

Electric Vehicles – Common Questions

Unsure about the tax implications of your electric vehicle in Australia? Our article answers the most common questions for individuals and business owners, including deductions, credits, and more. Get the answers you need to make informed decisions and maximize your tax savings. We have listed and answered the frequently asked questions about electronic vehicles.

1. How do we claim electricity costs on an EV for a sole trader?

I am a **Sole Trader** and have an electric vehicle. I wish to claim running costs using the logbook method.

I understand that I can claim the business percentage of insurance, registration, repairs etc. The issue we have is, this car doesn't take fuel and is purely electric. How do I claim for the electricity costs of this car?

Answer

It is difficult to find clear and public guidance dealing with this area, although the **private ruling** at the link below suggests that costs associated with charging an electric vehicle can be deducted if the vehicle is used for income producing purposes. However, the ruling doesn't explain how to calculate the deduction.

While I am not aware of any specific guidance dealing with this in the context of electric cars, the ATO does provide some guidance on calculating electricity costs in the context of home offices. Presumably a similar approach could be used when dealing with a car. Basically, what the ATO is saying is that you need to determine the following three things to calculate the cost of the electricity that is being used:

- the cost per unit of power used – refer to electricity bills for this information
- the average units used per hour – this is the power consumption per kilowatt hour for the item
- the total hours that item is used for income producing purposes

[Actual cost method | Australian Taxation Office \(ato.gov.au\)](https://www.ato.gov.au/ATO/your-tax-information/practical-issues/actual-cost-method-for-electric-vehicles/)

2. Do we lodge a nil FBT return for an electric vehicle? Is it reportable? And what about depreciation and GST?

I had a question about the FBT exemption on electric vehicles. If a **Company purchases an eligible electric vehicle** and makes it available to an employee to use, assuming there are no other fringe benefits, do we need to complete a nil FBT return and then record a percentage of the reportable amount on the relevant employee's payslip each pay period? In addition, is the purchase of the vehicle deductible (under temporary full expensing or small business depreciation) and is the GST on the purchase also able to be included in the next activity statement?

Answer

Assuming the employer hasn't paid any FBT instalments during the relevant period and does not have a FBT liability (for example because they are only providing exempt fringe benefits), they should not need to lodge an FBT return.

Otherwise, they could lodge a FBT return if they want. This has been suggested by some commentators as a strategy to limit the amendment period if the ATO challenges the FBT treatment at a later date.

Even if the car is exempt under the FBT electric car exemption, the grossed-up value should be reported on the employee payment summary which by now should normally be via STP. This assumes the taxable value of reportable fringe benefits (including the electric vehicle) provided to a particular employee is more than \$2,000 in a FBT year.

Also, it looks like the rules require you to calculate the grossed up value as if the FBT exemption for electric vehicles hadn't applied / wasn't available.

Depreciation

If the company purchases a car and provides the vehicle to someone in their capacity as an employee and they work in the company's business, it should be possible for the company to claim depreciation deductions on the vehicle (subject to the luxury car depreciation limit if it applies).

You'd look at whether the simplified depreciation rules in Division 328 could be available to provide an immediate deduction on the purchase of the vehicle if the individual is a small business entity (i.e., using an aggregated turnover of less than \$10m) and has elected to use the simplified depreciation rules.

Otherwise, the temporary full expensing rules under Division 40 on the purchase of the depreciating assets (including cars) should generally be available where:

- the entity carries on a business under general principles;
- the entity has aggregated annual turnover of less than \$5bn;
- the asset starts to be held at or after 7.30pm ACT time on 6 October 2020 and before 30 June 2023;

- the entity must start to use the asset or have it installed ready for use for a taxable purpose in the current year and on or before 30 June 2023; and
- the asset is located in Australia and principally used in Australia for the principal purpose of carrying on a business

There are some restrictions for second hand assets, but this shouldn't apply if the individual has an aggregated turnover of less than \$50m.

Whether the car is FBT exempt under the electric car rules shouldn't really change the above. Also whether the employee uses the car partly for their own private purposes shouldn't change the above either.

GST

Again, if the company purchases a car and provides the vehicle to someone in their capacity as an employee and they work in the company's business, it should be possible for the company to claim back the GST credits on the purchase of the vehicle. This should be subject to the GST car limit (if it applies).

For the same reasons as above, the fact that the car might be FBT exempt or whether the employee uses the car partly for their own private purpose shouldn't change this.

3. Do we need a logbook for an electric vehicle that is exempt from FBT?

Can I please check if the business needs to do logbook for an electric vehicle exempt for FBT purposes? What about the logbook requirements for reportable fringe benefit reporting purposes?

Answer

No, there shouldn't be a requirement to complete a logbook to access the electric vehicle FBT exemption. However, benefits that qualify for this specific exemption need to be taken into account in calculating the reportable fringe benefits amount of the employee.

As a result, it should and can still be necessary to calculate a notional taxable value for the benefit using the statutory formula or operating cost method.

If the employee expects to use the car for income producing purposes, then it might be prudent for them to keep a log book etc in case the operating cost method would provide a lower reportable amount. Just to be clear, keeping a logbook is not a requirement and the individual can use the statutory formula instead to work out the reportable amount.

4. How do we work out the GST credits and deductions for an electric vehicle that is exempt from FBT and used for private purposes?

In relation to the recently announced FBT exemption on electric vehicles...If the motor vehicle is used 100% for private purposes, presumably the GST input credit cannot be claimed as it is not for a creditable purpose?

Equally, the deductions for running costs are still subject business use %?

Any guidance is appreciated.

Answer

There's an underlying assumption that the car is acquired by the employer and its use is provided to someone in their capacity as an employee (i.e., otherwise FBT exemptions aren't all that relevant). I've also assumed the car running expenses are incurred by the employer.

Firstly, when claiming GST credits and depreciation deductions on a car acquired by the employer, the focus should be the use of the vehicle from the employer's perspective (i.e., not the employee).

What I'm trying to say is that if the car is provided to someone in their capacity as an employee and the individual works in the employer's business, then this should be considered the business use of the employer (i.e., 100% taxable use). This is because such use should be seen as being taxable use from the perspective of the employer (including from a GST / depreciation deductions perspective).

The same principles should apply when it comes to car running expenses incurred by the employer (i.e., the focus should be on whether the expenses were incurred on behalf of someone in their capacity as an employee).

GSTA TPP 052 gives a specific example of an employer acquiring a vehicle that will be used in its business and by an employee for their own private use. The ruling explains it in this way:

"In relation to determining creditable purpose, paragraph 52 of GSTR 2001/3 on how GST applies to supplies of fringe benefits states:

"52. An acquisition or importation you make to provide a fringe benefit in respect of employment in your enterprise is made in carrying on the enterprise and is not of a private or domestic nature for the purposes of section 11-15 and section 15-10. It is your purpose at the time of making the acquisition or importation that is relevant to whether the acquisition or importation is for a creditable purpose. For example, an acquisition made to provide a car for the private use of your employee is made for a creditable purpose."

The same principles should apply from an income tax perspective e.g., when it comes to claiming depreciation deductions. Whether the vehicle is exempt from FBT shouldn't really impact this (i.e., the interaction between FBT exemptions and denial of deductibility / GST credits should more be relevant for entertainment type expenditure).

However, and just for completeness, you should be aware that both the employer's income tax deductions / GST credits on the acquisition of the car are subject or capped by the luxury car depreciation limit / GST limit if it applies.

5. Does the motor vehicle cost limit apply to EVs for GST and depreciation purposes?

Could you please advise if the motor vehicle cost limit applies to electric cars for GST and depreciation purposes?

Answer

If the vehicle is a car (i.e., designed to carry less than 1 tonne and fewer than 9 passengers) and it's designed mainly for carrying passengers (rather than goods), then the GST car limit and luxury car depreciation limit should normally apply.

Just to be clear, there isn't a specific exemption from the GST car or luxury car depreciation limit merely because the vehicle is electric powered (e.g., has an electric engine).

See [PBR1051316586383](#) for an example of this dealing with the luxury car depreciation limit (although just remember you can't rely on a PBR issued to another taxpayer).

6. Does the depreciation cost base limit apply to a Tesla?

Hello. I know Tesla electric vehicles are exempt from FBT, but could you please confirm the depreciation cost base limit still applies to this purchase as it would to any other luxury vehicle?

Answer

The changes in relation to the concessional FBT treatment for electric cars is contained in Treasury Laws Amendment (Electric Car Discount) Bill 2022 (accessible through the link below) which received Royal Assent on 12 December 2022.

[To read the Bill, click here.](#)

This measure only impacts the FBT treatment. It has no impact on the car limit for depreciation or GST purposes.

It should be noted that the FBT exemption only extends to certain vehicles that qualify as zero or low emission and no luxury car tax is paid on the car (that is, it generally costs less than \$84,916 for fuel efficient cars in the 2022-23 year). Refer to the ATO Luxury car tax rates and thresholds.

Car limit

The car limit for both tax depreciation purposes (i.e., section 40-230) and GST purposes (i.e., section 69-10 GST Act 1999) would still apply where the electrical vehicle is classified as a car. The car limit for depreciation deductions is \$64,741 for the 2023 income year (which is different to the threshold that is used for determining whether the FBT exemption applies). The GST credits are also limited to 1/11th of the car limit.

A car is defined in ITAA 1997 section 995-1 as "a motor vehicle (except a motorcycle or similar vehicle) designed to carry a load of less than 1 tonne and fewer than 9 passengers".

Depending on when the car was purchased by the employer to provide to the employee as part of their gross compensation package, the temporary full expensing provisions could apply for an immediate deduction, up to the car limit (after claiming the input tax credits).

7. Can the new FBT exemption apply if an employee buys an EV and enters into a salary sacrifice agreement for the running costs?

If an employee and employer decide to enter into a salary packaging agreement in order to take advantage of the EV FBT exemption, how does this practically work when the employee does not wish to finance the cost of the vehicle and does not wish to arrange the package through a third party? I.e., is it possible for the employee to purchase the car with their own cash reserves, enter an agreement with their employer to salary sacrifice the annual running costs for three years (electricity, depreciation etc) which will result in the employer deducting this amount from the employee's pay whilst also paying the employee the gross amount packaged.

Hopefully the question makes sense, we are ultimately looking at the practical ways to implement these arrangements for business owners that operate their own business in a trust / company.

Answer

There are a number of conditions that need to be met in order for the FBT electric car exemption to apply. One of these conditions, and the real issue, is that the benefit needs to be a car fringe benefit.

If the employee basically purchases the electric car in their own name, it doesn't seem like the FBT electric car exemption could apply.

In such a case, if the employee salary sacrifices the car's running costs, this should give rise to a separate a fringe benefit (i.e., not FBT exempt under the electric car exemption).

I'm not entirely sure how someone salary sacrifices depreciation, but if the employer is basically reimbursing the cost of the vehicle this is likely to be seen as an expense payment fringe benefit (which shouldn't qualify for the FBT electric car exemption).

The situation would be different if the employer acquires the vehicle and provides its use to someone in their capacity as an employee. Also, the situation could be different if a novated lease is entered into between the employee, employer and finance company under broadly an arm's length arrangement.

In those cases, it can be possible for the FBT electric car exemption to apply (assuming the other basic conditions are satisfied) however it does not seem like this is what the business owner intends to do.

8. How do we deal with employee contributions made towards an EV that is exempt from FBT?

I am looking for some guidance in relation to the treatment of employee contributions in regards to an electric vehicle that would fall under the FBT exemption that was recently legislated in Dec 22.

There's a director of a company. The director does not take a wage from the company but instead just takes dividends. The company currently has a petrol vehicle for which, due to the low business use, the statutory method is used to calculate the employee contribution by the director to avoid the company paying any FBT.

If the company were to purchase an electric vehicle that met all of the conditions for the FBT exemption, how would the employee contribution work under the statutory method in this case to avoid the need to calculate the RFBA for the employee. Would the employee contribution still be taxable in the company's name and the director still need to pay the contribution over to the company? Or is there another way that this needs to be calculated?

Answer

The comments below are based on the assumption that the vehicle is provided to the individual in their capacity as an employee or director of the company.

The way the rules should work is that where the car is FBT exempt under the electric car exemption, it should require you to calculate the grossed-up value as if the FBT exemption for electric vehicles hadn't applied / wasn't available (either under the statutory or operating cost method). This is used for the purposes of the working out the taxable value of the reportable fringe benefit amount of the employee.

It seems like it should be possible for the director to make post-tax employee contributions to reduce the reportable fringe benefit, but my understanding is that the employee contribution should still be assessable to the company. Conceptually, the individual is basically providing consideration for the use of the company's vehicle.

An employee contribution can be made by a cash transfer. Also, employee contributions can be made by way of set-off arrangement, but this would involve the situation where the company owes a debt to the employee/director and both parties agree to set-off the employee contribution against this debt (ie, there are competing liabilities).

The ATO in [MT2050](#) states that the employer / company must have an obligation to pay money to the employee. This could be an existing liability (for example, wages, dividends). Alternatively, the parties may agree that the employer / company is to lend an amount to the employee.

If the company lends an additional amount to the individual (where they are also a shareholder), you'd then need to normally consider the Division 7A implications of such a loan.

Note:

[To read more about Electric Vehicles from the ATO website, click here....](#)

9. Should I consult a tax professional or business advisor?

Consulting an accountant can bring many benefits to both business owners and individuals who have an electric vehicle. Here are a few reasons why:

1. **Tax expertise:** Accountants are trained professionals who have a thorough understanding of tax laws and regulations. They can provide guidance on how to maximize your tax savings and ensure that you're taking advantage of all available deductions and credits related to your electric vehicle.
2. **Record-keeping support:** Keeping track of expenses related to your electric vehicle can be time-consuming and complicated. An accountant can help you maintain accurate and up-to-date records, which can make it easier for you to claim the costs on your tax return.
3. **Cost savings:** By taking advantage of all available deductions and credits, an accountant can help you save money on your taxes. They can also help you identify any potential tax savings opportunities you may have missed.
4. **Compliance with tax laws:** Tax laws and regulations can be complex and change frequently. An accountant can help ensure that you're in compliance with all applicable tax laws and regulations and avoid any costly penalties or fines.
5. **Strategic planning:** An accountant can help you plan for the future and make informed decisions based on your tax obligations and financial situation. They can help you understand the tax implications of your decisions and help you make informed choices that will benefit you in the long term.

For business owners, an RJS accountant can also provide valuable support in areas such as financial planning, cash flow management, and risk management. We can help you make informed business decisions and ensure that your business is in compliance with all applicable tax laws and regulations. An RJS expert can also bring valuable expertise and support to both

business owners and individuals with an electric vehicle. They can help you save money, avoid mistakes, and make informed decisions related to your electric vehicle and your overall financial situation.

Get expert advice

If you need any advice on how this might affect you or your business, an RJS Professional can help.

We can give advice so you can be aware of the tax implications, be ready to implement procedures to ensure compliance and avoid mistakes.

Click here to book an obligation-free complimentary consultation or contact us on info@rjsanderson.com.au or 1300 27 28 29.

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