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THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

TREASURY LAWS AMENDMENT BILL 2026: PHASED CHANGES TO THE FBT ELECTRIC CAR EXEMPTION

EXPOSURE DRAFT EXPLANATORY MATERIALS

(Circulated by authority of the Treasurer, the Hon Jim Chalmers MP)

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Glossary

This Explanatory Memorandum uses the following abbreviations and acronyms.

Abbreviation	***Definition***
employee	employee (or an associate of the employee)
FBT	fringe benefits tax
FBTAA	*Fringe Benefits Tax Assessment Act 1986*
Bill	Treasury Laws Amendment (Electric Car Discount) Bill 2022
LCT	luxury car tax
LCT Act	*A New Tax System (Luxury Car Tax) Act 1999*

Chapter 1: The electric car discount

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Outline of chapter

1.1 Schedule [#] to the Bill amends the FBTAA to transition the FBT treatment of electric cars that meet certain eligibility criteria from being exempt from FBT to instead be subject to a concessional FBT treatment. This transition occurs over the period starting 1 April 2027 until 31 March 2029, creating three distinct periods for the FBT treatment of an eligible electric car provided as a car benefit.

- ***1 July 2022 to 31 March 2027***—eligible electric cars that are provided to employees by their employers under commitments made before 1 April 2027 can be exempt from FBT under section 8A of the FBTAA.
- ***1 April 2027 to 31 March 2029***—eligible electric cars that are provided to employees by their employers under commitments made before 1 April 2029 can access a 100 per cent or 25 per cent FBT discount.
- ***1 April 2029 onwards***—eligible electric cars that are provided to employees by their employers under commitments made on or after 1 April 2029 can only access a 25 per cent FBT discount.

1.2 To ensure that eligible electric cars subject to commitments made during the period 1 July 2022 to 31 March 2027 are not disturbed by the amendments, Schedule [#] to the Bill contains transitional arrangements that preserve the

FBT exemption until the commitment under which the electric car is provided ceases.

Context of amendments

1.3 The Australian Government is committed to supporting the transition to renewable energy as part of Australia's practical action on climate change. Since the commencement of the *New Vehicle Efficiency Standard Act 2024*, the availability of affordable electric car models in Australia has increased substantially. As lower-cost and cheaper-to-run electric cars become more widely available, continued electric car uptake will help reduce Australia's transport emissions.

1.4 On 12 December 2025, the government announced the commencement of the Statutory Review of the Electric Car Discount (Statutory Review) to be conducted by the Australian Centre for Evaluation in Treasury and the Department of Climate Change, Energy, Environment and Water. The final report was released on 5 May 2026 and, concurrently, the Treasurer and the Minister for Climate Change and Energy announced changes to the FBT treatment of electric cars in the lead-up to the 2026–27 Federal Budget.

1.5 The Statutory Review found that the FBT exemption has encouraged electric car uptake, reduced emissions and softened the effects of fuel price volatility. However, it also identified concerns about the exemption's increasing fiscal cost and distributional effects. These concerns support recalibrating the concession as the electric car market matures.

1.6 The amendments therefore phase in changes to the FBT treatment of electric cars provided by employers to current employees. This approach maintains support for the transition from internal combustion engine vehicles to electric cars while making the concession fairer and more fiscally sustainable. The phased implementation also gives affected taxpayers a clear transition path and reduces the risk of market disruption associated with abruptly withdrawing electric car incentives.

Comparison of key features of new law and current law

Table 1.1 Comparison of new law and current law

New law	***Current law***
Electric cars that meet certain eligibility criteria that are provided to an employee by their employer as a car benefit under a commitment made on or after 1 April 2027 receive concessional FBT treatment, with the level of concession depending on: • when the commitment to provide the car benefit was made; and • the base value of the car at the time the employer first holds the car provided to the employee (or associate). To receive a 100 per cent discount on FBT, the eligible car must: • be provided to the employee by their employer as a car benefit under a commitment made on or after 1 April 2027 and before 1 April 2029; and • have a base value of $75,000 or less at the time the employer first holds the car provided to the employee. To receive a 25 per cent discount on FBT, the eligible car must: • be provided to the employee by their employer as a car benefit under a commitment made on or after 1 April 2027; and	Electric cars that meet the eligibility criteria that are held by an employer and provided to an employee as a car benefit are an exempt benefit.

New law	***Current law***
• have a base value of more than $75,000 but not more than the fuel-efficient car limit.	
No change – an eligible electric car must be a zero or low emissions vehicle.	An eligible electric car must be a zero or low emissions vehicle.
An eligible electric car must have a base value of not more than the fuel-efficient car limit (within the meaning of the LCT Act) at the time the employer first holds the car provided to the employee as a car benefit. Eligibility for the 100 per cent discount on FBT further requires the electric car to have a base value of $75,000 or less at the time the employer first holds the car provided to the employee as a car benefit.	An eligible electric car must have a first retail value of not more than the fuel-efficient car limit (within the meaning of the LCT Act) that applies in the financial year the car is first held by the employer and used by the employee.

Detailed explanation of new law

Part 1—Termination of exemption for zero and low emissions vehicles

Ending the FBT exemption for electric cars

1.7 Section 8A of the FBTAA established the FBT exemption for eligible electric cars provided as car benefits by providing that a car benefit would be an exempt benefit when the eligibility criteria were met.

1.8 The amendments repeal section 8A and remove references to it elsewhere in the FBTAA to reflect the cessation of the FBT exemption for electric cars and its replacement with a concessional FBT treatment for electric cars. ***[Schedule [#], items 1, 6, 7, 8 and 9, subsection 135P(3), paragraph 135Q(1)(c) and the note to subsection 135Q(1) of the FBTAA]***

1.9 While the amendments remove section 8A from the FBTAA, a car benefit that is an exempt car benefit under section 8A will continue to be an exempt car

benefit until the commitment made to provide that car benefit ceases. ***[Schedule [#], item 11]***

1.10 A commitment is not defined in the FBTAA. The Explanatory Memorandum for Schedule 5 to the *Taxation Laws Amendment (2011 Measures No 5) Act 2011* explained that a commitment is entered into at the point that there is a commitment to the transaction, and it cannot be backed out of. The commitment needs to be financially binding on one or more parties.

1.11 A commitment may cease because a new commitment is made in relation to the same car. A new commitment in relation to the same car includes:

- refinancing the car;
- altering the terms of an existing contract (for example, the lease term or residual value);
- fitting accessories to a leased car if that results in lease payments being increased (examples of accessories include window tinting, entertainment systems, luggage racks or bull bars);
- changing employers even if the employers are within the same corporate group;
- an employee transferring to another government department and ownership of the car remaining the same (in this case, the new employer has committed to the application and availability of the car – the fact that the car continues to be owned by the former employer is not relevant).

1.12 In each of these circumstances, the FBT exemption that applied to the car benefit will cease and the car benefit will instead be subject to the applicable FBT concession, either a 100 per cent or 25 per cent discount, depending on when the commitment was made and the base value of the car.

1.13 Employers and employees who seek to end existing commitments early and immediately enter into new commitments just to maintain the FBT exemption provided under section 8A may be caught by the general anti-avoidance provisions.

Phased concessional FBT treatment for electric cars

1.14 The amendments establish an ongoing concessional FBT treatment for car fringe benefits provided in respect of electric cars by reducing the statutory fraction where certain eligibility criteria are met.

1.15 The statutory fraction forms part of the statutory formula, which is set out in subsection 9(1) of the FBTAA. The statutory formula is used for calculating the taxable value of car fringe benefits. This is one of two ways of calculating the FBT liability for a car fringe benefit provided to an employee. The other, known as the operating cost method (also known as the cost basis method), provided for in section 10 of the FBTAA, is not modified by these amendments.

1.16 Given the amendments establish an ongoing ability to reduce the statutory fraction where certain criteria are met, the presentation of the statutory fraction in the statutory formula is modified so that the numerical statutory fraction, '0.2', is replaced with the text, 'statutory fraction'.
[Schedule [#], item 2, subsection 9(1) of the FBTAA]

1.17 Replacing the numerical '0.2' with the words 'statutory fraction' is intended to better reflect the operation of the formula, given the statutory fraction can be reduced from '0.2' for electric cars that meet certain eligibility criteria.

1.18 However, the default statutory fraction remains '0.2' and the amendments clarify this.
[Schedule [#], item 4, paragraph 9(2)(aa) of the FBTAA]

1.19 The default statutory fraction results in the taxable value of a car fringe benefit being 20 per cent of the car's base value, adjusted based on the proportion of the FBT year the car fringe benefit was provided, and reduced by any employee contribution.

1.20 The amendments clarify that if the amount calculated under the statutory formula is less than nil, the amount is taken to be nil.
[Schedule [#], item 3, subsection 9(1A) of the FBTAA]

1.21 The statutory formula is presented in the FBTAA as follows:

$$\left(\text{Statutory fraction} \times \text{Base value of the car} \times \frac{\text{Number of days during that year of tax on which the car fringe benefits were provided by the provider}}{\text{Number of days in that year of tax}} \right) - \text{Amount (if any) of the recipient's payment}$$

Determining when the statutory fraction is reduced

1.22 The amendments establish the method for determining when the statutory fraction of 0.2 is reduced. Reducing the statutory fraction means that the taxable value of a car fringe benefit is less than 20 per cent of the car's base value, which reduces an employer's FBT liability.
[Schedule [#], item 5, subsection 9A(1) of the FBTAA]

1.23 For the reduction in the statutory fraction to apply, the car fringe benefit must be a phased benefit.

1.24 For a car fringe benefit to be a phased benefit, it must meet three criteria:

- the car is a zero or low emissions vehicle when the benefit is provided;
- the benefit is provided in respect of the employment of a current employee; and
- the base value of the car is not more than the fuel-efficient car limit (within the meaning of the LCT Act) for the financial year in which the employer first holds the car that is provided to the employee as a car benefit.

The car is a zero or low emissions vehicle

1.25 The first criterion is that the car must be a zero or low emissions vehicle.
[Schedule [#], item 5, paragraph 9A(2)(a) of the FBTAA]

1.26 'Zero or low emissions vehicle' was defined in section 8A of the FBTAA. As section 8A is repealed by the amendments, the definitions relating to zero or low emissions vehicles are relocated to the new subsection 9A(6). As the definitions are confined to new section 9A, the corresponding signposts in subsection 136(1) of the FBTAA are repealed.
[Schedule [#], items 5 and 10, subsections 9A(6) and 136(1) of the FBTAA]

The benefit is provided as part of a current employee's employment

1.27 The second criterion is that the benefit must be provided as part of a current employee's employment.
[Schedule [#], item 5, paragraph 9A(2)(b) of the FBTAA]

1.28 A consequence of the benefit needing to be part of the current employee's employment is that the commitment under which the electric car is provided as a car benefit will cease when an employee leaves their employment. If that employee commences employment with a new employer and enters into a commitment with that employer in relation to the same electric car, this will be a new commitment under which the electric car is provided to the employee as a car benefit, and it will be subject to the FBT settings that apply to the car fringe benefit when the commitment is made.

The base value of the car is not more than the fuel-efficient car limit

1.29 The third criterion is that the base value of the car at the earliest holding time is not more than the fuel-efficient car limit (within the meaning of the LCT Act) for the financial year in which the earliest holding time occurs.
[Schedule [#], item 5, paragraph 9A(2)(c) of the FBTAA]

1.30 This the same calculation that applies when determining the base value under paragraph 9(2)(a) of the FBTAA. Under this calculation, the base value of the car is determined at the time that the employer first holds the car provided to an employee. The time the employer first holds the car will depend on the relevant facts and circumstances but will often be when the employer first owned or leased the car.

1.31 Whether the car was originally purchased by the employer, is subject to a hire purchase agreement, or is leased affects how base value is calculated. This calculation also requires taking into account any non-business accessories fitted to the car on or around the time the car is purchased.

1.32 LCT is a tax imposed on supplies and importations of cars which have a value exceeding a prescribed threshold. For the purposes of the amendments, an electric car is not eligible to be a phased benefit if its base value exceeds the fuel-efficient car limit (within the meaning of the LCT Act).

1.33 Generally, the value of the electric car per the fuel-efficient car limit includes:

- the GST-inclusive price of the car,
- the value of parts, accessories and attachments supplied with the car at the time of sale or importation; and
- certain dealer-fitted options and modifications.

1.34 To satisfy the third criterion, the electric car must not be more than the fuel-efficient car limit that applies for the financial year that the electric car was first held by the employer. If the electric car's base value exceeds the fuel-efficient car limit, it cannot be a phased benefit.

> For example, the start time for the provision of a car benefit is 1 April 2027, which occurs within the 2026-27 financial year, for which the fuel-efficient car limit is $91,661. If an electric car has a base value of $95,000, it exceeds the fuel-efficient car limit (within the meaning of the LCT Act). As a result, the car fringe benefit would not qualify as a phased benefit. Instead, the car fringe benefit is subject to the normal FBT treatment determined by the statutory formula in section 9, unaffected by the new section 9A of the FBTAA.
>
> Conversely, an electric car with a base value of $90,000 would be below the fuel-efficient car limit and, assuming the other eligibility requirements are met, could qualify for the 25 per cent percentage reduction to the statutory fraction.

1.35 For avoidance of doubt, section 67 of the FBTAA continues to apply to ensure that the fuel-efficient car limit cited is that which reflects the genuine value of the electric car. This anti-avoidance provision empowers the Commissioner to cancel any tax benefit obtained where an arrangement is entered into purely to obtain a tax benefit. For example, where the fuel-efficient car limit is avoided by virtue of a deliberately low resale price in order to obtain the most reduced level of tax liability, this anti-avoidance provision applies, and the Commissioner's powers are enlivened in respect of that arrangement.

1.36 If the electric car is acquired on a non-arm's length basis, there are specific rules in section 13 of the FBTAA to ensure the base value used for the

calculation of the taxable value of the benefit reflects the cost determined on an arm's length basis.

Calculating the statutory fraction reduction

Percentage reduction

1.37 Where the car fringe benefit meets all three criteria to be a phased benefit, the statutory fraction is reduced by the percentage reduction that applies to the phased benefit.

1.38 A 100 per cent percentage reduction applies to the statutory fraction where the base value of the electric car is $75,000 or less.
[Schedule [#], item 5, paragraph 9A(3)(a) of the FBTAA]

1.39 The percentage reduction is 25 per cent if the 100 per cent percentage reduction does not apply. In other words, the 25 per cent percentage reduction applies where the electric car's base value is more than $75,000 (but less than the fuel-efficient car limit for that financial year).
[Schedule [#], item 3, paragraph 9A(3)(b) of the FBTAA]

1.40 The 100 per cent percentage reduction will cease to be available where the phased benefit is provided under a commitment made on or after 1 April 2029. For commitments to provide a phased benefit made on or after 1 April 2029, only the 25 per cent percentage reduction is available.
[Schedule [#], item 12, subsection 9A(3) of the FBTAA]

1.41 The following table summarises the effect of the percentage reduction on the statutory fraction:

Base value of the car	**Statutory fraction for zero or low emission vehicles, for commitments made on or after 1 April 2027**	
	On or after 1 April 2027 and before 1 April 2029	**1 April 2029 onwards**
Up to and including $75,000	0 (100% FBT discount)	0.15 (25% FBT discount)
$75,001 up to and including the fuel-efficient car limit	0.15 (25% FBT discount)	0.15 (25% FBT discount)

Over fuel-efficient car limit	0.20 (no FBT discount)	0.20 (no FBT discount)

Reduction of the statutory fraction

1.42 How the percentage reduction affects the statutory fraction depends on whether all of the car fringe benefits are phased benefits, and whether the same percentage reduction applies to all of the phased benefits. Where this is the case, the statutory fraction is reduced by either 100 per cent or 25 per cent, whichever is the applicable percentage reduction for the phased benefit.
[Schedule [#], item 5, paragraph 9A(4)(a) of the FBTAA]

1.43 Where the statutory fraction is reduced by 100 per cent, the taxable value of the car fringe benefit is reduced to zero. In other words, the car fringe benefit receives a 100 per cent discount on FBT.

1.44 Where the statutory fraction is reduced by 25 per cent, the taxable value of the car fringe benefit is 15 per cent of the electric car's base value (reduced from the default 20 per cent rate). In other words, the car fringe benefit receives a 25 per cent discount on FBT. A note is included that provides this example of how the statutory fraction is reduced through the application of the percentage reduction.
[Schedule [#], item 5, note under subsection 9A(4) of the FBTAA]

1.45 However, if only a portion of the car fringe benefits are phased benefits or if the same percentage reduction does not apply to all phased benefits, an average reduction percentage applies to provide the percentage reduction that reduces the statutory fraction.
[Schedule [#], item 5, paragraph 9A(4)(b) of the FBTAA]

Average reduction percentage

1.46 Where the average reduction percentage applies to reduce the statutory fraction, the average reduction percentage is determined by dividing the 'sum of reduction percentages' by the number of days during the FBT year (i.e. 1 April to 31 March) within which the car fringe benefits were made available or applied.
[Schedule [#], item 5, paragraph 9A(5) of the FBTAA]

1.47 Represented as a formula, the average reduction percentage is as follows:

$$\frac{\text{sum of reduction percentages}}{\text{number of days}}$$

1.48 The 'sum of reduction percentages' means the sum of the percentage reduction determined under subsection 9A(3) of the FBTAA to the phased benefit provided on each day in the FBT year on which a phased benefit was provided.

1.49 Where one phased benefit is provided on a day, the sum of reduction percentages is the percentage reduction applicable to the phased benefit provided on that day. Where a phased benefit is subject to the same percentage reduction during the FBT year, it will result in the percentage reduction being either 100 per cent or 25 per cent, depending on which percentage reduction applies.

Example: Same percentage reduction applying during FBT year

John is employed by ACME Industries and, as part of his employment, he is provided with an electric car eligible for the 100 per cent percentage reduction. John is first provided with the eligible electric car on 1 October 2027. When calculating its FBT liability for the FBT year 1 April 2027 to 31 March 2028, ACME Industries need to perform the following calculation:

$$\frac{100\% \text{ x } 182}{182} = 100\% \text{ percentage reduction}$$

1.50 However, different percentage reductions can also apply to the same phased benefit during a FBT year. For example, car fringe benefits are often provided under a novated lease arrangement. Where a novated lease on an eligible electric car ends and a new novated lease is entered into in relation to the same electric car, different percentage reductions may apply as the new novated lease is a new commitment under which the electric car is provided to the employee as a car benefit.

Example: Different percentage reductions applying during FBT year

The electric car that John was provided by ACME Industries on 1 October 2027 was subject to a novated lease that expired on 1 October 2030 (184 days). ACME Industries allows John to renew the novated lease on the same electric car and makes a new commitment with him for the electric car, with the car being first provided to John under that new commitment on 2 October 2030 (181 days to 31 March 2031). When calculating its FBT liability for the FBT year 1 April 2030 to 31 March 2031, ACME Industries needs to perform the following calculation:

$$\frac{(100\% \text{ x } 184) + (25\% \text{ x } 181)}{365} = 62.8082\% \text{ percentage reduction}$$

1.51 A day on which no phased benefit is provided contributes zero per cent to the percentage reduction under the average reduction percentage.

Calculating an employee's reportable fringe benefits amount

1.52 When determining an employee's reportable fringe benefits amount, where the taxable value of the car fringe benefit is worked out under section 9 of the

FBTAA and the statutory fraction is reduced, the taxable value of the car fringe benefit is to be determined as if the statutory fraction was 0.2. This applies regardless of whether the statutory fraction reduction is given effect by a common percentage, under subsection 9A(4), or the average reduction percentage, under subsection 9A(5).
[Schedule [#], item 7, subsection 135P(3) of the FBTAA]

1.53 The reportable fringe benefits amount for a car benefit provided in respect of a particular car for a particular employee must be calculated using the same methodology that was used to calculate the taxable value in respect of the car fringe benefits that were provided. This is the same outcome as under the previous subsection 135P(3), which required a reportable fringe benefits amount to be taken into account for the employee, despite section 8A exempting zero or low emissions vehicle car benefits from FBT liability.

1.54 If the calculation covers car fringe benefits provided to multiple employees, the recalculated aggregate is then allocated under sections 5E and 5F of the FBTAA.

Commencement, application, and transitional provisions

1.55 Schedule [#], Part 1 to the Bill commences on the later of 1 April 2027 and the first 1 January, 1 April, 1 July or 1 October to occur after the day the Bill receives Royal Assent.

1.56 The commencement provision ensures that section 8A of the FBTAA and its related provisions are not repealed before the amendments commence on 1 April 2027. The commencement provision also avoids retrospective commencement if Royal Assent occurs after 1 April 2027. The application provision (discussed in paragraph 1.57) nevertheless applies the amendments retrospectively to benefits provided from 1 April 2027. Retrospective application is appropriate in this instance as it is beneficial to employers and employees with commitments made to provide an eligible electric car as a car benefit on or after 1 April 2027.

1.57 Part 1 applies to car fringe benefits provided on or after 1 April 2027. However, the amendments do not apply to an eligible electric car provided to an employee by their employer as a car benefit under a commitment made before 1 April 2027. A legislative note explains this effect of the application provision.
[Schedule [#], subitems 11(1) and (2)]

1.58 Where a car benefit that is an exempt benefit under section 8A of the FBTAA is preserved, any car expense payment benefit, car property benefit, or car residual benefit in respect of the car that is the car benefit is also preserved until the commitment under which the car benefit is provided ceases.
[Schedule [#], subitem 11(3)]

Part 2—Reduced reduction for benefits provided on or after 1 April 2029

1.59 Starting on 1 April 2029, only a 25 per cent FBT discount for car fringe benefits will be available for eligible electric cars provided as car benefits. The amendments reflect this by removing the 100 per cent percentage reduction as an option applicable to a phased benefit.
[Schedule [#], item 12, subsection 9A(3) of the FBTAA]

Commencement, application, and transitional provisions

1.60 Schedule [#], Part 2 to the Bill commences on 1 April 2029.

1.61 The amendments apply to car fringe benefits provided on or after 1 April 2029. However, the amendments do not apply to car fringe benefits arising from an eligible electric car provided to an employee by their employer as a car benefit under a commitment made before 1 April 2029. A legislative note explains the effect of the application provision.
[Schedule [#], item 13]

1.62 Employers and employees who seek to end existing commitments early and immediately enter into new commitments just to get the benefit of the 100 per cent percentage reduction may be caught by the general anti-avoidance provisions.