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Attention: The Commissioners, Productivity Commission

Submission to: Investing in Cheaper, Cleaner Energy and the Net Zero Transformation, 3 August 2025

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This submission addresses **Draft Recommendation 1.3** and **Draft Recommendation 1.4** of the Productivity Commission's *2025 Interim Report: Investing in Cheaper, Cleaner Energy and the Net Zero Transformation* ('2025 Interim Report').¹

Draft Recommendation 1.3 states:²

Introduce an emissions-reduction incentive for heavy vehicles and phase-out policy overlaps for light vehicles:

"The Australian Government should introduce a new emissions-reduction incentive to cover heavy vehicles. The incentive should be as technology-neutral as possible, meaning that it should create the same incentive to reduce emissions by switching from fossil fuels to electric vehicles, low-carbon liquid fuels or any other method to reduce emissions.

Now that the Australian Government has implemented the New Vehicle Efficiency Standard, it should phase out the exemption of electric vehicles from the Fringe Benefits Tax, and state and territory governments should phase out the exemption of electric vehicles from vehicle stamp duty and registration discounts."

In its 2025 Interim Report, the Productivity Commission argues that purchase incentives such as the Fringe Benefits Tax ('FBT') exemption for electric vehicles ('EVs') and related state concessions should be phased out because there is now 'an overlap' for light vehicles.³ According to the Productivity Commission, the absence of a New Vehicle Efficiency Standard ('NVES') was the principal barrier to uptake because it constrained supply, a problem it had identified in its 2023 submission to the National Electric Vehicle Strategy Consultation ('2023 EV Strategy').⁴ With the NVES now in place, the Productivity Commission considers that demand-side incentives risk duplication, undermine cost-effectiveness, and depart from its preferred principle of technology neutrality.

The Productivity Commission further states that emissions-reduction policies should only be retained where they satisfy three criteria as stated in **Draft Recommendation 1.4**:⁵

- *costs created by the policy, including fiscal costs and switching costs;*
- *benefits beyond emissions reduction, such as innovation spillovers, fuel savings or reliability benefits; and*
- *the emissions reductions the policy will deliver.*

The Productivity Commission argued that EV demand-side incentives, including the FBT exemption, impose high fiscal costs and are duplicative of the NVES. On this basis, it recommended their withdrawal in a post-NVES environment.

¹ Productivity Commission, *Investing in Cheaper, Cleaner Energy and the Net Zero Transformation* (Interim Report, August 2025) ('2025 Interim Report').

² 2025 Interim Report (n 1) 19.

³ Ibid.

⁴ Productivity Commission, *Updated Submission to the National Electric Vehicle Strategy Consultation* (Submission, February 2023) 1-6, 5 ('2023 EV Strategy').

⁵ 2025 Interim Report (n 1) 31.

This submission does not support that conclusion. It argues that demand-side policies are not duplicative but complementary to supply-side EV regulation. The NVES compels importers to increase the supply of efficient vehicles, while purchase incentives operate on the consumer side of the market by reducing price gaps and accelerating adoption. Without strong demand-side measures, NVES targets are unlikely to be met, as consumers remain constrained by disincentives such as the higher upfront cost of EVs, limited charging infrastructure, and persistent range anxiety.

This submission rejects the Productivity Commission's view that the NVES alone should drive low-emission vehicle uptake and that EV-specific incentives should be phased out as 'duplicative'. International experience, academic research, and evidence from the International Energy Agency demonstrate that targeted EV policies remain necessary and complementary to broad efficiency standards. Jurisdictions in the European Union, Norway, the United Kingdom, and elsewhere have sustained comprehensive packages of supply- and demand-side measures for more than two decades, achieving both compliance with fuel efficiency standards and high rates of EV uptake.

This submission contends that if Australia is to meet its national emissions reduction targets by 2030, it cannot follow the Productivity Commission's recommendation to remove the FBT exemption and other purchase incentives for EVs. Instead of winding back demand-side measures, this submission advances alternative recommendations designed to enhance equity and improve cost-effectiveness while continuing to accelerate EV adoption. Achieving the 2030 target will require substantial cuts in transport emissions, driven by the decarbonisation of road transport via the transition to zero-emission vehicles.

Yours sincerely,

Dr Anna Mortimore and Ms Stephanie Chard

15 September 2025

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1.0 Cutting Transport Emissions is Key to Net Zero by 2030

Carbon dioxide ('CO₂') emissions from the Australian transport sector accounted for around 22% of the national inventory in 2024, making it the third largest source of greenhouse gas emissions in the country.⁶ Transport emissions have increased every year since 1990, with road transport responsible for approximately 84% of the sector's emissions in 2024.⁷ Without intervention, the transport sector is projected to become Australia's largest source of emissions by 2030, highlighting the importance of improving electric vehicle ('EV') affordability to reduce light road transport emissions.⁸

Reducing these emissions is critical if Australia is to meet its 2030 target of a 43% reduction from 2005 levels and achieve net-zero emissions by 2050 as legislated under the *Climate Change Act 2022* (Cth).⁹ The Climate Change Authority is preparing advice to inform Australia's new Nationally Determined Contribution, which under the *Paris Agreement* must be submitted in 2025 and set out a more ambitious pathway for deeper emission reductions through to at least 2035.¹⁰

The Australian Government's 2023 National Electric Vehicle Strategy ('NEVS') states that 'reducing transport emissions is essential if the world is to achieve its net zero ambitions.'¹¹ To meet this target, modelling for the Australian Labor Party's 'Powering Australia Plan' forecasted that EV sales will reach 89% of new car registrations by 2030 and that EVs will account for 15% of all vehicles on Australian roads by that year, equivalent to about 3.8 million EVs.¹² The government has not formally abandoned this target, but recent projections prepared by the Commonwealth Scientific and Industrial Research Organisation (CSIRO) show it is unlikely to be met under current policy settings.¹³ Updated modelling suggests that EV sales shares could reach up to 60% by 2030 depending on the scenario.¹⁴ The gap arises mainly from slow fleet turnover and the persistence of internal combustion engine vehicles ('ICEVs').¹⁵

The government's target appears extremely ambitious when only 1.5% of new vehicles sold in June 2025 were plug-in EVs.¹⁶ In 2024, EVs (battery electric vehicles ('BEVs') and plug-in hybrid electric vehicles ('PHEVs')) accounted for 9.5% of new registrations in Australia, compared to global average sales share of over 20%.¹⁷

According to the International Energy Agency ('IEA'),¹⁸ EVs made up nearly 50% of all new car sales in China and more than 10% in the United States in 2024. In Europe, EVs represented around 20% of new car sales. Norway remained the global leader, with 88% of new car sales being electric. The Netherlands reached 30%, while both the United Kingdom ('UK') and Germany recorded a 25% share.

⁶ 'Reducing Transport Emissions', *Department of Climate Change, Energy, the Environment and Water* (Web Page, 4 August 2025) <<https://www.dcccew.gov.au/energy/transport>>.

⁷ Bureau of Infrastructure and Transport Research Economics (Cth), *Australian Infrastructure and Transport Statistics Yearbook 2024* (Report, January 2025) 1–290, 244 <<https://www.bitre.gov.au/publications/2025/australian-infrastructure-and-transport-statistics-yearbook-2024>>.

⁸ 'Working with States and Territories to Decarbonise Infrastructure and Transport', *Department of Infrastructure, Transport, Regional Development, Communications and the Arts* (Web Page, 2024) <<https://www.infrastructure.gov.au/infrastructure-transport-vehicles/net-zero/working-states-and-territories-decarbonise-infrastructure-and-transport>>.

⁹ *Climate Change Act 2022* (Cth) s 10(1).

¹⁰ '2035 Emissions Reduction Targets', *Climate Change Authority* (Web Page, 1 July 2025) <<https://www.climatechangeauthority.gov.au/2035-emissions-reduction-targets>>.

¹¹ Department of Climate Change, Energy, the Environment and Water (Cth), *National Electric Vehicle Strategy* (Report, 2023) 1–148, 1 <<https://www.dcccew.gov.au/sites/default/files/documents/national-electric-vehicle-strategy.pdf>>.

¹² Tim Brennan, *Treasury Laws Amendment (Electric Car Discount) Bill 2022* (Bills Digest No 009, 2022–23, Parliamentary Library, Parliament of Australia, 26 August 2022) 1–17, 6.

¹³ Commonwealth Scientific and Industrial Research Organisation, *Electric Vehicle Projections 2024* (Report, March 2024) 1–56, 20 <<https://aemo.com.au/-/media/files/major-publications/isp/2025/stage-2/electric-vehicle-projections-2024.pdf>>.

¹⁴ *Ibid.*

¹⁵ *Ibid.* 12.

¹⁶ BEVs and PHEVs; 'Electric Vehicle Index', Australian Automobile Association (Web Page, July 2025) <<https://www.aaa.asn.au/research-data/electric-vehicle/>>.

¹⁷ International Energy Agency, *Global EV Outlook 2025: Expanding Sales in Diverse Markets* (Report, 2025) 1–172, 10 <<https://www.iea.org/reports/global-ev-outlook-2025>>; Electric Vehicle Council, *State of Electric Vehicles 2024* (Report, 2024) 1–72, 10 <<https://electricvehiclecouncil.com.au/wp-content/uploads/2024/12/1734312344781.pdf>>.

¹⁸ *Ibid.* 10–11.

1.1 EU adopted regulatory CO₂ emission standards in 2009

Globally, more than 85% of new passenger-car sales are now covered by fuel-economy or tail-pipe CO₂ standards.¹⁹ The European Union ('EU') adopted CO₂ emission standards in 2009, requiring manufacturers to ensure that new passenger cars sold in the EU did not emit more than 130 g CO₂/km (NEDC) by 2015.²⁰

At the time of discussing the introduction of the first CO₂ emission standards in 2007, the European Commission ('EC') referred to the standards as 'supply-oriented measures' for reducing average fleet emissions through improvements in vehicle motor technology and mandatory efficiency requirements.²¹ This framing emphasised that the standards primarily targeted the supply side of the market, compelling manufacturers to deliver lower-emissions vehicles rather than relying solely on consumer demand shifts.

The regulation also imposed binding CO₂ limits on each manufacturer and established financial penalties for non-compliance.²² These standards become stricter over time, with plans to require zero tailpipe emissions for all new passenger cars from 2035.²³

1.2 Australia's New Vehicle Efficiency Standard adopted in 2025

Australia only began implementing the New Vehicle Efficiency Standard ('NVES') through the *New Vehicle Efficiency Standard Act 2024* (Cth) on 1 January 2025, with compliance obligations not taking effect until 1 July 2025. From that date, carmakers must ensure that the fleet-average CO₂ emissions of every new passenger car and light commercial vehicle they supply meet the statutory targets or face financial penalties of \$100 for each gram by which they exceed the limit.²⁴

***"NVES is a supply side measure – it encourages car makers to provide more fuel efficient, low and zero-emission vehicles to Australians."*²⁵**

In Table 1, the NVES has an ambitious aim to cut its headline number by about 59% in five years for passenger vehicles, declining progressively from 141 g/km to 58 g/km from 2025 to 2029.²⁶ While over a five-year period between 2018 and 2023, the EU reduced its average new passenger car CO₂ emissions by around 29%.²⁷ To meet Australia's ambitious target of 58 g CO₂/km by 2029, Komnos et al. (2025) estimates that Australia will need 60% of new vehicle sales to be zero-emission vehicles.²⁸ However, the uptake of zero emission vehicles by 2024 was 7.3%, as discussed in section 3.2.

¹⁹ International Energy Agency, *Global EV Outlook 2021: Accelerating Ambitions Despite the Pandemic* (Report, April 2021) 1-99, 44 <<https://www.iea.org/reports/global-ev-outlook-2021>>.

²⁰ Regulation (EC) No 443/2009 of the European Parliament and of the Council of 23 April 2009 Setting Emission Performance Standards for New Passenger Cars as Part of the Community's Integrated Approach to Reduce CO₂ Emissions from Light-Duty Vehicles [2009] OJ L 140/1 ('Regulation No 443/2009').

²¹ Communication from the Commission to the Council and the European Parliament, 'Results of the Review of the Community Strategy to Reduce CO₂ Emissions from Passenger Cars and Light-Commercial Vehicles' *European Commission* (Communication, COM(2007) 19 final, 7 February 2007) <<https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52007DC0019:EN:HTML>>.

²² Regulation No 443/2009 (n 20) art 4(1) and art 9(1).

²³ Regulation (EU) 2023/851 of the European Parliament and of the Council of 19 April 2023 amending Regulation (EU) 2019/631 as regards strengthening the CO₂ emission performance standards for new passenger cars and new light commercial vehicles in line with the Union's increased climate ambition [2023] OJ L 110/5, art 1(5a).

²⁴ *New Vehicle Efficiency Standard Act 2024* (Cth) s 17(1).

²⁵ Australian Government, *New Vehicle Efficiency Standard Fact Sheet* (Fact Sheet, March 2024) 1-3, 1.

²⁶ Department of Infrastructure, Transport, Regional Development, Communications and the Arts (Cth), *NVES Numerical Precision and Calculations: Guidance Note* (Guidance Note, June 2024) 1-4, 3 <<https://www.infrastructure.gov.au/sites/default/files/documents/nves-numerical-precision-and-calculations-guidance-note.pdf>> ('Guidance Note').

²⁷ 'CO₂ Emissions Performance of New Passenger Cars in Europe', *European Environment Agency* (Web Page, 16 December 2024) <<https://www.eea.europa.eu/en/analysis/indicators/co2-performance-of-new-passenger>>.

²⁸ Dimitrios Komnos et al, 'A Comparative Analysis of Car Fleet Efficiency Evolution in Europe and Australia: Insights on Policy Influence' (2025) 373 *Journal of Environmental Management* 123313, 1-20, 13.

Table 1. Legislated New Vehicle Efficiency Standards and Average CO₂ Emissions (≈NEDC and WLTP equivalents):²⁹ EU compared with Australia

New passenger cars ³⁰ (g CO ₂ /km)				
Target		Average CO ₂ emissions		
Year	EU ³¹	Australia ³²	EU ³³	Australia ³⁴
2010	2015 Target Set	N/A	140.3 (NEDC)	N/A
2015	130 (NEDC)	N/A	119.5 (NEDC)	N/A
2020-2024	115.1 (WLTP) 95 (≈NEDC)	N/A	107 (WLTP; 2023) 87 (≈NEDC; 2023)	186 (≈WLTP; 2023) 150 (NEDC; 2023)
2025	93.6 (WLTP)	141 (NEDC target) 175 (≈WLTP)		
2026	93.6 (WLTP)	117 (NEDC target) 145 (≈WLTP)		
2027	93.6 (WLTP)	92 (NEDC target) 114 (≈WLTP)		
2028	93.6 (WLTP)	68 (NEDC target) 84 (≈WLTP)		
2029	93.6 (WLTP)	58 (NEDC target) 72 (≈WLTP)		
2030	49.5 (WLTP)			
2035	0			

Based on international trajectories (Table 2), Australia will not meet the NVES on the current timeline. For instance, over a 9 year time line (from 2015 to 2024): Norway (−91% CO₂), the Netherlands (−49%), the UK (−32%) and Germany (−24%) have each achieved sustained reductions in new-vehicle emissions intensity. These results were driven by long-standing demand side incentives (discussed in section 2.2) such as purchase subsidies, tax incentives, and rebates for the uptake of EVs (see Appendix A) achieving the above binding emissions standards in Table 2. Without a similar mix of supply and demand side measures, Australia is unlikely to achieve comparable outcomes.

²⁹ The Worldwide Harmonised Light Vehicle Test Procedure (WLTP) replaces New European Driving Cycle (NEDC) to better reflect real-world emissions. Mandatory in Europe from 2018, WLTP values are typically 20–25% higher than NEDC. Australia will phase in WLTP by December 2025 for new models and all vehicles by July 2028. For consistency, headline CO₂ targets still use NEDC values, with a conversion factor of 1.2421 (from ICCT analysis) applied in this analysis.

³⁰ EU's definition: Category M1 as defined in Annex II to Directive 2007/46/EC ('passenger cars') which are registered in the Union for the first time, and which have not previously been registered outside the Union ('new passenger cars'); Australia's definition: Category Type 1 as defined in *New Vehicle Efficiency Standard Act 2024* (Cth) ss 12–16.

³¹ 'CO₂ Emissions Performance of New Passenger Cars in Europe' (n 27).

³² Guidance Note (n 26) 3.

³³ 'CO₂ Emissions Performance of New Passenger Cars in Europe' (n 27).

³⁴ National Transport Commission, *Light Vehicle Emissions Intensity in Australia: Trends Over Time* (Research Report, December 2024) 1-145, 5.

Table 2. Select European countries average emissions intensity (CO₂ grams per kilometre) (≈NEDC) for new passenger vehicle sales

	Norway			Netherlands			United Kingdom			Germany		
Population	5,585,044			18,045,683			67,025,542			84,669,326		
Year	2024	2020	2015	2024	2020	2015	2024	2020	2015	2024	2020	2015
Ave CO₂ Emissions³⁵	9g	38g	99g	52g	82g	101g	82g	112g	121g	96g	114g	127g
Target difference (%)	-90	-60	-24	-45	-14	-22	-14	+18	-7	+2	+20	-2
BEV & PHEV (%)	91.7	74.3	22.4	49	25.0	9.7	25.8	10.7	1.1	20.3	13.6	0.7
BEV (%)	89	54.3	17.1	35	21.0	0.8	19.6	6.6	0.4	14	6.7	0.4
PHEV (%)	2.7	20.0	5.3	14	4.0	8.9	6.2	4.1	0.7	6.8	6.9	0.3

2.0 Supply- and Demand-Side Measures Needed for NVES

The Productivity Commission presents supply-side measures (like the NVES) as if they can stand alone as the main instrument to promote zero-emissions vehicles. In reality, supply-side interventions do not operate in isolation. Supply regulation tells industry *what to build*, while demand incentives tell consumers *what to buy*. The European Commission maintains that supply-side measures, such as CO₂ emission standards, are foundational but insisted that demand-side stimuli, led by taxation reforms, are essential for rapid EV adoption.³⁶ This combination of supply- and demand-side measures proved critical in enabling the EU to meet its regulatory emission standards for passenger vehicles (Table 2).

2.1 Consumers sensitive to high upfront purchase price

The Productivity Commission observes that consumers systematically undervalue long-term fuel cost savings, making them less responsive to operational incentives such as higher fuel prices, and more sensitive to upfront purchase costs.³⁷ This finding is consistent with the 2015 evaluation of the EU's vehicle emissions regulation, which similarly concluded that consumers tend to discount lifetime savings from low-emissions vehicles but are highly responsive to purchase-price differentials.³⁸ Registration-tax adjustments and upfront subsidies were identified as more effective than measures delivering benefits only after purchase.³⁹ A study of 30 European countries found long-term purchase incentive policies have contributed considerably to BEV adoption, possibly increasing them by over 113% of adoption levels without such incentives.⁴⁰

The Productivity Commission states that 'over time' the NVES should lower the relative cost of low-emissions vehicles compared with emissions-intensive vehicles, thereby increasing their share on the road.⁴¹ However, this assessment makes no reference to consumers' sensitivity to the high upfront purchase cost of EVs, nor does it address the substantial price gaps that currently exist when choosing a BEV.

³⁵ European Environment Agency, *CO₂ Emissions from New Passenger Cars* (Database, 2024) <https://co2cars.apps.eea.europa.eu/Enedc__g_km>; The Worldwide Harmonised Light Vehicle Test Procedure (WLTP) replaces NEDC to better reflect real-world emissions better reflect real-world emissions. Mandatory in Europe from 2018, WLTP values are typically 20–25% higher than NEDC. Australia will phase in WLTP by December 2025 for new models and all vehicles by July 2028. For consistency, headline CO₂ targets still use NEDC values, with a conversion factor of 1.2421 (from ICCT analysis) applied in this analysis.

³⁶ European Commission, *Decarbonise Corporate Fleets* (Communication) COM (2025) 96 final, 5 March 2025, 1-12, 1,9 <<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52025DC0096>>.

³⁷ 2025 Interim Report (n 1) 21.

³⁸ European Commission, *Evaluation of Regulations 443/2009 and 510/2011 on the Reduction of CO₂ Emissions from Light-Duty Vehicles: Final Report* (Directorate-General for Climate Action, 2015), 1-289, 232.

³⁹ Ibid.

⁴⁰ Edlaine Correia Sinézio Martins, Julien Lépine and Jacqueline Corbett, *Assessing the Effectiveness of Financial Incentives on Electric Vehicle Adoption in Europe: Multi-Period Difference-in-Difference Approach*, (2024) 189 *Transportation Research Part A* 104217, 18.

⁴¹ 2025 Interim Report (n 1) 21.

Mainstream buyers are highly price sensitive and unwilling to pay a large upfront premium for an EV.⁴² Survey evidence from the Australian Automotive Dealer Association shows that private new car buyers were willing to pay up to 8% more than the cost of an equivalent petrol vehicle for an EV in January 2024,⁴³ falling to 6% by November 2024.⁴⁴ In Australia, the median purchase price of EVs remains around 20% higher than comparable ICE passenger vehicles, creating an upfront cost gap despite improving total cost of ownership.⁴⁵ This means to encourage the uptake of EVs, 'demand side' policy measures will be required to reduce further the price gap between EVs and their equivalent ICEV.

2.2 NVES will not sustain growth of EVs when demand policies are removed

In Australia, most state and territory governments have already eliminated stamp duty or registration incentives and rebates that reduce the price gap for buyers (see Appendix A). The Productivity Commission supports the removal of such incentives:

“The removal of policies like these represents a step towards more consistent emissions-reduction incentives in the transport sector.”⁴⁶

According to the Productivity Commission, such incentives are not required, when:

“The main policy promoting the purchase of low-emission vehicles should be the NVES.”⁴⁷

Such reasoning is untenable when, in the EU as of 2025, 19 of the 27 member states still grant upfront purchase subsidies for BEVs and every country provides at least one tax break on registration, ownership or -company car use.⁴⁸ Modelling shows that when subsidies are withdrawn, regulation does not sustain BEV market share growth. For example, Germany's BEV share dropped from ~40% to ~25% after 2025 as subsidies ended, despite the EU regulatory framework still being in place.⁴⁹ Italy showed a comparable decline.⁵⁰ The impact of policy is clear: before the FBT exemption for plug-in hybrids ended on 1 April 2025, PHEV sales spiked to 4.7% of new car sales in March.⁵¹ Once the exemption was removed, sales plunged to 2.9% in April, showing how strongly price incentives shape consumer behaviour.⁵²

Table 2 show how Norway, the Netherlands, the UK and Germany have met the EU 2024 target of average emission intensity of 95 grams of CO₂ per kilometre (NEDC-equivalent).⁵³ The attainment of the EU's 2024 standard of 95 g CO₂/km weighted emission intensity for new passenger vehicle sales in these countries reflects strong BEV and PHEV adoption supported by demand-side measures (see Appendix A). Taxation incentives in these countries encompassed full or partial exemptions from stamp duty on acquisition, reductions in annual registration fees, relief from value added tax and full or partial exemption from company car tax; these were introduced in Norway in 2000, in the United Kingdom in 2005, and in both the Netherlands and Germany in 2011 as shown in Appendix A. Financial subsidies at the point of purchase comprised a full VAT exemption in Norway from 2001 to 2025, acquisition grants in the Netherlands from 2000 to 2024, purchase premiums in Germany between 2016 and 2023, and plugin car grants in the United Kingdom from 2011 to 2022. As detailed in Appendix B, overseas jurisdictions have combined subsidies, rebates and tax incentives, over extended periods compared to Australia. Australia's demand-side measures are limited to the FBT EV exemption (from July 2022) and a select state/territory provided partial or full exemptions from stamp duty, and annual registration fees and BEV purchase rebates – mostly introduced in 2021-2022 and largely phased out by 2024-2025 (Appendix A.).

⁴² Wenjian Jia et al, 'Preferences for Zero-Emission Vehicle Attributes: Comparing Early Adopters with Mainstream Consumers in California' (2023) 135 *Transport Policy* 21, 25.

⁴³ Australian Automotive Dealer Association, *Dealeconomics: Automotive Statistics 2024* (Report, 2024) 1-14, 13.

⁴⁴ Nick Dawes, *EV & Hybrid Vehicle Wave 3 Insights Report* (Report, November 2024) 1-39, 7 <<https://www.aada.asn.au/wp-content/uploads/2025/02/2024-AADA-Wave-3-EV-Research-Report-V2.pdf>>.

⁴⁵ Custom Fleet, *Accelerating Fleet Decarbonisation: Regional Spotlight: Australia & New Zealand* (Report, 2024) 1-12, 6. <<https://www.customfleet.com.au/assets/docs/CF-EV-uptake-regional-report.pdf>>.

⁴⁶ 2025 Interim Report (n 1) 28.

⁴⁷ 2025 Interim Report (n 1) 28.

⁴⁸ European Automobile Manufacturers' Association, *Tax Benefits & Incentives: Electric Cars* (Report, 2025).

⁴⁹ Gabriel Möring-Martínez, Murat Senzeybek and Patrick Jochem, 'Clustering the European Union Electric Vehicle Markets: A Scenario Analysis until 2035' (2024) 135 *Transportation Research Part D: Transport and Environment* 104372, 12.

⁵⁰ Ibid.

⁵¹ Toby Hagon, 'VFACTS April 2025: New Car Sales – PHEVs Down' *WhichCar* (Web Page, 5 May 2025) <<https://www.whichcar.com.au/news/vfacts-april-2025-new-car-sales-phevs-down>>.

⁵² Ibid.

⁵³ Although Norway and the United Kingdom are not part of the European Union, both countries bring the EU vehicle -CO₂ regulations into its law.

A 59% reduction in average new passenger-vehicle CO₂ emissions over 2025–2029 (Table 1) will not be achieved in Australia without stronger demand-side measures. For the NVES to succeed, it must be supported by holistic policy settings that assist consumers to move to zero and low-emission technologies, as stated by Federal Chamber of Automotive Industries (FCAI) chief executive Tony Weber.⁵⁴

3.0 Evaluating the EV FBT Exemption

The Productivity Commission has singled out ‘phasing out’ the FBT exemption for EVs on the grounds that it represents amongst the most expensive abatement policies considered with an indirect carbon price of \$987–\$20,084 per tonne of CO₂-e.⁵⁵ The Productivity Commission outlines the policy effort to increase the demands for EVs:

- **“...run the risk of subsidising people who are already in the queue ... with little impact on the overall number of EVs on Australian roads,”⁵⁶**
- **the measure adds limited additional benefit while raising equity concerns, being “disproportionately relevant to higher income households ... channelled through the tax system.”⁵⁷**

The Productivity Commission therefore recommends that:

“Now that the Australian Government has implemented the New Vehicle Efficiency Standard, it should phase-out the exemption of electric vehicles from the Fringe Benefits Tax...”⁵⁸

However, this submission contends that withdrawing the EV FBT exemption now is premature. While it does not close the full cost gap between BEVs and ICEVs, it has been central to early uptake and market normalisation in Australia. Company Car Tax (‘CCT’) benefits for EVs remain a common policy lever internationally, with 19 out of 27 EU member states offering them.⁵⁹ Across jurisdictions, these incentives have been progressively tightened rather than withdrawn at an early stage (Appendix A). Norway, for example, introduced a 25% discount in 2000, expanded it to 50% in 2009, tapered it to 20% by 2022, and only abolished it entirely in 2023. The Netherlands began with a full exemption in 2010 and has gradually reduced generosity, with the scheme set to expire in 2026. The UK has alternated between exemption and low rates, currently applying a 2% rate until 2025 before annual increases, while Germany continues to apply a partial exemption through a reduced Benefit in Kind (‘BiK’) charge. By contrast, Australia only introduced its exemption in 2022, with PHEVs losing eligibility from April 2025. Together, these examples show that BiK-style concessions remain widespread but evolve as markets mature, underscoring that Australia’s exemption is still at an early stage and should not be withdrawn.

3.1 FBT EV exemption – removing the disincentive to EV uptake

The EV FBT exemption under the *Fringe Benefits Tax Assessment Act 1986* (Cth) (‘FBAA’) applies to battery electric vehicles (‘BEVs’) and hydrogen fuel cell electric vehicles (‘FCEVs’) first held and used between 1 July 2022 and 30 June 2026,⁶⁰ provided their value at first retail sale does not exceed the Luxury Car Tax (‘LCT’) threshold for fuel-efficient vehicles (\$91,387 in 2025–26).⁶¹ Plug-in hybrid electric vehicles (‘PHEVs’) were eligible until 1 April 2025,⁶² while hybrid electric vehicles (‘HEVs’) that cannot be externally charged are excluded.⁶³

⁵⁴ Federal Chamber of Automotive Industries, ‘Market Slows and Plug-in Hybrids Decline’ (Web Page, 4 May 2025) <<https://www.fcmai.com.au/market-slows-and-plug-in-hybrids-decline/>>.

⁵⁵ 2023 EV Strategy (n 4) 3.

⁵⁶ 2023 EV Strategy (n 4) 5.

⁵⁷ Ibid.

⁵⁸ 2025 Interim Report (n 1) 3.

⁵⁹ European Automobile Manufacturers’ Association (n 484848).

⁶⁰ *Fringe Benefits Tax Assessment Act 1986* (Cth) s 8A (‘FBTAA’).

⁶¹ *Treasury Laws Amendment (Electric Car Discount) Act 2022* (Cth) sch 1 inserting s 8A into the *Fringe Benefits Tax Assessment Act 1986* (Cth), which provides that eligible “zero or low emissions vehicles” first held and used on or after 1 July 2022 are exempt from FBT, provided the vehicle was never subject to Luxury Car Tax under *A New Tax System (Luxury Car Tax) Act 1999* (Cth).

⁶² *Treasury Laws Amendment (Electric Car Discount) Act 2022* (Cth) sch 2 s 5.

⁶³ FBAA (n 60) s 8A(5).

The “additional benefit” is the removal of the disincentive to EV uptake. This is illustrated by comparing the FBT applicable for a Hyundai Kona BEV (\$63,800, inclusive of GST and delivery) with its ICEV counterpart (\$39,545, including GST and delivery). Table 3 sets out the FBT calculation under the Statutory Formula Method.⁶⁴

Table 3. Fringe benefits tax for the Kona BEV compared to ICEV equivalent

Details	Kona BEV FBT exempt (\$)	Kona ICEV (\$)	Additional cost for BEV (\$)
Average CO ₂ emissions	0g	141g	
Purchase price (MSRP) (includes delivery charge, GST)	63,800 ⁶⁵	39,545 ⁶⁶	24,346
Grossed up Taxable value ⁶⁷	26,543	16,542	
Tax payable (FBT @ 47%)	12,475	\$7,732	4,747

The Kona BEV costs \$24,346 (61%) more upfront than the ICEV. Without the exemption, it would also attract an annual FBT liability of \$12,475 compared to \$7,732 for the ICEV, a further penalty/additional tax of \$4,747 each year for choosing an EV. This means employees choosing a BEV would face both a higher purchase price and a heavier tax burden. The exemption removes this penalty by eliminating the BEV’s \$12,475 FBT liability, narrowing the cost gap and reducing the disincentive to adopt. Given the significant upfront price gap, absent the FBT EV exemption, employees are likely to favour lower priced ICEV over a BEV.⁶⁸

The Productivity Commission’s proposal to phase out the exemption would reintroduce this additional penalty while the BEV–ICEV cost gap remains significant. By contrast, ICEVs face no comparable impost linked to higher CO₂ emissions.⁶⁹ Moreover, the NVES regulates supply through importers and does not overlap with the FBT exemption, which is designed to stimulate demand.

3.2 Does the FBT EV exemption mainly benefit higher-income households?

As shown in Table 3, the FBT EV exemption removes the annual FBT liability (about \$12,475) but leaves the upfront price gap (about \$24,346) untouched. Because a novated BEV receives the same salary-packaging treatment as an ICEV, the price gap between the two remains. As a result, uptake is concentrated among higher-income employees who can already afford the price premium of these vehicles.

The FBT EV exemption raises equity concerns because of the limitation of the policy. That is the exemption does not exclude the car benefit from the employees Reportable Fringe Benefits Amount (‘RFBA’). The Type 2 ‘grossed up’ taxable value must be disclosed on the employee’s payment summary and is included in the employee’s ‘adjusted taxable income’ for means-testing the Medicare Levy surcharge (if applicable), family assistance, child support and other government benefits. In Table 3, the BEVs RFBA adds \$24,075 to the employee’s taxable income, compared to \$14,922 for the petrol Kona. This treatment disadvantages employees near means-tested thresholds (horizontal inequity), while higher-income employees already above those thresholds are largely unaffected (vertical inequity).⁷⁰

In addition, employers providing cars as fringe benefits to employees for private use are subject to a FBT rate of 47%, which is equivalent to the top marginal tax rate. Unlike most OECD countries, which tax fringe benefits at each employee’s marginal rate, Australia applies a flat 47%.⁷¹ Since most employees are below the top bracket, this effectively overtaxes benefits. The Henry Tax Review found that fewer than 12% of employees in 2007–08 were actually in the top bracket, even after benefits were included.⁷² Reinstating this

⁶⁴ FBAA (n 60) s 5B.

⁶⁵ Redbook purchase price of 2025 Hyundai Kona Electric Auto 2wd MY26 \$58,000 (excl GST and Govt charges).

⁶⁶ Redbook purchase price of 2025 Hyundai Kona Elite Auto 2WD MY 26 \$35,950 (excl GST and Govt chargers).

⁶⁷ Gross up taxable value = cost price (incl GST) \$63800 x 20% (statutory rate) x gross up factor 2.0802 = \$26,543.

⁶⁸ Anna Mortimore, ‘Assessing the Effectiveness of the FBT Exemption in Increasing the Uptake of Electric Vehicles’ (2024) 53 *Australian Tax Review* 35, 43 (‘Assessing the Effectiveness’).

⁶⁹ Ibid.

⁷⁰ Ibid 46.

⁷¹ FBAA (n 60) s 6.

⁷² Australia’s Future Tax System Review Panel, *Australia’s Future Tax System: Report to the Treasurer – Part Two: Detailed Analysis, Volume 1* (Report, December 2009) <<https://taxreview.treasury.gov.au>>.

tax on BEVs would therefore impose a heavier penalty than marginal-rate systems and compound the existing price gap.

The EV uptake in Table 5, aligns with the buyer type in Rogers' Diffusion of Innovation theory (in Table 4), which explains that technology adoption occurs in five stages: *innovators*, *early adopters*, *early majority*, *late majority* and *laggards*.⁷³ Innovators and early adopters absorb price premiums and signal social acceptance, while the majority only adopt once costs fall and technology is proven.⁷⁴

Table 4. Adopters Categories in Innovation Diffusion

Adopters	EV Uptake
Innovators	2.5%
Early Adopters	13.5%
Early Majority	34%
Late Majority	34%
Laggards	16%

Australia's EV market reflects this profile. From June 2022 to March 2024, BEV and PHEV market share rose from under 3% to over 14%.⁷⁵ Sales were heavily concentrated in premium models such as Tesla (Table 5), and novated leases accounted for more than 40% of new low-emission vehicle purchases.⁷⁶ These figures highlight how the FBT exemption interacts with adopter categories: it has reinforced early-stage demand among higher-income groups who are 'innovators and early adopters' but has not yet reached mainstream buyers.

Table 5. Buyers of BEVs in Australia: 2022-2024

Car	2022	%	2023	%	2024	%
Tesla Model 3	10,877	32.5%	17,347	19.8%	17,094	18.1%
Tesla Model Y	8,717	26.1%	28,769	33.0%	21,253	22.5%
BYD Atto 3	2,113	6.3%	11,042	12.6%	5,751	6.1%
BYD Seal	-	-	-	-	6,393	6.8%
MG	1,119	3.3%	3,134	3.6%	6,934	7.3%
Other ⁷⁷	10,567	31.8 %	26,923	30.8%	36,884	39.2%
Total BEV*	33,393	3.2%*	87,215	7.6%*	94,309	7.3%*
PHEV*	5,930	0.6%*	11,582	1.0%*	23,614	1.9%*
Light vehicle sales	1,027,027	3.8%*	1,147,852	8.6%*	1,237,287	9.2%*

*EV percentage of light vehicle sales

The effectiveness of the FBT exemption, which primarily benefits higher-income employees who can absorb the EV price premium, gives rise to the Productivity Commission's equity concern.⁷⁸ Yet targeting early adopters at this stage helps absorb the price premium, create scale and drive down costs for mainstream buyers over time. Until price parity with ICEVs is achieved, or subsidies strong enough to reach mainstream buyers are introduced, the FBT exemption remains one of the most effective tools for stimulating adoption in Australia's still immature EV market.

Table 5 shows that BEV and PHEV (EVs) uptake was 3.8% prior to introduction of FBT EV exemption in 2022. Following its introduction, EVs rose to 9.2% of light vehicle sales in 2024, countering the claim that the FBT EV exemption '*runs the risk of subsidising people who are already in the queue*'.⁷⁹

⁷³ Everett M Rogers, *Diffusion of Innovations* (Simon & Schuster, 4th ed, 1995).

⁷⁴ Jae Hyun Lee, Scott J Hardman and Gil Tal, 'Who Is Buying Electric Vehicles in California? Characterising Early Adopter Heterogeneity and Forecasting Market Diffusion' (2019) 55 *Energy Research & Social Science* 218-226; Mortimore, 'Assessing the Effectiveness' (n 68) 48.

⁷⁵ National Automotive Leasing and Salary Packaging Association, *Australia's Outer Suburbs Embracing EV Salary Packaging Benefits* (Report, 29 April 2024) 1-2, 1 <<https://nalspa.org.au/wp-content/uploads/2024/05/Australias-outer-suburbs-embracing-EV-salary-packaging-benefits.pdf>>.

⁷⁶ Ibid.

⁷⁷ 'Electric Vehicle Sales: Final Numbers on the EV Models Added to Australian Roads in 2023' *The Driven* (online, 9 January 2024) <<https://thedriven.io/2024/01/09/electric-vehicle-sales-final-numbers-on-the-ev-models-added-to-australian-roads-in-2023/>>; Additional BEV models, sales less than the major BEV models; Electric Vehicle Council (n 17) 9. The average delivery times for new cars have fallen from 109 days to about 65 days. And BEV now match or beat wait times for comparable petrol models. The number of available BEV passenger models has risen from 60 in 2022 to 78 in 2024.

⁷⁸ 2023 EV Strategy (n 4) 5.

⁷⁹ Ibid.

3.3 Phasing out the EV FBT exemption removes the only demand-side incentive

Adopting Draft Recommendation 1.3 to phase out the EV FBT exemption would remove Australia's only demand-side incentive to encourage the uptake of zero emission vehicles. This measure does not overlap with the NVES, which targets vehicle supply rather than employees' uptake. A critical distinction while price parity between comparable EVs and ICEVs has not been reached. Burke et al. (2023) states parity is not expected until around 2030 or later.⁸⁰

Consequently, Australia will be among the few countries to have less 'prominent or non-existent demand-side incentives', which leads to lower EV adoption rates.⁸¹ In their absence, EVs are less economically attractive and adoption lags compared to jurisdictions offering generous tax support, such as Norway, the Netherlands, the UK and Germany (see Appendix A), where market penetration of BEVs is higher⁸² (see Table 2). While the NVES aims 'to increase the supply of low emission vehicles, including both EVs and more efficient fossil fuel cars,' it provides no direct policy measure to increase zero emission vehicles uptake to advance road transport decarbonisation.

Therefore, it is recommended to reform the FBT EV exemption rather than phase it out.

4.0 Reform FBT Exemption not 'Phase Out'

While the Productivity Commission recommends 'phasing out' the FBT exemption for BEVs,⁸³ this approach is premature in the Australian context, where uptake remains at an early stage and the cost gap with ICEVs is still significant. Rather than abolishing the exemption, reform is required to ensure that it is fairer, better targeted, and structured with a clear pathway for eventual phase-out.

Key reforms recommended for the FBT EV exemption include:

- **introducing a two-band concession:** providing full relief up to a set threshold, with standard FBT applying above that limit (as adopted in several overseas jurisdictions, see Appendix C);
- **capping the exemption to lower-priced EVs:** ensuring the benefit is directed towards mainstream, affordable vehicles rather than high-end models; and
- **extending the concession to Reportable Fringe Benefit Amounts:** improving equity between employees so that those outside high-income brackets are not disadvantaged.

The Productivity Commission is under-recognising the role that demand-side tax incentives have played in select jurisdictions in offsetting the cost gap between paired EVs and ICEVs and encouraging employee uptake of BEVs. The Productivity Commission proposes to phase out remaining demand-side measures and rely on the NVES to increase purchases of low-emission light vehicles. This differs from jurisdictions that apply generous incentives exclusively to zero-emission vehicles ('ZEV') (see Appendix A), which have been effective in closing cost differentials and in achieving average CO₂-emission standards.

5.0 FBT Exemption: More than Fiscal Cost

The Productivity Commission's 2025 Interim Report, under Draft Recommendation 1.4, proposes that emissions-reduction policies should only be retained where they are demonstrably cost-effective, transparent, and consistent with Australia's net zero pathway.⁸⁴ To this end, the Productivity Commission recommends benchmarking all policies against target-consistent carbon values (TCCVs).⁸⁵ These are forward-looking estimates of the carbon price needed to achieve Australia's emissions targets. Unlike implied abatement costs, which vary between programs and are backward-looking, TCCVs rise over time as cheaper options are exhausted and provide a dynamic benchmark for policy design.⁸⁶

Within this framework, the Productivity Commission treats EV purchase incentives as high-cost abatement measures. In its 2023 EV Strategy submission, it estimated that the FBT exemption costs between \$987 and \$20,084 per tonne of CO₂-e avoided, depending on assumptions about vehicle life, distance travelled, and

⁸⁰ Andrew F Burke et al, 'Projections of the Costs of Medium- and Heavy-Duty Battery-Electric and Fuel Cell Vehicles (2020–2040) and Related Economic Issues' (2023) 77 *Energy for Sustainable Development* 101343, 1.

⁸¹ Pedro Antonio de Albuquerque Felizola Romeral and Eduardo Zancul, 'Total Cost of Ownership of Electric Vehicles: A Synthesis of Critical Factors' (2025) 2025(1) *The Journal of Engineering* e70113.

⁸² Petra Zsuzsa Lévy, Yannis Drossinos and Christian Thiel, 'The Effect of Fiscal Incentives on Market Penetration of Electric Vehicles: A Pairwise Comparison of Total Cost of Ownership' (2017) 105 *Energy Policy* 524.

⁸³ 2025 Interim Report (n 1) 19.

⁸⁴ Ibid 29.

⁸⁵ Ibid.

⁸⁶ Ibid 30.

grid intensity.⁸⁷ On this basis, the Commission recommended sequencing abatement from cheaper measures first, and it singled out the FBT exemption as the most expensive demand-side program.⁸⁸

However, the Productivity Commission also concedes that estimating the cost-effectiveness of emissions policies is inherently difficult.⁸⁹ It notes that not all policy impact analyses have included detailed quantitative estimates, and that while it can be challenging to measure the full costs and benefits of climate and energy policies, this uncertainty is not a reason to avoid such estimates.⁹⁰ This acknowledgement highlights the limitations of relying too heavily on cost-per-tonne figures, which can obscure broader benefits and system-wide effects.

The Productivity Commission acknowledges the social cost of carbon as one possible alternative measure, defining it as the dollar value of climate damages, but it adopts target-consistent carbon values as the preferred benchmark for policy assessment.⁹¹ Li et al. (2024), for example, estimate that transport-related particulate matter (PM₁₀) imposed an annual economic burden of \$910 million in Australia in 2018 through mortality, morbidity and productivity losses.⁹² This illustrates the type of external costs that should be included in the cost ledger.

Climate measures can be assessed and prioritised in various ways, each emphasising different dimensions of effectiveness. Stoianoff and Walpole's Delphi framework assesses policies by emissions impact, design quality and equity, and defines "low cost" as a balance of savings, environmental outcomes and fairness.⁹³ Measuring the effectiveness of the EV FBT exemption differs from most traditional tax measures because it is also designed to steer consumer behaviour, make EVs more affordable and reduce emissions rather than to maximise revenue neutrality.⁹⁴ The OECD advises that cost-benefit analysis of green tax measures should look beyond carbon and budget impacts to include all environmental side-effects plus gains and losses for consumers and producers, so that the policy's full welfare value is captured.⁹⁵

International practice demonstrates that cost alone does not determine the continuation of EV incentives. In Norway, the government recently prolonged its zero VAT rate for BEVs up to NOK 500,000 despite EVs comprising 89% of new car sales.⁹⁶ The measure is both the most expensive, costing approximately NOK 13 billion (AUD \$1.8–2.0 billion) in foregone revenue in 2024.⁹⁷ EFTA Surveillance Authority nevertheless judged the VAT exemption necessary and proportionate because BEVs account for only 24% of the vehicle fleet, remain more expensive than ICEVs, and face consumer hesitancy, with fewer than half of drivers intending their next car to be electric.⁹⁸

Besides the more obscured hidden social and economic damages of delaying action, the Productivity Commission's sequencing approach also risks overlooking the wider system benefits of stronger EV uptake, which are discussed in section 6.

6.0 Benefits of Higher EV Uptake Beyond Cost of Emissions Reduction

The Productivity Commission's cost-based framing overlooks the system-wide advantages that stronger EV uptake delivers. The Productivity Commission's 2025 Interim Report states that technology-specific measures should only be retained where they deliver additional benefits such as innovation spillovers, fuel cost savings and, for electricity, reliability benefits.⁹⁹ Although it mentioned possible spillovers and co-

⁸⁷ 2023 EV Strategy (n 4) 4.

⁸⁸ Ibid.

⁸⁹ 2025 Interim Report (n 1) 31.

⁹⁰ Ibid.

⁹¹ Ibid 30.

⁹² Jiayi Li et al, 'Economic Burden of Transport Related Pollution in Australia' (2024) 34 *Journal of Transport & Health* 101747, 20.

⁹³ Natalie Stoianoff and Michael Walpole, 'Tax and the Environment: An Evaluation Framework for Tax Policy Reform – Group Delphi Study' (2016) 31(4) *Australian Tax Forum* 693.

⁹⁴ Mortimore, 'Assessing the Effectiveness' (n 68) 38.

⁹⁵ Jonas Teusch and Nils Axel Braathen, *Are Environmental Tax Policies Beneficial? Learning from Programme Evaluation Studies* (OECD Environment Working Paper No 150, 8 August 2019) 1-28, 8.

⁹⁶ EFTA Surveillance Authority, *Prolongation of VAT Benefits for Battery Electric Passenger Vehicles* (Decision No 213/24/COL, 11 December 2024) <<https://www.eftasurv.int/cms/sites/default/files/documents/gopro/Case%2093164%20College%20Decision%2021324COL%20-%20State%20aid%20-%20Norway%20-%20Prolongation%20of%20VAT%20benefits%20for%20battery%20electric%20passenger%20vehicles.pdf>>.

⁹⁷ Ibid 7.

⁹⁸ Ibid 4.

⁹⁹ 2025 Interim Report (n 1) 31.

benefits, little explicit weight was given to pollution reduction, health gains or innovation effects, focusing primarily on abatement cost per tonne. That narrow lens underplays what higher EV uptake actually delivers.

The Productivity Commission has also advised against advancing Australia's EV transition before 2035, when it expects broad-based uptake.¹⁰⁰ This position overlooks benefits that emerge much earlier, including lower fuel costs for households and businesses, faster technological learning, and improved integration of renewable energy. Unlike ICEVs, which rely on an established refueling network, EVs and charging systems are interdependent, creating a "chicken and egg" dilemma: uptake stalls without chargers, while charger investment lags without vehicles.¹⁰¹ Policy intervention is therefore essential to break this cycle and allow both markets to scale together.¹⁰²

This inconsistency is further highlighted by significant government investment in charging networks, including bi-directional capability, and projections that EV fleet battery capacity will exceed all other storage in the National Electricity Market by the early 2030s.¹⁰³ In 2025 alone, federal and state governments are committing hundreds of millions of dollars to fast, kerbside, and regional charging projects. Removing the FBT exemption and other incentives could significantly hinder EV demand, leading to ripple effects on charging infrastructure investments by slowing utilisation rates, deterring private sector involvement, and increasing reliance on public funding.

Growing EV demand also drives down battery costs, which are critical to the transition. With EVs making up 85% of global lithium-ion battery use, higher sales volumes directly cut costs through learning by doing.¹⁰⁴ Evidence shows that combining demand-side incentives with production growth nearly triples EV sales compared to either measure alone.¹⁰⁵ Countries that have achieved high uptake of BEVs, as shown in Table 2, have typically maintained comprehensive incentive packages for two decades or more, as detailed in Appendix A. These policies have reinforced and successfully contributed to the cycle of scale, cost reduction, and mainstream zero-emission vehicle adoption. The Productivity Commission's "wait-and-see" approach on declining EV prices is inconsistent with, and difficult to reconcile against, Australia's legislated target of a 43% reduction in emissions below 2005 levels by 2030 under the *Climate Change Act 2022* (Cth), as well as the Government's consideration of an ambitious 65–75% reduction by 2035 for the next Nationally Determined Contribution under the Paris Agreement.¹⁰⁶ To meet these targets, policy assessment must consider not only the 'cost effectiveness' of emissions-reduction policies, but also their effectiveness in achieving environmental goals and objectives. In the transport sector, the relevant environmental goal is the decarbonisation of road vehicles, which requires large-scale adoption of zero-emission vehicles.

¹⁰⁰ 2023 EV Strategy (n 4) 3; 2025 Interim Report (n 1) 31.

¹⁰¹ Tanxiaosi Luo, Yanqiu Song and Guijun Li, 'An Agent-Based Simulation Study for Escaping the "Chicken-Egg" Dilemma between Electric Vehicle Penetration and Charging Infrastructure Deployment' (2023) 194 *Resources, Conservation & Recycling* 106966, 13.

¹⁰² Ibid.

¹⁰³ enX, *V2X.au Summary Report – Opportunities and Challenges for Bidirectional Charging in Australia* (Report, 30 June 2023) 1-32, 3 <<https://arena.gov.au/assets/2023/06/v2x-au-summary-report-opportunities-and-challenges-for-bidirectional-charger-in-australia.pdf>>.

¹⁰⁴ Panle Jia Barwick, Hyuk-soo Kwon, Shanjun Li and Nahim Bin Zahur, 'Drive Down the Cost: Learning by Doing and Government Policies in the Global EV Battery Industry' (NBER Working Paper No 33378, National Bureau of Economic Research, January 2025).

¹⁰⁵ Ibid.

¹⁰⁶ Climate Change Authority, *Targets, Pathways and Progress: 2024 Issues Paper* (Report, April 2024) <<https://www.climatechangeauthority.gov.au/sites/default/files/documents/2024-04/Issues%20paper%20-%20Targets%2C%20Pathways%20and%20Progress.pdf>>

7.0 Conclusion

The Australian Government introduced the NVES to reduce transport emissions, which are currently the third largest and fastest growing source and projected to become the largest source by 2030. Internationally, the UN has called on nations to decarbonise road transport, implying a transition to ZEVs. Komnos et al (2025) estimates that Australia will need 60% of new vehicle sales to be zero emission vehicles. This target will be difficult to achieve when most state and territory incentives have already been wound back, and the Productivity Commission proposes to leave the NVES as the sole policy lever.

In Draft Recommendation 1.3, the Productivity Commission proposes phasing out EV demand-side incentives on the basis that they 'overlap' with the NVES and are therefore no longer required, given the NVES's broader role in increasing purchases of low-emission light vehicles (including EVs and more fuel-efficient vehicles). This position is not consistent with how the EC and the IEA have characterised vehicle fuel efficiency standards. When the EC first introduced CO₂ standards in 2009, they were explicitly identified as supply-side measures designed to require manufacturers to build and supply low-emission vehicles. To complement these rules, the EC called on Member States to adapt car taxation policies, that is, demand-side measures to influence consumer uptake of fuel-efficient and zero-emission vehicles and thereby support manufacturers' compliance with regulatory standards.

As outlined in Appendices A and B, a combination of demand-side measures sustained over many years has helped selected jurisdictions meet ambitious EU regulatory CO₂ emission standards (see Table 1). In practice, these jurisdictions required roughly nine years (2015 to 2024) to achieve compliance. Under the NVES, however, Australian car importers must cut the average CO₂ emissions intensity of light vehicles by 59% within just five years, while the Productivity Commission proposes phasing out the remaining demand-side measures on the basis of 'overlap.'

If the Productivity Commission's draft recommendations are adopted, NVES compliance by Australian car importers will be at risk without demand-side measures, such as purchase subsidies, tax incentives, and rebates (see Appendices A and B).

Position on Draft Recommendations

This submission does not support the Productivity Commission's proposal to phase out demand-side policies. Specifically:

- **State and territory incentives:** The phase-out of state and territory government incentives to reduce transport emissions is not supported. While many have been wound back in 2024–2025 (see Appendix 1), removing the remaining measures would eliminate important transitional support.
- **FBT EV exemption:** Phasing out the FBT EV exemption would remove Australia's only national demand-side measure to influence the uptake of ZEVs.
- **Meeting 2030 emissions reduction target.** If Australia is to meet its 2030 target of a 43% reduction from 2005 levels and achieve net-zero emissions by 2050 as legislated under the *Climate Change Act 2022 (Cth)*, demand-side measures will be required to support the transition to ZEVs.

Phasing out demand-side measures at this stage is inconsistent with the uptake required to meet national targets and to support delivery of the NVES. Retention of demand-side incentives should continue until price parity and market maturity are demonstrably achieved.

This submission draws the following conclusions:

- **Price gap not addressed by the NVES:** The NVES does not resolve mainstream buyers' sensitivity to the large upfront cost gap between EVs and comparable ICEVs. In our case study, a Kona was 61 per cent more expensive than its ICEV equivalent at the time of assessment.
- **Supply-side measure provides no incentive:** While the NVES should increase the supply of low-emission vehicles, it provides no consumer-side incentive (such as the FBT EV exemption) to accelerate the uptake of ZEVs, an essential element of road transport decarbonisation identified by the UN.
- **Distributional effects to buyers:** In the absence of broader demand-side measures to narrow the upfront price gap, the FBT EV exemption tends to benefit higher-income buyers, such as those with access to novated leasing.

- **Equity considerations (RFBA):** Although eligible ZEVs are exempt from FBT, the car benefit remains reportable. Its taxable value is included in an employee's adjusted taxable income for means-tested payments. This can lift households above eligibility thresholds and reduce or remove entitlements.
- **Wider benefits beyond emissions:** Stronger EV uptake accelerates innovation in batteries, charging systems, and grid integration technologies. These advances spill over into other sectors, such as renewable energy storage and heavy transport, multiplying the benefits of early adoption.

Comments on Draft Recommendation 1.4 (cost effectiveness and transparency)

Applying cost-effectiveness alone is challenging where policy must influence mainstream consumer behaviour in a market that lacks price parity between paired EV–ICEV models. In such cases, buyers generally choose the lower-cost option. International practice (see Section 2) recognises that addressing the price gap requires targeted demand-side support over a defined transition period.

Moreover, the Productivity Commission's framing underweights co-benefits (see Section 6) that extend beyond abatement costs, such as health gains from lower transport-related particulate matter. A "wait and see" approach to declining EV prices is therefore inconsistent and provides no certainty to the Australian Government in achieving its emission reduction targets for 2030.

Policy assessment should consider not only cost-effectiveness but also effectiveness in achieving stated objectives. In transport, that means large-scale adoption of ZEVs within the available timeframe. Demand-side measures need to be retained (and refined as recommended) until price parity and market maturity are in sight.

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Appendix A

BEV Tax Incentives

Select jurisdictions and Australia

Table 1. Tax Treatment of BEVs in Norway (≈Values in AUD)

Tax	Period	Description
VAT		25% of vehicle price
	2001-2022	Full exemption for new BEVs.
	2023 →	Exempt on first \$77,000 of new BEV price.
Acquisition		One-off fee for first registration; based on kerb weight, NOX per kg, CO2 emissions
	2007 – 2022	Full exemption.
	2023 →	Partial exemption: BEVs pay the weight component with fees still 90% lower than ICEVs.
Change of owner		Based on weight and vehicle type
	2018 – 2022	Full exemption.
	2023 →	No exemption.
Annual fee		Road tax / Motor-insurance tax (From 2018)
	1996– 2021	Full exemption.
	2022 →	No exemption.
Benefit-in-kind		30% of list price (inc. VAT) as new up to \$55,738 and 20% of any excess list price, with adjustments for age
	2000 – 2022	Initially a 25% list price reduction (2000–2008), later adjusted to 50% (2009–2017), 40% (2018–2021), and 20% (2022).
	2023 →	No exemption.

Table 2. Tax Treatment of BEVs in Germany (≈Values in AUD)

Tax	Period	Description
VAT		19% for all vehicle types If classified as a business asset, can reclaim VAT on purchase for business-related use.
Annual fee		Based on vehicle type, engine displacement, CO2 emissions
	2011-2030	Full exemption for 10 years; 50% discount on weight-based rate from 2030.
Benefit-in-kind		1% of the gross list price (inc. VAT of 19%) (or actual) per month plus 0.03%/0.002% per km for commuting
	2013 →	Partial exemption: 0.25% for zero-emission and 0.5% for low-emission vehicles under \$126,000 (proposed cap increase to \$169,000 pending as of July 2025).
Subsidy		Federal purchase subsidy for new or young used electric cars and vans
	2016-2020	\$6,400; \$97,800 cap.
	2020-2022	\$14,400 for vehicles up to \$64,000; \$12,000 for vehicles up to \$104,000.
	End Dec 2023	\$10,800 for vehicles up to \$64,000; \$7,200 for vehicles up to \$104,000 (private buyers only).

Table 3. Tax Treatment of BEVs in Netherlands (≈Values in AUD)

Tax	Period	Description
VAT		21% for all fuel types If classified as a business asset, can reclaim VAT on purchase for business-related use.
Acquisition		Based on a fixed tariff and CO2 emissions
	2008-2024	Full exemption for new BEVs.
	2025 →	Partial exemption: new BEVs pay the fixed tariff of \$660.
Annual fee		Based on type of vehicle, weight, fuel, CO2 emissions (zero and low bands) and province
	2011-2024	Full exemption.
	2025-2025	75% discount.
	2026-2029	25% discount.
	2030 →	No exemption.
Benefit-in-kind		22% of car value (inc. VAT)
	2010-2013	Full exemption.
	2014-2018	Partial exemption: 4% of car value; no cap.
	2019-2024	Partial exemption: 4% (2019), 8% (2020), 12% (2021), then 16% (2022-24), with lowered caps over time; 22% value over cap.
	2025 -2026	Partial exemption: 17% on the first \$53,700 of list price; 22% value over cap.
	2026 →	No exemption.
Subsidy		Private individuals (owner-purchase or private-lease) buying a BEV
	2020-2021	\$7,148.
	2022	\$6,613.
	2023	\$5,985.
	End Dec 2024	\$5,268.
	2025	\$4,556 (only if signed before Dec 27, 2024). Grants available for cars priced \$19,440–\$72,900. Amounts above for new cars; \$3,574 subsidy for used cars each year.

Table 4. Tax Treatment of BEVs in the UK (≈Values in AUD)

Tax	Period	Description
VAT		20% for all fuel types VAT is recoverable only if the car is used exclusively for business; 50% is recoverable for leased cars.
Acquisition		Based on CO2 emissions
	2001-2025	Full exemption for new BEVs.
	2025 →	New BEVs now enter at the lowest band, paying \$21 in first year.
Annual fee		Flat standard rate for all fuel types. The Expensive Car Supplement \$856 applies to cars priced over \$83,571 for the first 5 years.
	2011-2024	Full exemption.
	2025 →	No exemption and pay standard \$407 from second year of registration.
Benefit-in-kind		Based on list price (inc. VAT) plus accessories (P11D value), adjusted by CO2 percentage, starting at 3% of car price for zero emission (no price cap) up to a maximum of 37%
	2002-2009	CO2-based system began. Started at 15% for 140g/km or less up to 35% for 265 g/km or more.

	2010-2015	Full exemption.
	2015-2020	0% ended 2015/16. EVs moved to 5% BIK (0–50 g/km), rising to 9% in 2017/18, 13% in 2018/19, and 16% in 2019/20.
	2020-2021	Full exemption reinstated.
	2021-2022	1% rate.
	2022-2025	2% rate.
	2025 →	1% rise per year from 2025–26.
Subsidy	All UK buyers (owner-purchase or private-lease) buying a new BEV	
	2011-2015	\$7,600; no cap.
	2016-2018	\$7,500; no cap.
	2018-2020	\$6,300; cap at \$91,000.
	2020-2021	\$5,000; cap retained.
	Mar-Dec 2021	\$4,600; cap lowered to \$63,000
	End 14 June 2022	\$2,700; cap lowered to \$60,000.

Table 6. Current BEV Tax Incentives Australia (≈Values in AUD)

Tax		Period	Description	Basis
FBT Exemption		Jul 2022 →	Full exemption under \$91,387. PHEVs ended April 2025.	20% of car cost (statutory formula), or operating-cost method
Stamp duty / Acquisition	ACT	May 2021 – Aug 2025	Full exemption.	CO ₂ band and price band
		Sep 2025 →	Partial exemption.	CO ₂ emissions and price bands
	VIC	Jul 2021 →	Avoids any luxury tax for vehicles over \$80,567.	Vehicle market value and emissions threshold
	NT	Jul 2022 – Jun 2027	\$1,500 discount up to \$50,000 price.	Dutiable value only
	QLD	Nov 2017 →	Partial exemption.	Dutiable value, with engine-type differentiation
Annual fee	ACT	May 2021 – Jun 2024	Full exemption for 2-years.	Weight, CO ₂ class, and vehicle use
		July 2024 →	Partial exemption.	CO ₂ bands only
	NT	Jul 2022 – Jun 2027	Full exemption.	Engine-capacity bands
	QLD	Jul 2022 →	Partial exemption.	Cylinder-count group
	VIC	Jul 2021 – Jan 2026	Partial exemption.	Fixed admin fee + TAC risk charge
Rebates - Fleets	NSW	Dec 2021-June 2025	Covers part of the total-cost-of-ownership gap.	

Table 7. Ended BEV Tax Incentives Australia (≈Values in AUD)

Tax		Period	Description	Basis
Stamp duty	NSW	2021 – 2023	Full exemption for BEVs under \$78,000.	Duty scales on vehicle value
	TAS	Jul 2021 – Jun 2023	Full exemption for 2-years.	Flat rate on vehicle value (percentage)

Annual fee	SA	Oct 2021 – Jun 2025	Full exemption for 3-years for BEVs under \$68,750.	Base admin + weight + engine-capacity components
Rebates	NSW, VIC, SA, WA, QLD	2021–2024 (varied)	All states offered rebates of between \$3,000–\$3,500 for BEVs under ~\$70,000. QLD briefly raised this to \$6,000 from Apr 2023 to Sept 2024.	

Appendix B

Combined taxation measures and rebates in select European countries and Australia

Country	Year	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
Acquisition (Stamp Duty): Fee Full or Partial Exemption																						
Norway				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓			
Netherlands					✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
UK		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
NSW																		✓	✓	✓		
Annual Fee: Full or Partial Exemption																						
Norway	1996 start	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓				
Netherlands								✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Germany								✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
UK		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
NSW																		✓	✓	✓	✓	✓
Purchase Point Subsidy or Rebate																						
Norway ¹⁰⁷	25% VAT	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Netherlands	Private																✓	✓	✓	✓	✓	
Netherlands	Commercial																	✓	✓	✓	✓	
Germany													✓	✓	✓	✓	✓	✓	✓	✓		
UK								✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓			
NSW	Private																	✓	✓	✓	✓	
NSW	Commercial																			✓	✓	✓
FBT/Company Car Tax: Full or Partial Exemption																						
Norway	2000 start	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓			
Netherlands							✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Germany										✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
UK	2003 start	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Australia																				✓	✓	✓

¹⁰⁷ Purchase point subsidy takes the form of a 25% VAT exemption in Norway.

Appendix C

Graduated FBT relief aligned with market uptake

Australia grants a full FBT exemption on BEVs priced below the luxury-car-tax threshold of \$91,387 in 2024-25 and no relief at all above that point. This creates a sharp “all-or-nothing” cut-off that distorts purchasing decisions: a BEV priced at \$91,000 receives a full exemption, while one priced at \$92,000 attracts the full FBT liability. Such a design fails to reflect the reality of the BEV market, where most models fall between \$50,000 and \$80,000, and where incremental price differences should not determine whether an incentive applies in full or not at all. The current threshold also means that high-end vehicles just under the cap receive the same level of support as more affordable mainstream models, reducing the fairness and cost-effectiveness of the policy.

The Netherlands uses a two-tier benefit-in-kind system that charges a reduced 17% cent rate on only the first €30 000 of an electric car's list price in 2025 (AUD \$49,000). Any price above that ceiling is taxed at the ordinary 22% rate. As the Dutch EV market has grown, both the discounted rate and the cap have tightened. The benefit-in-kind rate began at 0% in 2010, rose to 4% from 2014 to 2018, and climbs step by step to 17% in 2025. At the same time, the price cap on which that reduced rate applies has fallen to €30 000 (AUD \$49,000). These adjustments show how relief can shrink as uptake rises and BEV prices fall, allowing the government to target mainstream buyers without giving large subsidies to luxury models.

Adopting a similar two-band cap for Australia's FBT exemption would make the scheme fairer while still covering most of the market. Mid-size SUVs account for about 45% of Australia's BEV sales and average roughly \$67,000.¹⁰⁸ Salaried employees who access vehicles through salary packaging are unlikely to be influenced by entry-level BEV models. Structuring the exemption to apply only to the initial portion of a vehicle's price, rather than through a hard cut-off, would maintain an incentive for mainstream purchasers without extending a full subsidy to higher-end vehicles. Under such an approach, premium car buyers would benefit from the concession only on the initial band of value, with the remainder taxed at the standard rate. This design reduces windfall gains, better targets support toward price-sensitive consumers and reflects the greater capacity of higher-income earners to absorb the remaining cost differential.

Review of select overseas jurisdictions CCT compared to Australia's FBT (statutory formula)

Details	Date Policy Introduced	Threshold Applicable	Policy Design	Payer and Rate of Tax	Tax payable	
					KONA BEV	KONA ICEV 144g CO2/km
List price					\$60,500	\$31,600
Australia (FBT Statutory formula)	2022 to 2026	\$91,387 (LCT 2024-2025)	Statutory formula method: GST inclusive cost x statutory fraction (currently 20%) x Grossed up Type 1 factor 2.0802	Employer FBT rate: 45%+2% Medicare levy	\$13,013 (prior 1 July 2022) NIL	 \$6,796
UK (CCT)	2002 →	N/A	CCT is calculated as the car's list price multiplied by a progressive tax rate based on CO ₂ emissions. In 2025, BEVs face 3%. For ICEVs, the Kona faces 34%, with a maximum of 37% for emissions above 170g/km.	Employee Personal tax rate: Assume 40%	 \$726	 \$4,677
The Netherlands (CCT)	2010 to 2026	\$53,700	CCT is calculated as 22% of the car's value. BEVs benefit from a reduced CCT rate of 17% on the first AUD \$53,700 of the car's value.	Employee Personal tax rate: Assume 40%	\$4,250	\$2,780

¹⁰⁸ 'Electric Vehicle Index', *Australian Automobile Association* (Web Page, 21 May 2025) <<https://www.aaa.asn.au/research-data/electric-vehicle/>>.

Germany (CCT)	2013 →	\$169,765	CCT is calculated as 1% of the gross list price (or actual price) per month, plus 0.03% (or 0.002%) per kilometre for commuting.	Employee Personal tax rate: Assume 40%		
			Reduced BEV rates apply: 0.25% per month for zero-emission vehicles and 0.5% for low-emission vehicles, provided the list price is below \$169,765.		\$726	\$1,516

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