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Submission: Electric Car Discount Review

Australia has an extraordinary opportunity: to power our transport sector with low cost, Australian-made electricity instead of imported oil. This transition would save Australian households billions of dollars annually, improve our energy security, reduce emissions, and actively support our increasingly renewable electricity grid.

We welcome this review into how to effectively stimulate transition in the new car market. Accelerating the shift to 100% electric vehicle sales in the **new car market** should be the critical policy objective. While used vehicles represent approximately 75% of all car transactions, they are a downstream consequence of new vehicle purchases. Behaviours and incentives around new car purchases must be the clear focus when evaluating the policy settings.

Recommendations

Rewiring Australia makes the following recommendations:

1. **Retain and strengthen the ECD:** Maintain the FBT exemption for EVs under salary packaging arrangements; at a minimum, retain a partial tax benefit to continue providing a clear signal to consumers to choose EVs.
2. **Reform and align LCV tax treatment** as part of this review's assessment of "other factors that influenced the uptake of electric vehicles", to reduce tax expenditures that incentivise higher emissions purchases, and align tax settings to encourage EV choices:

- a. **Remove or align the price cap** on ECD-eligible vehicles, currently \$91,387, to LCV vehicles, rather than the current perverse structure that provides favourable tax treatment to expensive, \$100k+ LCVs while excluding EVs
 - b. **Apply the Luxury Car Tax to LCVs** frequently not used for work, in particular to dual cab utility vehicles and four wheel drive SUVs
 - c. **Require more stringent substantiation** that vehicles are used for work purposes for exemption from FBT
3. **Improve equity and access to the ECD benefit beyond salary packaging:**
Offer a general tax deduction for some or all of the cost of EV purchases to make the benefit accessible to small business owners, contractors, self-employed, and others outside employers where salary packaging can be offered
4. **Account for the electricity system value** of EVs as flexible consumer energy resources when assessing cost-effectiveness
 - a. Incorporate electricity system and carbon abatement benefits into cost-benefit analysis (including the negative carbon abatement of LCVs)
 - b. Include energy security, productivity and trade balance benefits from reduced oil imports (currently totalling \$60 billion a year).
5. **Consider transformational fuel excise reform** to cut the cost of living and create a strong upfront price signal to drive market transformation
 - a. Convert fuel excise to an upfront lifetime fuel levy (\$8,000-15,000 per combustion vehicle)
 - b. Abolish fuel excise for existing drivers (\$12 billion annual tax cut)
 - c. Introduce a universal distance-based road user charge (all vehicles) that can be adjusted as upfront fuel levy revenue declines.

Overview

The Electric Car Discount (ECD) represents a modest but important policy intervention in Australia's vehicle market. The policy has been effective in encouraging additional zero-emission vehicle uptake among key early adopter cohorts, particularly among

health, education, and public service workers¹. Importantly, evidence suggests that the adoption of EVs has been highest among those living in the outer suburbs and regions who tend not to be those on the highest incomes. This evidence that the ECD is not broadly regressive; instead it is enabling middle-income households to significantly cut their living costs (and their emissions).

In evaluating its effectiveness in encouraging Australians to choose zero and low emissions vehicles, as required by the terms of reference, it is essential to consider the broader tax and policy context within which the ECD operates.

Tax treatment of EVs must be considered alongside LCVs

The ECD exemption from FBT is designed to provide an economic incentive to choose an EV. But this same FBT-based incentive - and a large associated tax expenditure - is already in place for large, high-emission vehicles classified as LCVs, including dual-cab utes and other light commercial vehicles (LCVs). These concessions have demonstrably shaped market behavior, driving the dramatic rise of LCVs from 15% to over 24% of new vehicle sales in 20 years².

The LCV concessions, worth billions in tax expenditures, annually actively undermine the ECD's effectiveness³. The effectiveness of the ECD in encouraging zero-emission vehicle uptake must therefore be understood against this countervailing policy pressure that encourages high-emission purchases. Further, electric vehicles reduce the need to import oil. Oil imports are expensive and impact Australia's balance of payments; a modest 25% reduction over ten years would save \$15bn a year.

Furthermore, the terms of reference ask whether the ECD should continue and what types of vehicles should attract the discount. We argue these questions cannot be answered without examining the broader vehicle taxation framework and its impact on emission outcomes. The relevant policy question is not simply "is the ECD working?" but rather "is Australia's overall vehicle tax system driving the transition to zero emissions that our climate commitments require?"

¹ Based on Electric Vehicle Council data and industry estimates. Approximately 35,000-40,000 EVs were novated through salary packaging arrangements by end of 2024, with uptake accelerating since the policy commenced in July 2022.

EV Council member surveys ([2024](#)) suggest 65-70% additionality.

² Federal Chamber of Automotive Industries (FCAI) VFACTS data, 2024. Light commercial vehicles represented 24.4% of new vehicle sales in 2024 (269,000 units of 1,104,000 total sales), compared to approximately 15% in 2005.

³ The Australia Institute (2022). Ute tax lurks: subsidising the rich to pollute. Research report. Treasury (2024). Tax Expenditures and Insights Statement 2023-24.

A bold reform: transforming Fuel Excise into an upfront purchase incentive

Beyond refining the Electric Car Discount, fundamental tax reform can accelerate the EV transition, maintain revenue, and cut costs for existing drivers.

Fuel excise currently raises ~\$12B/year, but revenue will decline with EV adoption, creating a fiscal gap. Fuel excise is also ineffective as a measure to discourage new vehicle purchases, offering no upfront price signal.

Australia could convert the fuel excise from a consumption tax to an upfront purchase levy based on expected lifetime fuel use and emissions.

1. Calculate Lifetime Levy: Based on fuel consumption (L/100km) and expected vehicle lifetime distance (e.g., 200,000 km), determine expected lifetime fuel excise (~\$0.50/L).
 - a. Example: An 8L/100km vehicle with expected lifetime of 250,000km has a \$10,000 lifetime fuel levy (20,000L × \$0.50).
2. Abolish Fuel Excise: Existing drivers save ~\$0.50/L immediately, equating to \$1,300/year for a 50L/week user, totaling ~\$12 billion annually in savings.
3. Introduce Road User Charge (RUC): Start a universal distance-based RUC at a low rate (~2 cents/km) for all vehicles, generating ~\$4-5 billion initially, and gradually increase it as new vehicle fuel levy revenue declines.

This policy would have multiple additional effects on the vehicle market. Rewiring Australia puts it forward as an example of a measure that could align to the goals of the ECD and broader taxation sustainability.

Conclusion

The Electric Car Discount represents sound policy that deserves strengthening, not weakening. In the context of far larger tax concessions for polluting vehicles, concerns about its cost are misplaced.

Australia has an extraordinary opportunity to power our transport with Australian-made energy, deliver billions in household savings, improve energy security, and support the electricity system's transition to renewables. The policy settings that achieve this transition fastest and most equitably deserve our support.

The reforms outlined in this submission would:

- Ensure Australia's fiscal and tax settings are responsible and sustainable while aligned with emissions reduction targets
- Save Australian households up to \$20 billion annually when fully implemented
- Reduce oil imports by \$15-30 billion annually
- Provide 10+ GWh of electricity storage for grid stability
- Potentially deliver \$12 billion in immediate fuel tax cuts through excise reform to an upfront charge, and create a sustainable road funding model for the post-combustion era

Every new petrol-powered vehicle purchase locks Australians into a two-decade subscription to imported fossil fuels. The Electric Car Discount, and more broadly aligning the tax system to encourage electric choices, is not simply an emissions reduction policy or an automotive industry policy. It is an energy security policy, a cost-of-living policy, and a strategic investment in Australia's economic future.

We welcome further discussion and questions regarding this submission. Please contact francis@rewiringaustralia.org.

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About Rewiring Australia

Rewiring Australia is a non-profit research and advocacy organisation dedicated to representing the people, households and communities in the energy system. We deliver practical climate progress by working with government, industry, and communities to electrify everything. Co-founded in 2021 by Dr Saul Griffith and Dan Cass, Rewiring Australia highlights the positive climate and economic outcomes possible for Australia, and the world, with electrification of fossil fuel machines.

In addition to co-founding Rewiring Australia, Saul Griffith is also the co-founder and Chief Scientist of Rewiring America. Rewiring America and Saul worked closely with the Biden Administration in the drafting of the Inflation Reduction Act to drive investment in clean, electric machines and in supporting households and the larger U.S. economy to electrify.