



Policy costing

Revenue implications of changes to vehicle taxation measures – Fringe benefits tax exemption	
Person/party requesting the costing:	Senator Tim Storer, Senator for South Australia
Date costing completed:	14 December 2018
Expiry date of the costing:	Release of the next economic and fiscal outlook report.
Status at time of request:	Submitted outside the caretaker period <input checked="" type="checkbox"/> Confidential <input type="checkbox"/> Not confidential
<p>Summary of proposal:</p> <p>The proposal would exempt all newly purchased battery electric, plug-in hybrid electric, and hydrogen fuel cell electric vehicles from the fringe benefits tax (FBT).</p> <p>The proposal would have effect from 1 July 2019.</p>	

Costing overview

Policy background

Vehicles provided by employers to their employees for private use are subject to FBT on the taxable value of the vehicle. The FBT rate is currently 47 per cent, equal to the highest marginal tax rate, including the Medicare levy. The taxable value can be calculated through either the operating cost method, where the taxable value is based on the operating costs of the vehicle associated with private and employment-related use, or the statutory formula method, where the taxable value is equal to 20 per cent of the base value of the vehicle.

Most salary packaging arrangements, where employees choose to forego cash salary in favour of payments toward the lease and operating costs of a private vehicle, use the statutory formula method. Through the statutory formula method, employees can reduce the taxable value of the vehicle by making post-tax contributions from their salary. Salary packaging arrangements usually involve post-tax contributions to reduce the taxable value of the vehicle to zero, with any additional lease and operating costs for the vehicle made on a pre-tax basis.

The effect of such arrangements is an exemption from FBT as long as the employee contributes a sufficient amount to the cost of the vehicle from their post-tax salary, the remaining costs can be met by the employer, usually from the employee's pre-tax salary, without incurring any FBT liability.

The proposal would change the FBT regime so that an exemption from FBT would be available for newly purchased battery electric, plug-in hybrid electric and hydrogen fuel cell electric vehicles without the requirement for a post-tax contribution. This would allow employers to pay for all lease and operating costs of such vehicles using an employee's pre-tax salary without incurring an FBT liability, which would reduce the effective (equivalent post-tax) cost of such vehicles.

Financial implications of proposal

The proposal would be expected to decrease the underlying cash and fiscal balances by \$140 million over the 2018-19 Budget forward estimates period. This impact is entirely due to a decrease in revenue.

The proposal would be expected to have ongoing impacts that extend beyond the 2018-19 Budget forward estimates period. A breakdown of the financial implications of the proposal over the period to 2028-29 is provided at [Attachment A](#).

Departmental expenses would not be expected to be significant under the proposal as it would not materially change the complexity of the tax system.

The costing is subject to uncertainties, particularly in the absence of empirical research to support assumptions about the size of behavioural responses to the proposal. The proposal is also subject to uncertainties regarding future demand for, and prices of, electric and non-electric vehicles.

Table 1: Revenue implications of changes to vehicle taxation measures – Fringe benefits tax exemption – Financial implications (\$m)^{(a)(b)}

	2018–19	2019–20	2020–21	2021–22	Total to 2021–22
Fiscal balance	-	-20	-40	-90	-140
Underlying cash balance	-	-20	-40	-90	-140

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

Key assumptions

The Parliamentary Budget Office has made the following assumptions in costing this proposal:

- Purchases of new battery electric, plug-in hybrid electric, and hydrogen fuel cell electric vehicles currently comprise only a small proportion of total vehicle purchases, and would grow to 15 per cent of total vehicle purchases by 2028-29. This assumption has been informed by market research by Energeia and ClimateWorks Australia.
 - Total vehicle purchases would grow over the period to 2028-29 in line with 2018-19 Budget projections.
- In the absence of a behavioural response to the proposal, the proportion of new vehicle purchases made under salary packaging arrangements is the same for electric and non-electric vehicles.
 - Around 8 per cent of new vehicles are purchased under salary packaging arrangements as of 2017-18.

Sensitive

- The assumed behavioural response to this proposal would approximately double the number of newly purchased battery electric, plug-in hybrid electric, and hydrogen fuel cell electric vehicles being salary packaged. This behavioural response is a result of the reduction in the effective (equivalent post-tax) cost of such vehicles. The cost of this proposal is highly sensitive to this assumption. In absence of this behavioural response, the cost of the proposal would decrease by around 70 per cent to around \$1 billion over the period to 2028-29.
- The proposal would be announced on the same day that it would come into effect, ie 1 July 2019.
- New salary packaging arrangements would be paid for through a reduction in an employee's cash remuneration.

Methodology

- Data on the number and value of electric vehicles purchased in Australia, and the number of vehicles using the statutory formula for salary packaging, were provided by the Australian Taxation Office (ATO) and grown over the period to 2028-29, in line with the growth rate in total vehicle purchases as at the 2018-19 Budget.
- The taxable value of vehicles subject to the proposal was estimated based on the assumptions highlighted above.
- The revenue cost of the proposal was derived by estimating the reduction in taxable income as a result of the proposal (ie the effect of removing the requirement for post-tax contributions for electric vehicles, as well as the expected increase in salary packaged electric vehicles arising from the proposal) multiplied by an average marginal tax rate for employees.
- The average marginal tax rate for employees who are able to benefit from salary packaging arrangements was estimated based on a 16 per cent sample of personal income tax returns for the 2014-15 financial year.
- All financial estimates have been rounded to the nearest \$10 million.

Data sources

The ATO provided data on the number and value of electric vehicles purchased in Australia, the number of vehicles using the statutory formula for salary packaging, and a 16 per cent sample of personal income tax returns for the 2014-15 financial year.

Treasury provided growth forecasts for economic parameters over the period to 2028-29, in line with the 2018-19 Budget.

ClimateWorks Australia, 2018. *The state of electric vehicles in Australia*, Electric Vehicle Council: Sydney.

Energeia, 2018. *Australian Electric Vehicle Market Study*, Energeia: Sydney.

Schmidt, B, 2018. *Tesla sold 1410 electric vehicles in Australia in 2017, new data shows*, Renew Economy, [online] available at <https://reneweconomy.com.au/tesla-sold-1410-electricvehicles-in-australia-in-2017-new-data-shows-98222/> [accessed 20.11.2018].

Attachment A – Revenue implications of changes to vehicle taxation measures – Fringe benefits tax exemption – financial implications

Table A1: Revenue implications of changes to vehicle taxation measures – Fringe benefits tax exemption – Fiscal and underlying cash balances (\$m)^{(a)(b)}

	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	Total to 2021–22	Total to 2028–29
Revenue													
<i>Personal income tax</i>	-	-20	-40	-90	-160	-250	-350	-460	-580	-690	-830	-140	-3,480
Total – revenue	-	-20	-40	-90	-160	-250	-350	-460	-580	-690	-830	-140	-3,480
Total	-	-20	-40	-90	-160	-250	-350	-460	-580	-690	-830	-140	-3,480

(a) A negative number for the fiscal balance indicates a decrease in revenue in accrual terms. A negative number for the underlying cash balance indicates a decrease in receipts in cash terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.