718.73
			Employee contributions				Employee contributions	
			Taxable value	**$ 3,259.59**			**Taxable value**	**$ 2,718.73**
	Gross up rate	2.0802	Gross up rate	2.0802	Gross up rate	2.0802	Gross up rate	2.0802
	Grossed up Taxable Value	$ 24,962.40	Grossed up Taxable Value	$ 6,780.61	Grossed up Taxable Value	$ 13,002.58	Grossed up Taxable Value	$ 5,655.51
	FBT rate	47%	FBT rate	47%	FBT rate	47%	FBT rate	47%
	FBT payable	$ 11,732.33	FBT payable	$ 3,186.89	FBT payable	$ 6,111.21	FBT payable	$ 2,658.09
Year 4	Original cost including GST	$ 40,000.00	Written down value	$ 25,312.50	Original cost including GST	$ 20,835.47	Written down value	$ 13,184.94
	Statutory percentage	20%	Depreciation rate	25%	Statutory percentage	20%	Depreciation rate	25%
	Days available for private use	365	Benchmark interest rate	5.25%	Days available for private use	365	Benchmark interest rate	5.25%
	Gross taxable value	$ 8,000.00	Lease charges	0	Gross taxable value	$ 4,167.09	Lease charges	0
	Less employee contributions	0	Depreciation	$ 6,328.13	Less employee contributions	0	Depreciation	$ 3,296.24
	Taxable Value	**$ 8,000.00**	Interest	$ 1,328.91	**Taxable Value**	**$ 4,167.09**	Interest	$ 692.21
			Fuel	$ 450.00			Fuel	$ 3,062.00
			Insurance, registration, maintenance	$ 2,379.00			Insurance, registration, maintenance	$ 2,495.00
			Total costs	$ 10,486.03			Total costs	$ 9,545.45
			Private percentage (per log book)	25%			Private percentage (per log book)	25%
			Private share of costs	$ 2,621.51			Private share of costs	$ 2,386.36
			Employee contributions				Employee contributions	
			Taxable value	**$ 2,621.51**			**Taxable value**	**$ 2,386.36**
	Gross up rate	2.0802	Gross up rate	2.0802	Gross up rate	2.0802	Gross up rate	2.0802
	Grossed up Taxable Value	$ 16,641.60	Grossed up Taxable Value	$ 5,453.26	Grossed up Taxable Value	$ 8,668.39	Grossed up Taxable Value	$ 4,964.11
	FBT rate	47%	FBT rate	47%	FBT rate	47%	FBT rate	47%
	FBT payable	$ 7,821.55	FBT payable	$ 2,563.03	FBT payable	$ 4,074.14	FBT payable	$ 2,333.13

Kona SUV

	Method A Statutory percentage method		Method B Log book method	
Year 5	Original cost including GST	$ 40,000.00	Written down value	$ 18,984.38
	Statutory percentage	20%	Depreciation rate	25%
	Days available for private use	365	Benchmark interest rate	5.25%
	Gross taxable value	$ 8,000.00	Lease charges	0
	Less employee contributions	0	Depreciation	$ 4,746.09
	Taxable Value	**$ 8,000.00**	Interest	$ 996.68
			Fuel	$ 450.00
			Insurance, registration, maintenance	$ 2,379.00
			Total costs	$ 8,571.77
			Private percentage (per log book)	25%
			Private share of costs	$ 2,142.94
			Employee contributions	
			Taxable value	**$ 2,142.94**
	Gross up rate	2.0802	Gross up rate	2.0802
	Grossed up Taxable Value	$ 16,641.60	Grossed up Taxable Value	$ 4,457.75
	FBT rate	47%	FBT rate	47%
	FBT payable	$ 7,821.55	FBT payable	$ 2,095.14

Year	FBT payable	FBT payable
1	$ 11,732.33	$ 4,546.28
2	$ 11,732.33	$ 4,018.69
3	$ 11,732.33	$ 3,186.89
4	$ 7,821.55	$ 2,563.03
5	$ 7,821.55	$ 2,095.14
Total	**$ 50,840.09**	**$ 16,410.03**

Rav 4 SUV

	Method A Statutory percentage method		Method B Log book method	
	Original cost including GST	$ 20,835.47	Written down value	$ 9,888.71
	Statutory percentage	20%	Depreciation rate	25%
	Days available for private use	365	Benchmark interest rate	5.25%
	Gross taxable value	$ 4,167.09	Lease charges	0
	Less employee contributions	0	Depreciation	$ 2,472.18
	Taxable Value	**$ 4,167.09**	Interest	$ 519.16
			Fuel	$ 3,062.00
			Insurance, registration, maintenance	$ 2,495.00
			Total costs	$ 8,548.33
			Private percentage (per log book)	25%
			Private share of costs	$ 2,137.08
			Employee contributions	
			Taxable value	**$ 2,137.08**
	Gross up rate	2.0802	Gross up rate	2.0802
	Grossed up Taxable Value	$ 8,668.39	Grossed up Taxable Value	$ 4,445.56
	FBT rate	47%	FBT rate	47%
	FBT payable	$ 4,074.14	FBT payable	$ 2,089.41

Year	FBT payable	FBT payable
1	$ 6,111.21	$ 3,669.06
2	$ 6,111.21	$ 3,091.36
3	$ 6,111.21	$ 2,658.09
4	$ 4,074.14	$ 2,333.13
5	$ 4,074.14	$ 2,089.41
Total	**$ 26,481.92**	**$ 13,841.06**

	Differences	
Year	Statutory method	Operating cost method
1	$5,621.11	$877.21
2	$5,621.11	$927.33
3	$5,621.11	$528.80
4	$3,747.41	$229.90
5	$3,747.41	$5.73
Total	$24,358.16	$2,568.97