



Braking gently

How to reform the Electric Car Discount without losing momentum

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1 Introduction and scope

This submission is by Alison Reeve, Matthew Bowes, and Ben Jefferson, of Grattan Institute, an independent think tank focused on Australian domestic public policy. Grattan aims to improve policy by engaging with decision makers and the broader community. Grattan has advocated for measures to encourage the uptake of electric vehicles since 2021.

The Australian Centre for Evaluation and the Department of Climate Change, Energy, Environment, and Water are conducting a statutory review of the Electric Car Discount. This submission responds to the terms of reference released on 12 December 2025. We have focused our submission on the impact of the discount on uptake; on the budget; and on a proposed path forward to adjust the discount over time.

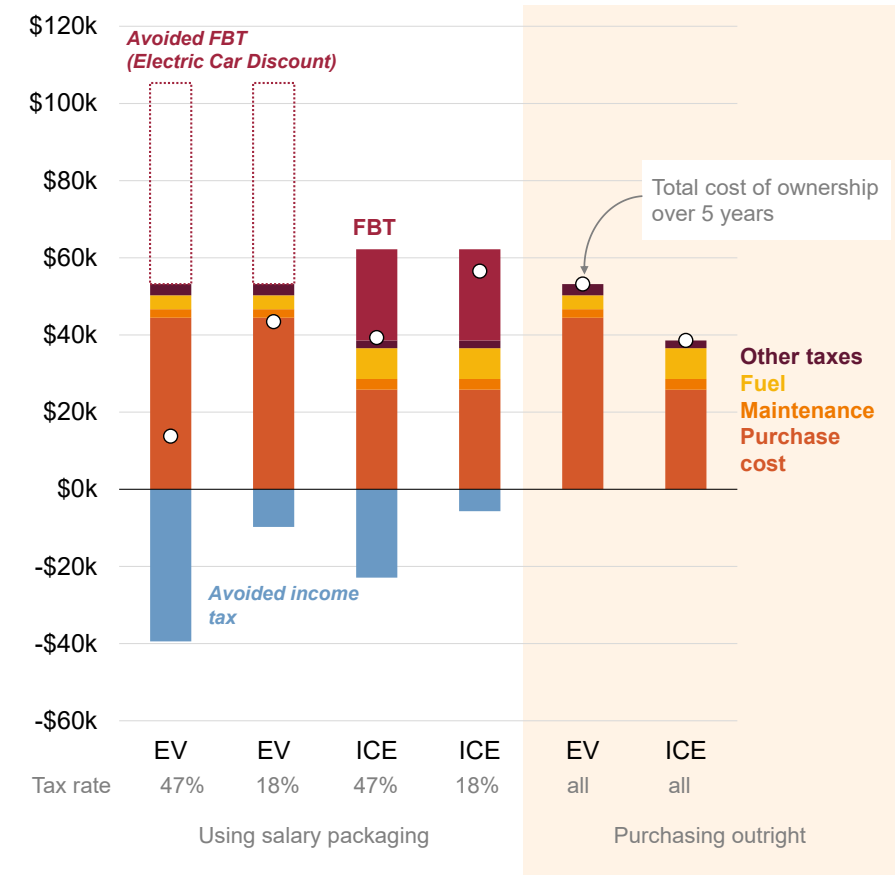
We would welcome the opportunity to engage further with the government on any of the matters raised in this submission.

1.1 How the Electric Car Discount works

Many employers make goods and services available to their employees as a way of attracting and retaining staff, and cars are a common choice. This typically takes the form of ‘salary-packaging’ (explained in Box 1 on the following page) the vehicle via a lease arrangement.

Items made available to employees by employers are subject to Fringe Benefits Tax (FBT), which taxes the grossed-up value of the benefit at 47 per cent. FBT is therefore higher on more expensive cars than cheaper ones. Electric vehicles still have a higher purchase price than equivalent petrol vehicles, which means more FBT is payable if an employer makes an electric vehicle available to an employee. This higher upfront cost and higher tax is not offset by the cheaper running costs that come with an electric vehicle.

Figure 1.1: Electric vehicles are a good deal for some drivers
Cost of ownership over five years (\$)



Notes: ICE = internal combustion engine. EV = electric vehicle. ‘Purchase cost’ is the recommended retail price including GST, less the residual value of the vehicle after five years. ‘Other taxes’ includes import duty, stamp duty, and registration, based on a car purchased and registered in NSW. Purchase cost includes residual value after 5 years. Source: See Box 2 on page 5 for a full explanation of how we calculate and compare costs, including data sources.

The Electric Car Discount provides a Fringe Benefits Tax exemption for eligible cars. It was introduced in 2022.

The FBT exemption for electric vehicles reduces the total cost of ownership for an EV substantially (see Figure 1.1 on the preceding page). This creates an incentive to salary-package an electric car rather than a petrol car. The FBT exemption also makes salary-packaging a vehicle attractive even for people in the lowest income bracket.¹

The size of the incentive varies by income bracket, because of the income tax benefits of salary packaging. For someone in the top (47 per cent) tax bracket who is salary-packaging an EV, the total cost of ownership over five years is about \$14,000. For someone in the lowest (18 per cent) tax bracket, it is about \$43,000. This compares to \$53,000 if purchasing the electric vehicle outright.

Box 1: How salary packaging works

Salary packaging is a popular way to reduce the upfront cost of owning a car, by spreading the costs over time. It is also attractive to higher-income earners as a way of reducing tax paid, because the cost of the vehicle is paid out of their pre-tax income, rather than their post-tax income.

To purchase a car for \$53,000, someone in the highest (47 per cent) tax bracket would need to work sufficient hours to earn \$100,000. They would then pay \$47,000 in tax, leaving \$55,000 to buy the car.

But if they are using salary packaging, they would pay for the vehicle using their pre-tax income, so they would need only work enough hours to earn \$53,000. This cost would then be turned into monthly deductions on their pre-tax income.

1. As shown in Figure 1.1 on the previous page, salary packaging a car is not typically attractive for people in the lowest income bracket compared to buying a car outright, because the FBT they must pay outweighs the avoided income tax.

Box 2: How we compare electric and non-electric vehicles

Our analysis of the relative costs of electric and petrol cars uses two reference vehicles that are otherwise identical. Unless otherwise indicated, our analysis compares the electric and petrol models of the Hyundai Kona; and we compare the total cost of ownership over five years.

Total cost of ownership includes purchase costs, maintenance, fuel, registration, other taxes, and residual value. We used the NSW Government's total cost of ownership calculator available at [this link](#) to calculate these.^a

We took this approach assuming that a consumer choosing a new car would satisfy their other vehicle needs first (for example, passenger numbers, boot space, leg room, etc), and then choose between an electric and a petrol car. We use data for the Hyundai Kona because it is a mid-market vehicle that is relatively popular.

We use the Australian Taxation Office's [FBT calculator](#) to calculate FBT, using the statutory formula method, excluding operating costs, and assuming zero employee contribution.^b We use current income tax rates to calculate avoided income tax. We add 2 per cent to cover the Medicare levy.

Our comparisons for electric and petrol cars may not hold for other marques or for comparing vehicles that are not otherwise identical. Similarly, they ignore plug-in hybrids.

a. Transport for NSW (2026).

b. ATO (2026).

2 The impact of the Electric Car Discount to date

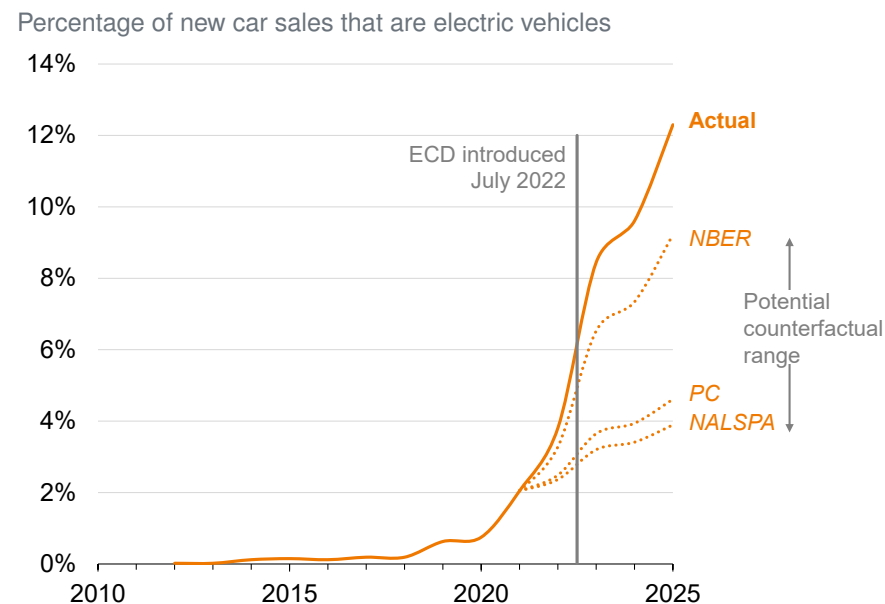
2.1 The Electric Car Discount is working to drive uptake of electric vehicles

While it is always difficult to establish a robust counterfactual against which a subsidy can be compared, it seems that the Electric Car Discount has created a step change in uptake of electric vehicles. The percentage of new car sales that were electric vehicles jumped from 2.05 per cent in 2021 (the last full calendar year before the Discount was introduced) to 8.45 per cent in 2023 (the first full calendar year the Discount was available) (see Figure 2.1).²

Estimates of how many people changed their purchase decision vary. Survey data results from the National Automotive Leasing and Salary Packaging Association found that 82 per cent of people using salary packaging to purchase an electric vehicle would not have done so if the Electric Car Discount wasn't available.³ In its 2023 productivity inquiry, the Productivity Commission used an estimate of 75 per cent.⁴ Data from the US National Bureau of Economic Research suggests the number of additional sales could be as low as 30 per cent.⁵ Using these numbers, we estimate that, if all additional sales are attributed to the Discount, electric vehicle sales in 2025 would have been between 9.2 per cent and 3.9 per cent, compared to 12.3 per cent that was actually achieved (Figure 2.1).

Some of the initial jump may be due to an anticipation effect. The policy was announced by the ALP in opposition on 10 December 2021,⁶ but did not take effect until 1 July 2022; and it's possible that people who

Figure 2.1: Electric vehicle sales jumped after the Electric Car Discount was introduced



Notes: Includes battery electric and plug-in hybrid vehicles. Potential counterfactual range attributes all additional purchases to the Electric Car discount (ECD). NBER = National Bureau of Economic Research. PC = Productivity Commission. NALSPA = National Automotive Leasing and Salary Packaging Association.

Source: Grattan analysis using data from Electric Vehicle Council (2025) (sales), Productivity Commission (2023), Xing et al (2021), and NALSPA (2025).

2. Electric Vehicle Council (2025).

3. NALSPA (2025).

4. Productivity Commission (2023, p. 42).

5. Xing et al (2021).

6. Australian Labor Party (2021, p. 40).

intended to buy or salary-package an electric vehicle in the first half of 2022 delayed their decision to take advantage of the Discount.

2.2 This rise in electric vehicle sales is widespread

The growth in electric vehicle sales has taken place across all income groups (see Figure 2.2).

The FBT exemption has made salary-packaging a vehicle more attractive across all income brackets, but the strongest growth in absolute numbers has been in the wealthier suburbs: for example, the number of electric vehicles registered in the top 10 per cent of suburbs grew from 4,747 in 2021 to 49,271 in 2025. This is unsurprising given the tax benefits of packaging an electric vehicle for wealthier people, as set out in Figure 1.1 on page 3.

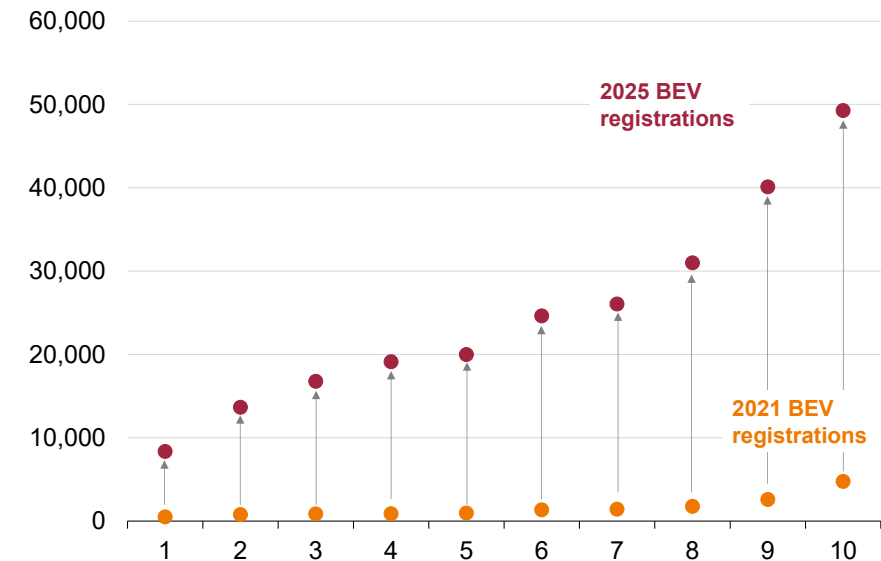
What is more surprising is that the growth has been strongest in relative terms in the lower-to middle income brackets. In 2025 there were 17 times as many electric vehicles registered in suburbs in the lowest income decile, and 22 times as many in the fourth decile, as there were in 2021, whereas in the highest decile there are only 10 times as many.

2.3 But it is costing the budget much more than forecast

When it was first proposed in the 2022 election campaign, the Electric Car Discount was projected to cost \$605 million to the budget in the seven years to 2028-29.⁷ Treasury now projects it will cost \$10.1 billion (see Figure 2.3 on the following page).⁸

This blowout happened because the Discount proved more popular than expected. Given the tax advantages to all income brackets shown in Figure 1.1 on page 3, it is unsurprising that the Discount was

Figure 2.2: Electric vehicle uptake has increased in all income groups
EV registrations 2021 and 2025, by suburb average household income decile



Notes: Battery-electric EVs only. Suburb average household income deciles are population-weighted based upon 2021 Census data.

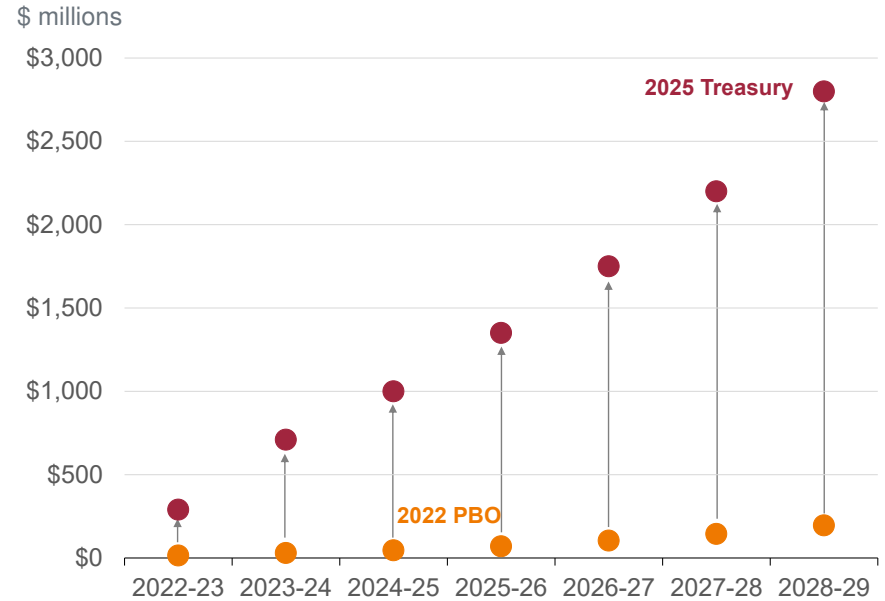
Source: Grattan analysis using data from Australian Automobile Association (2025), ATO (2025), and ABS (2023).

7. PBO (2022).

8. Treasury (2025).

popular. The structure of the Discount may also have opened up the tax benefits of salary packaging to people who had not used it before. The PBO's projection of the cost (in 2022) assumed the proportion of people salary-packaging an electric vehicle would remain the same.

Figure 2.3: The Electric Car Discount is costing much more than originally projected



Note: PBO = Parliamentary Budget Office.

Source: Grattan analysis using data from Treasury (2025) and PBO (2022).

3 Reducing the budget impact of the Electric Car Discount

There is a case for subsidising uptake of new technology that reduces emissions while that technology is more expensive than the status quo. But it's clear that continuing the Electric Car Discount in its current form will impose growing costs to the budget. And at some point, owning an electric car will become the norm, and there will be no case for a subsidy.

An immediate end to the Electric Car Discount would be good for the budget but bad for drivers. It would slam the brakes on progress made towards an all-electric car fleet, by suddenly making electric car ownership much more expensive.

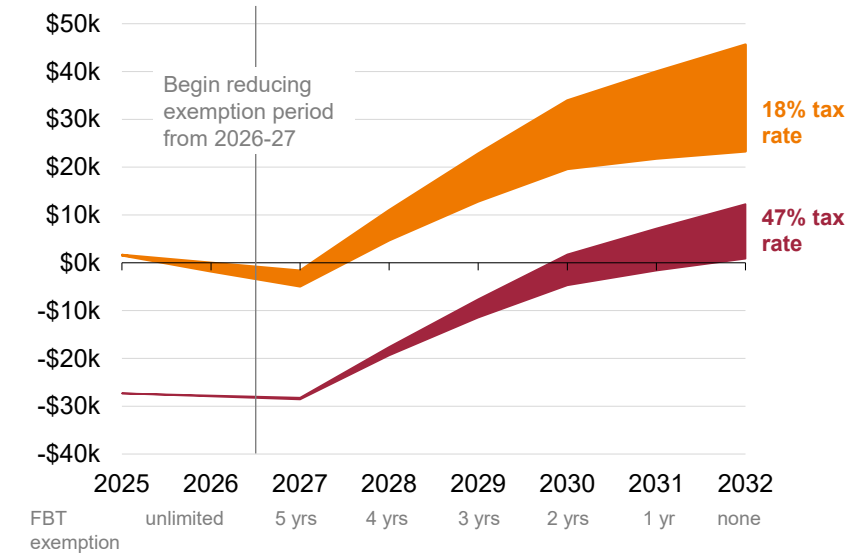
A better approach would be to phase it out, by gradually reducing the number of years that the Discount can be claimed. This should be calibrated with expected upfront cost reductions such that the total cost of ownership for an electric car remains lower than for a petrol car.

Even with a slow rate of cost reduction,⁹ phasing down the Discount from 2026-27 would maintain total cost of ownership for electric cars below that for the next three years for those in the top tax bracket.¹⁰

If upfront cost reductions are faster,¹¹ then phasing down the Discount from 2026-27 would maintain total cost of ownership for electric cars below that of petrol cars until 2030.

The story would be different for people in the lowest tax bracket. They currently have a slightly higher total cost of ownership for an electric

Figure 3.1: The Electric Car Discount could be phased down while still maintaining a favourable total cost of ownership for most drivers
Difference in total cost of ownership between an electric and a petrol car over five years (\$)



Notes: Negative numbers represent a lower cost of ownership for an electric car compared to a petrol care. 'Slow cost reductions' (top of bands) = 2.8 per cent annually; 'fast cost reductions' (bottom of bands) = 6.6 per cent annually, consistent with Mandala (2023) and Goldman Sachs (2024) respectively.

Source: Grattan analysis using ATO (2026), Transport for NSW (2026), Mandala (2023) and Goldman Sachs (2024).

9. For example, 2.8 per cent, consistent with forecasts by Mandala using International Council on Clean Transportation data: Mandala (2023).
 10. This calculation assumes no 'announcement effect' – that is, people don't bring forward a future purchase on an electric car to avoid the change to the Electric Car Discount.
 11. For example, 6.6 per cent is consistent with forecasts by Goldman Sachs (2024).

car compared to a petrol car – even with the Discount. This is because paying for a car using pre-tax income does not have the same benefit of avoiding income tax for someone on a low income. It reflects that reducing tax to stimulate uptake will always be regressive and have little benefit for people who don't pay much tax in the first place.

The longer the government waits to change the Discount, the more this regressive situation persists, and the more the Budget will blow out.

The best approach would be to act immediately and start limiting the number of years the Discount can be claimed from 2026-27 onwards. There should be a review in 2029 to decide whether to continue or pause the phase out, depending on how cost reductions and total cost of ownership are changing. Figure 3.1 on the preceding page illustrates how the difference between total cost of ownership for an electric car and a petrol car would play out if the Discount was limited to five years in 2026-27, four years in 2027-28, and so on.

Fringe Benefits Tax payable on a car is higher in the first three years the car is held than in the years beyond that. This is why limiting the Electric Car Discount to three years maintains a more favourable total cost of ownership for electric vehicles even if vehicle costs reduce slowly.

The longer the Discount remains in place, the more likely it is that some taxpayers will claim it for multiple vehicles (that is, when the lease runs out on their first electric vehicle, they get a new lease on a different electric vehicle, which also has the FBT exemption). To prevent this, the government should consider limiting Discount claims to one per tax file number.

3.1 What about road user charging?

The federal government has indicated it may introduce a road user charge for electric vehicles. The NSW government has legislated for

a road user charge to commence from 1 July 2027 or when electric vehicles make up 30 per cent of all new vehicle sales, whichever comes first. The amount of the Electric Car Discount is likely to be a much bigger influence on consumer decisions to purchase an electric vehicle than is a possible road user charge (as shown in Figure 3.2 on the next page).

Road user charging is a sound way to maintain tax revenue as fuel excise declines with the shift away from petrol cars. But as with the Electric Car Discount, it must be done in such a way that maintains a more favourable total cost of ownership for an electric vehicle compared to a vehicle that uses fossil fuel.

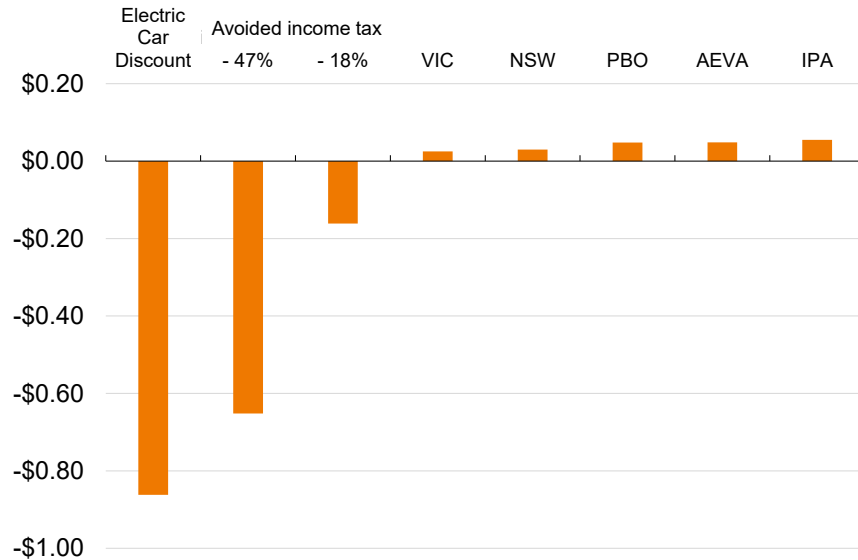
The principles for good road taxation are:

- Decide what portion of road costs to recover from road users.
- Treat petrol and electric vehicles equally with respect to the amount they use the roads.
- Treat petrol and electric vehicles differently with respect to pollution and greenhouse gas emissions.

In practice this would mean a per-kilometre road charge for all light vehicles. This charge should be less for electric vehicles than for vehicles that use fossil fuel, to take account of the costs that air pollution and carbon emissions impose on society. The road user charge should be phased in as the Electric Car Discount is phased out.

Grattan Institute will soon publish a longer analysis of the case for road user charging.

Figure 3.2: The costs to electric car drivers of proposed road user charges are far outweighed by the tax benefits of owning an electric car
 Cost or subsidy per kilometre for the Electric Car Discount and various proposed road user (\$)



Notes: Victorian road user charge is the amount proposed by the Victorian Government in 2021. NSW road user charge amount is currently legislated to apply from 2027. Other road charges are as proposed by the following: PBO = Parliamentary Budget Office for Senator Tim Storer; AEVA = Australian Electric Vehicle Association; IPA = Deloitte for Infrastructure Partnerships Australia. AEVA rate has been weight adjusted for the reference vehicle. IPA rate is for a medium vehicle. Calculations are made over five years for a vehicle travelling 12,000km per year. Negative numbers are subsidies, positive numbers are costs.

Source: Grattan analysis. Electric Car Discount and avoided income tax as in Figure 1.1. Road user charges: Vic Roads (2021), NSW Government (2025), Parliamentary Budget Office (2018), Australian Electric Vehicle Association (2023), Infrastructure Partnerships Australia and Deloitte (2016).

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