



28 September 2026

Lodged via Treasury website

Exposure draft legislation- Sustainable fringe benefits tax treatment of electric cars

The Institute of Public Accountants (IPA) welcomes the opportunity to make a submission in relation to Treasury Laws Amendment Bill 2026: Phased changes to the FBT electric car exemption.

The IPA is one of the three professional accounting bodies in Australia, representing over 50,000 members and students in Australia and in over 100 countries. Approximately three quarters of the IPA's members work in or are advisers to small business and small to medium enterprises.

The exposure draft proposes a transition from a full FBT exemption to a discounted FBT treatment, while preserving the current exemption for eligible arrangements entered into before the commencement date (1 April 2027) until the relevant commitment ceases. In our previous related submission¹ lodged earlier this year (Statutory review of the electric car discount) we recommended that the Government considers scaling back the FBT concession for eligible electric vehicles as it is an expensive way to achieve its emission reduction targets. The cost per tonne of this policy compares unfavourably compared to other alternative emission policies. In addition, the policy predominantly is skewed towards high income earners (the top 10 per cent of employees by earnings). The concession is also not broadly accessible and not available to sole traders and private buyers.

Whilst we were not broadly supportive of the original measure in its current form for the reasons noted in our prior submission, we acknowledge that the phased approach for unwinding the benefit is the best option to make the concession more fiscally sustainable.

The proposed amendments have taken a phased approach to the FBT treatment of EVs provided by employers to current employees to support the transition from internal combustion engine vehicles to electric cars. The phased implementation also gives affected

¹ IPA submission Statutory review of the electric car discount 6 February 2026

taxpayers a clear transition path and reduces the risk of market disruption associated with abruptly withdrawing electric car incentives.

New Zealand's removal of EV subsidies and introduction of road-user charges caused electric vehicle sales to plummet and stall at a low 5% market share, so a phased transition will avert the consequences of a sudden drop in demand.

Transitional protection for existing arrangements

Eligible ZLEVs (eligible zero and low emissions vehicles) provided under commitments made before 1 April 2027 would generally continue to access the existing FBT exemption until the relevant commitment ceases. Related car expense payment, property and residual benefits attributable to the protected period would also continue to be preserved.

The explanatory materials indicate that a new commitment may arise where:

- The car is refinanced;
- The terms of an existing contract are altered, including the lease term or residual value;
- Accessories are fitted to a leased car resulting in an adjustment to lease payments;
- The employee changes employers, including between employers within the same corporate group; or
- The employee transfers to another government department and the new employer commits to the car's application or availability.

In each case, the existing exemption is expected to cease, and the car fringe benefit would be subject to the relevant transitional FBT rules for the new commitment based on the commitment date and the car's base value.

Based on the legislative note accompanying the application provision, it appears that where a currently exempt vehicle becomes subject to a new commitment during an FBT year (for example, following a refinancing or lease variation), the existing exemption would continue until the end of that FBT year. The vehicle would then transition to the transitional regime from the commencement of the following FBT year, being the first FBT year beginning after the new commitment is made.

The continuation of current exemptions is welcome, but its practical application depends on whether an existing commitment continues. If you have an eligible EV on a novated lease or you start one before 1 April 2027, your lease is protected under the grandfathering approach so long as there are no commitment events thereafter.

New commitment events (i.e. Refinancing, changes in lease terms or an employee changing employers including within corporate groups) are examples of situations which may create a new commitment and potentially a FBT trigger event. Changes to commitments can commonly arise where employees move between employers within a corporate group. Consideration should be given for some concessions particularly for events which are outside the control of employees. Such events should not result in a change to a commitment.

Alternative initiatives to reduce carbon emissions

Alternative levers the Government has at its disposal to reduce emissions that warrant consideration include tightening the FBT exemption for dual cabs.

This FBT concession is overly generous when not applied for its intended policy purpose. There is strong anecdotal evidence that it is being widely abused. The cost of this FBT exemption is difficult to quantify, but given the popularity of these types of vehicles, the cost to the taxpayer would be substantial. There is no work requirement for these types of vehicles but there are strict criteria for their use in order to qualify for the exemption.

Tightening of the eligibility around this FBT exemption will generate two significant benefits as follows:

- Diesels represent a significant portion of vehicles that fall under this category. For many years now, dual cab utes have dominated overall car sales. Of the top ten vehicles sold in Australia in 2025², three models are dual cabs, and this has been the situation for many years, pointing to the popularity of this category. Many of the models in this category would not meet overseas emission standards in many countries and our tax system is subsidising their use.
- Cost saving to the Government which could be applied to broaden incentives for the transition to EV's. The cost saving refers to the ability of employees to use pre-tax dollars to fund a car benefit not in accordance with the policy intent of the FBT exemption. The marketplace is awash with the belief that these types of vehicles are fully tax deductible regardless of their private usage and without having to worry about FBT as these vehicles are considered exempt from FBT.

Whilst this is not accurate, we believe many have acted on such information without being aware of exactly what is required for a vehicle to be considered as exempt from FBT. The ATO does not devote a lot of compliance resources to reviewing whether employers can access this FBT exemption. Briefly, cars, utilities, vans, and motorcycles with a load-carrying capacity of under one tonne, and where the principal purpose is not for carrying passengers may fall within this FBT exemption, but only where the private use meets

² RACV, Australia's best-selling cars, utes and SUVs for 2025, 8 January 2025, at:
<https://www.racv.com.au/royalauto/transport/cars/australian-new-car-sales-2025.html>



certain criteria. It is not the car itself that is exempt, it is the private use of the car that may be eligible for an exemption. ATO Practical Compliance Guideline PCG 2018/3 provides guidelines as to when the private use of a dual cab vehicle may be exempt from FBT. PCG 2018/3, sets out the Commissioner's view of what constitutes minor, infrequent, and irregular private use. Under the PCG, minor, infrequent, and irregular private use requires all of the following:

- No more than a two km private travel diversion between home and work
- No single return private journey in the FBT year that exceeds 200 km; and
- No more than a total of 1,000 km of private travel in the FBT year.

Due to the low level of enforcement of the strict criteria, there is strong anecdotal evidence that a contributing factor towards the popularity of these high emission vehicles is in part due to the perceived FBT exemption.

If you have any queries or require further information, please don't hesitate to contact Tony Greco, Senior Tax Advisor, either at tony.greco@publicaccountants.org.au or mobile: 0419 369 038.

Yours sincerely

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