Parliamentary Budget Office

ECR-2025-2045

Tax breaks for electric vehicle – reverse	
Party:	The Coalition
Summary of proposal: The proposal would reverse the tax breaks for electric vehicles (EV). The proposal would be ongoing and start on 1 July 2025.	
Additional information (based on further advice provided): Amend the changes made to the *Fringe Benefits Tax Assessment Act 1986* as per the *Treasury Laws Amendment (Electric Car Discount) Act 2022* (‘the Electric Car Discount’) specifically: • **component 1**: repeal the Electric Car Discount for all electric vehicles from 1 July 2025 onwards • **component 2**: repeal the import tariff exemption associated with the Electric Car Discount from 1 July 2025 onwards • **component 3**: abolish the fuel-efficient luxury car tax threshold, applying the same threshold as ‘Other Vehicles’ from 1 July 2025 onwards.	

Costing overview

The proposal would be expected to increase the fiscal balance by around $3.3 billion and the underlying cash balance by around $3.2 billion over the 2025-26 Budget forward estimates period (see Table 1).

These impacts reflect changes in revenue (fringe benefits tax (FBT), personal income tax, goods and services tax (GST), customs duty and company tax) and changes in payments to the states and territories (GST allocations). There are minor differences in timing between the fiscal and underlying cash balances.

The proposal would be expected to have an impact beyond the 2025-26 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables) over the period to 2035-36 is provided at Attachment A.

Table 1: Tax breaks for electric vehicle – reverse – Financial implications ($m)[(a)(b)]

	2025-26	2026-27	2027-28	2028-29	Total to 2028-29
Fiscal balance	317.0	644.0	966.0	1,340.0	**3,267.0**
Underlying cash balance	285.0	623.0	945.0	1,319.0	**3,172.0**

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.
(b) PDI impacts are not included in the totals.

Risks & Sensitivities

The financial implications of this costing are highly sensitive to assumptions including:

- projections and the distributions of the type of fuel car sales in Australia into the medium term
- the proportion of vehicles eligible for the FBT exemption as a share of the passenger vehicle market, priced below the luxury car tax threshold
- the average price of eligible vehicles
- the percentage of eligible vehicles that are provided by employers, including through salary sacrifice arrangements
- the behavioural impacts of the proposal on the take-up of eligible vehicles purchases.

The financial implications are also highly uncertain due to changing costs of purchasing and running electric vehicles (EVs) as the market matures, and behavioural responses to the proposal.

The Parliamentary Budget Office (PBO) has not considered second-round effects such as the flow-on impact of the proposal on fuel sales and associated GST and fuel excise collections.

Key assumptions

The PBO has made the following assumptions in costing this proposal.

- The projected share of eligible vehicles that would be impacted by the proposal (for example, EV, or Hydrogen) would increase from around 14% in 2024-25 to 50% in 2035-36 as the market matures.
- The projected share of eligible vehicles priced below the luxury car tax threshold would remain around 80% in the medium term based on historical car sale data and projected future sales.
- The percentage of new vehicles on salary packaging arrangements would be around 25%, this is based on the historical FBT data and National Automotive Leasing and Salary Packaging Association analysis.
- Some people and businesses would still be salary packaging vehicles without the exemption being in place.
- The average lease (salary sacrifice arrangement) term would be 4 years.
- The annual taxable value for employer-provided eligible vehicles would be 20% of the base value of the vehicles.
- Leasing and operating costs would be around 27% of vehicle prices.
- Assumes approximately 5% uptake rate to take advantage of the tariff exemption in 2024-25 before the proposal commences on 1 July 2025.
  - This additional take up leads to less salary sacrifice arrangements being caught by the policy after 1 July.
- Hydrogen vehicles have not been specifically modelled as the sales volumes are small.

The costing also includes assumptions on average tax rates for personal income and company taxes.

Methodology

The costing model used for the October 2022-23 Budget and the 2023-24 Budget measures[1] were used as a base. Sales data on vehicles sold in Australia for 2024-25 were included to produce a new baseline of vehicles within scope. The behavioural response is based on the estimated price elasticity for purchase of new vehicles as a result of the FBT exemption making eligible vehicles cheaper in after-tax dollars and informed by anecdotal evidence from salary packaging providers[2].

The financial implications of the costing include impacts to FBT, personal income tax, company tax, customs duty and GST, as stopping the exemption for eligible vehicles leads to an increase in the budget balance.

FBT

The change in FBT revenue was calculated based on the estimated number of electric vehicles that would be impacted under the proposal, the associated taxable value of the EVs and FBT rate.

Personal income tax

Personal income tax impacts reflect the amount of pre-tax income that people previously would have allocated to salary packaging a vehicle but now receive as cash and are taxed on. The financial implications were calculated based on the estimated number of eligible vehicles that would be impacted under the proposal, average leasing and operating costs of the eligible vehicles, and average personal income tax rate.

Company tax

When the exemption is stopped, the company tax impacts reflect a decrease in company tax revenue due to FBT liabilities that would now become tax deductable to the companies providing relevant vehicles to employees. The financial implications were calculated based on the estimated taxable value of employer-provided eligible vehicles and the associated FBT liability because of the proposal.

GST

The GST revenue impacts relate to vehicles that would have been packaged but now will not, the GST on the customs duty and the associated GST on running costs and purchase price. There is also an increase in GST associated with people continuing to salary package needing to make employee contributions to reduce the taxable value to zero to avoid the FBT. The increase in GST revenue has a corresponding increase in payments to the states and territories.

Customs duty

The customs duty is calculated by multiplying by the number of the eligible EVs priced below LCT threshold by the estimated sale price, then apply the relevant tariff rate to derive the revenue under the proposal.

Financial implications were rounded consistent with the PBO's rounding rules[3].

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[1] 2022-23 October Budget measure *Powering Australia – Electric Car Discount* (page 18) and 2023-24 Budget measure *Powering Australia – amendment to the Electric Car Discount (page 25).*

[2] Labor's electric vehicle (EV) fringe benefit tax break blows out 10-fold as uptake skyrockets

[3] https://www.pbo.gov.au/for-parliamentarians/how-we-analyse/pbo-rounding-rules

Data sources

The Department of the Treasury provided the costing models for the 2022-23 October Budget measure *Powering Australia – Electric Car Discount and the 2023-24 Budget measure Powering Australia – amendment to the Electric Car Discount.*

Australian Automobile Association, 2024. *Electric Vehicle Index*, Australian Automobile Association website, accessed 8 May 2025.

National Automotive Leasing and Salary Packaging Association, Growth in novated leasing for EVs driving up new car sales, accessed 8 May 2025.

Financial Review, Cost of 'loophole' EV tax break blows out to half a billion dollars, accessed 24 March 2025.

Australian Border Force, 2022. Australian Customs Notice No. 2022/34 – Removal of customs duty on certain electric vehicles, Australian Border Force, Australian Government.

Australian Taxation Office, Luxury car tax threshold, accessed 8 May 2025.

Office of Parliamentary Counsel, 2024. *Treasury Laws Amendment (Electric Car Discount) Act 2022*, Federal Register of Legislation website, Australian Government.

The Department of The Treasury, 2024-25 Tax Expenditures and Insights Statements, accessed 8 May 2025.

Commonwealth of Australia (2025), *Pre-election economic and fiscal outlook 2025*, Commonwealth of Australia

Attachment A – Tax breaks for electric vehicle – reverse – Financial implications

Table A1: Tax breaks for electric vehicle – reverse – Fiscal balances ($m)[(a)]

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	**Total to 2028-29**	**Total to 2035-36**
Revenue													
Administered tax													
Australian Taxation Office	*340.0*	*670.0*	*1,020.0*	*1,450.0*	*1,830.0*	*2,220.0*	*2,680.0*	*3,160.0*	*3,690.0*	*4,200.0*	*4,730.0*	***3,480.0***	***25,990.0***
Home Affairs	*67.0*	*134.0*	*166.0*	*200.0*	*245.0*	*291.0*	*348.0*	*400.0*	*457.0*	*505.0*	*558.0*	***567.0***	***3,371.0***
Total – revenue	**407.0**	**804.0**	**1,186.0**	**1,650.0**	**2,075.0**	**2,511.0**	**3,028.0**	**3,560.0**	**4,147.0**	**4,705.0**	**5,288.0**	**4,047.0**	**29,361.0**
Expenses													
Administered													
The Treasury	*-90.0*	*-160.0*	*-220.0*	*-310.0*	*-400.0*	*-480.0*	*-580.0*	*-690.0*	*-800.0*	*-910.0*	*-1,020.0*	***-780.0***	***-5,660.0***
Total – expenses	**-90.0**	**-160.0**	**-220.0**	**-310.0**	**-400.0**	**-480.0**	**-580.0**	**-690.0**	**-800.0**	**-910.0**	**-1,020.0**	**-780.0**	**-5,660.0**
Total (excluding PDI)	**317.0**	**644.0**	**966.0**	**1,340.0**	**1,675.0**	**2,031.0**	**2,448.0**	**2,870.0**	**3,347.0**	**3,795.0**	**4,268.0**	**3,267.0**	**23,701.0**

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

Table A2: Tax breaks for electric vehicle – reverse – Underlying cash balance ($m)[(a)]

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	**Total to 2028-29**	**Total to 2035-36**
Receipts													
Administered tax													
Australian Taxation Office	*300.0*	*640.0*	*1,000.0*	*1,430.0*	*1,810.0*	*2,190.0*	*2,650.0*	*3,130.0*	*3,650.0*	*4,170.0*	*4,700.0*	***3,370.0***	***25,670.0***
Home Affairs	*65.0*	*133.0*	*165.0*	*199.0*	*244.0*	*290.0*	*346.0*	*398.0*	*456.0*	*504.0*	*557.0*	***562.0***	***3,357.0***
Total – receipts	**365.0**	**773.0**	**1,165.0**	**1,629.0**	**2,054.0**	**2,480.0**	**2,996.0**	**3,528.0**	**4,106.0**	**4,674.0**	**5,257.0**	**3,932.0**	**29,027.0**
Payments													
Administered													
The Treasury	*-80.0*	*-150.0*	*-220.0*	*-310.0*	*-390.0*	*-480.0*	*-570.0*	*-680.0*	*-790.0*	*-900.0*	*-1,010.0*	***-760.0***	***-5,580.0***
Total – payments	**-80.0**	**-150.0**	**-220.0**	**-310.0**	**-390.0**	**-480.0**	**-570.0**	**-680.0**	**-790.0**	**-900.0**	**-1,010.0**	**-760.0**	**-5,580.0**
Total (excluding PDI)	**285.0**	**623.0**	**945.0**	**1,319.0**	**1,664.0**	**2,000.0**	**2,426.0**	**2,848.0**	**3,316.0**	**3,774.0**	**4,247.0**	**3,172.0**	**23,447.0**

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

Table A3: Tax breaks for electric vehicle – reverse – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances ($m)[(a)(b)]

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	**Total to 2028-29**	**Total to 2035-36**
Fiscal balance	*10.0*	*30.0*	*60.0*	*120.0*	*190.0*	*280.0*	*390.0*	*520.0*	*690.0*	*880.0*	*1,100.0*	***220.0***	***4,270.0***
Underlying cash balance	..	*20.0*	*50.0*	*100.0*	*170.0*	*250.0*	*360.0*	*490.0*	*650.0*	*830.0*	*1,050.0*	***170.0***	***3,970.0***

(a) As this table is presented as a memorandum item, these figures are not reflected in the totals above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary[4].

(b) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

.. Not zero but rounded to zero.

[4] Online budget glossary – Parliamentary Budget Office (pbo.gov.au)