

Electric Vehicles— Fringe Benefits Tax Concessions for Employees under Novated Lease Agreements

Fact Sheet, April 2024

You may well have noticed a rise in the number of Electric Vehicles (EV) on the road, aided by the recent government incentives which were introduced to encourage road-users to purchase or lease EVs.

One of the current incentives for driving an EV is the generous exemption of EVs provided to employees under novated lease agreements from Fringe Benefits Tax for any costs associated with private use.

Novated leases are typically offered to employees as part of a salary-sacrifice arrangement:

- + The portion of the lease that does not attract FBT (i.e., is incurred for business-related purposes) is treated as a pre-tax deduction (providing the employee with a tax deduction that effectively reduces their pre-tax salary, and income tax paid).
- + The portion of the lease that would attract FBT is treated as a post-tax deduction (which is then reimbursed to the employer — known as an 'employee contribution', and does not reduce the employee's pre-tax salary, but rather reduces their post-tax salary).

Employers are generally subject to FBT on the private usage / lease of any vehicle by an employee, which is calculated as:

- + If the employee has kept a logbook for 12 consecutive weeks within the past 5 years – this is the calculated percentage of private use, multiplied by the total vehicle operating costs (lease payments, petrol, repairs, insurance, notional depreciation, interest on lease), or;
- + Alternatively, 20% of the base value of the car at the date of commencement of the arrangement (known as the statutory method).

However, an employer does not pay FBT if you provide private use of an Electric Vehicle to an employee through a salary-sacrifice / novated lease arrangement and the following conditions are met:

- + The car is a zero or low emissions vehicle, defined as one of the following:
 - A battery electric vehicle;
 - A hydrogen fuel cell electric vehicle, or;
 - A plug-in hybrid electric vehicle (Please note, the FBT exemption for plug-in-hybrid vehicles will be phased out from 1st April 2025).

- + The first time the car is both held and used is on or after 1st July 2022 (noting this also applies to 2nd hand vehicles, meaning that initial ownership by any previous owners must have also occurred after this date);
- + The car is used by a current employee or their associates (such as family members), and;
- + Luxury Car Tax (LCT) was not payable on the initial importation or sale of the car (for FY2024, LCT applies to electric cars which have a GST inclusive value exceeding \$89,332).

Again, a look-back test is required for 2nd hand vehicles to check if Luxury Car Tax was ever paid on the initial import of the vehicle to Australia.

If the EV provided under the novated lease is exempt from FBT, then the employee will not need to provide a reimbursement to their employer for private use through the aforementioned employee contribution.

Therefore, from an employee's perspective, a novated lease for an electric vehicle which meets the above conditions could be financially beneficial given that all costs under the arrangement can be paid from their pre-tax salary. The employer also benefits from a reduced Fringe Benefits Tax liability at the end of each FBT Year.

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