



Statutory review of the electric car discount

Productivity Commission submission

Key points

- * The net zero transformation is a major undertaking and it is vital that Australia pursues its emissions reduction targets at least cost.
- * The fringe benefits tax exemption for electric vehicles (EVs) should be phased out because it is an unnecessarily costly way to reduce emissions.
 - The PC has previously estimated that the exemption likely costs taxpayers between about \$1,000 and \$20,000 per tonne of avoided CO₂-e, greatly exceeding the cost of other ways of reducing emissions.
- * The New Vehicle Efficiency Standard now in place is a more efficient way to reduce emissions from Australia's light vehicle fleet, and there are also policies in place to address barriers to EV take-up.

Introduction

The Productivity Commission welcomes the opportunity to make this submission to the statutory review of the electric car discount. The review will address both the fringe benefits tax (FBT) exemption for electric vehicles (EVs) and the tariff exemption available for eligible EVs. This submission focuses on the FBT exemption, which the PC analysed as part of the most recent 5-year productivity inquiry (PC 2023) and our inquiry into investing in cheaper, cleaner energy and the net zero transformation (PC 2025).

The net zero transformation is still mostly ahead of us

As part of global efforts to mitigate the effects of climate change, Australia has committed to achieving net zero by 2050, as well as interim targets for 2030 and 2035.

The Department of Climate Change, Energy, the Environment and Water projects that under current policies Australia is within reach of the 2030 target of 43% below 2005 levels but that we are not on track to meet our 2035 target of 62–70% below 2005 levels (DCCEEW 2025, p. 3). Meeting the top end of this target band will require tripling our rate of emissions reduction between now and 2035 (CCA 2025, p. 18). Achieving this sort of acceleration will require new policies and changes to existing policies.

Policies should aim for least-cost emissions reduction

Australian, state, territory and local governments have introduced a suite of measures to reduce emissions in different parts of the economy. And emissions reductions will be required throughout the economy if we are to achieve our emissions targets at least cost. But achieving our emissions targets at least cost also requires that governments carefully design Australia's various emissions reduction policies to ensure the cost of emissions reductions is not unnecessarily high.

In this context, 'unnecessarily high' has a specific meaning. Emissions reduction policies can be unnecessarily costly if they have implicit (or explicit) carbon prices above target-consistent carbon values.

Target-consistent carbon values (TCCVs) are estimates of the implied carbon prices needed to meet emissions targets. They can be estimated using information about potential opportunities to reduce emissions in different parts of the economy. Treasury's modelling for the *Net zero plan* included 'marginal abatement incentives' which are functionally equivalent to TCCVs. These represent the most expensive abatement options taken up at different times to achieve emissions reductions consistent with Australian Government targets (2025, p. 17), and Treasury estimates of their value averages \$67/tonne from 2026 to 2030. The PC has recommended using them as a benchmark for assessing emissions reduction policies before a set of TCCVs are estimated by an independent agency.

By using TCCVs as a benchmark, governments can design policies in ways that achieve many of the benefits conferred by a broad-based, enduring, national carbon price – a policy supported by many, including the PC (2008, 2011, 2023, p. 16). Policies that achieve emissions reduction at higher cost than TCCVs can be justified where they achieve other benefits (for example, increasing the provision of knowledge goods or addressing coordination failures), and TCCVs estimated for future years can help policymakers assess the value of interventions designed to reduce costs over time.

The EV FBT exemption is costly and should be phased out

The EV FBT exemption may increase EV uptake and have other benefits but it is unlikely to be the most cost-effective way of achieving those outcomes.

Previous work by the PC estimated that the FBT exemption likely costs Australian taxpayers between about \$1,000 and \$20,000 per tonne of avoided CO₂-e (2023, p. 14).

Moreover, by design, the exemption does not provide an equal benefit to consumers based on emissions reduction. It only rewards the purchase of EVs, and only rewards the purchase of EVs by people who can access salary packaging or novated leases. It also incentivises more expensive car purchases (up to the exemption's threshold of around \$90,000).¹ These factors make the exemption more likely to be distortionary, since it rewards consumers for factors unrelated to the exemption's policy goals.

The Australian Government may consider that some policy measure is needed to drive EV uptake if the EV FBT exemption is removed. Any such measures should be assessed against TCCVs and broader policy criteria including efficiency, simplicity and distributional impacts. In general, tax concessions that are more

¹ Data from a large novated lease provider indicates that around 48% of EV or plug-in hybrid EV adopters have incomes over \$150,000, while only 35% of Australian drivers have incomes above this level (Magenta Advisory and Pragmatic Policy Group 2025, p. 38).

valuable for higher income earners are unlikely to be efficient or equitable in the context of Australia's progressive income tax system.

The Australian Government should lean on the New Vehicle Efficiency Standard (NVES) and complementary policies as the main drivers for decarbonising the light vehicle fleet. For example, Australia now has in place a number of measures that specifically target non-price barriers to EV uptake, including the development of a national EV charging network.

The NVES is an efficient policy

Under the NVES, importers of new passenger cars and light commercial vehicles must ensure that the vehicles they supply on average meet certain emissions intensity standards. In 2026, a supplier's fleet of:

- 'Type 1' vehicles must emit no more than 117 grams of carbon dioxide per kilometre on average
- 'Type 2' vehicles must emit no more than 180 grams of carbon dioxide per kilometre on average.²

The standards become more stringent over time and currently have been set until 2029.

Suppliers have flexibility in how they can comply. Those whose fleets are more emissions-intensive than the relevant standard can meet their obligations by buying credits – 'units' – from those whose fleets beat the standard (NVES Regulator 2025).

As a market-based mechanism, the NVES is efficient. Compared with EV-specific subsidies, the NVES incentivises a broader set of emissions-reduction options. Vehicle suppliers can meet the standard not just by selling EVs, but also by selling cleaner fossil-fuelled cars.

Modelling by Net Zero Australia indicates that if NVES limits continue to decline to 0 g CO₂/km by 2050 (which is much slower than the current decline rate), the NVES will reduce emissions from light vehicles at a rate close to a least cost net zero by 2050 pathway (Net Zero Australia 2025a, p. 23, 2025b, p. 26).

The 2026 review of the NVES should seek to ensure that the standard is calibrated to align with the Australian Government's emissions reduction targets. To achieve alignment, the review may need to consider ways to strengthen the NVES, such as by setting lower emissions intensity limits. The NVES could also set a single limit for both Type 1 and Type 2 vehicles, to reduce incentives for entities to sell more Type 2 vehicles (which are more emissions-intensive).

² *New Vehicle Efficiency Standard Act 2024*, s. 22. Type 1 vehicles are most passenger car models, while Type 2 vehicles are light commercial vehicles and some passenger cars.

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