2024 FBT Series: What you need to know about vehicles, electric vehicles and non-cars

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With the end of the 2024 Fringe Benefits Tax (**FBT**) year fast approaching, here are our key considerations with respect to vehicles this FBT season.

Electric Vehicles (EVs)

EVs present a significant change to the valuation of relevant car fringe benefits, and there are several key aspects employers need to understand when preparing their 2024 FBT returns.

We have summarised our key takeaways for employers this year in respect of EVs below:

Exemption

As highlighted in last year's related **article**, the *Treasury Laws Amendment (Electric Car Discount) Act 2022* (the **Act**) provides an FBT exemption for eligible

EVs, as a strategy to increase their uptake in Australia.

However, EVs still hold a requirement to calculate and disclose the Reportable Fringe Benefits Amount (**RFBA**), as if the car had been taxable, in your employees' income statements.

Which EVs are eligible for the exemption?

To access the exemption, the EV must meet the following criteria:

- The EV must meet the definition of a car under FBT legislation. Therefore, the exemption does not apply to motorcycles, e-bikes or vehicles designed to carry a load of greater than one tonne;
- The car must be a battery electric, hydrogen fuel cell or plug-in hybrid* car;
- The car must have been first 'held and used for the first time' on or after 1 July 2022; and
- The original retail sale price must be below the luxury car tax threshold ($89,332 for 2023-24).

*The exemption will only apply to plug-in hybrids until 31 March 2025, unless the taxpayer maintains a pre-existing commitment on or before that date.

Recent Developments

On 1 February 2024, the Australian Taxation Office (**ATO**) released the finalised *Practical Compliance Guideline 2024/2 Electric vehicle home charging rate – calculating electricity costs when a vehicle is charged at an employee's or individual's home* (**PCG 2024/2**), which provides a "shortcut" cents-per-kilometre method for valuing the cost of electricity when an EV is charged at an employee's or individual's home.

PCG 2024/2 allows taxpayers to apply an EV home charging rate of 4.20 cents per kilometre to calculate the cost of electricity when charging at residential premises, provided several conditions are met.

Other Considerations with Electric Vehicles

Where in-home charging equipment is provided to, or reimbursed for, employees, these are likely to constitute a separate taxable property, residual or expense payment fringe benefit (as opposed to an exempt car expense).

In addition, the ATO has confirmed that where replacement batteries are provided to, or reimbursed for employees, to the extent this results in a substantial upgrade in the performance of the battery, it will constitute a capital expense. Conversely, if it is the modern-day equivalent of the previous battery, it will be classified as a car expense and, therefore, exempt.

Non-Cars

If you have vehicles in your fleet that do not constitute a car for FBT purposes (referred to as “non-cars”) – that is, a vehicle designed to carry a load of greater than 1 tonne or 9 or more passengers, it is important to review the private usage of these vehicles before treating them as exempt from FBT.

ATO Deputy Commissioner, Emma Rosenzweig, recently highlighted the treatment of non-cars as a key focus area for the ATO, specifically warning employers and tax advisors against immediately treating these vehicles as exempt and, instead, ensuring they truly understand the level of private usage of the vehicles before applying the exemption. Therefore, it remains as important as ever that employers analyse and substantiate the private usage of such non-cars within their fleet.

As a reminder, non-cars are only exempt from FBT where their usage is limited to:

- Travel between home and work;
- Travel that is incidental to travel in the course of employment duties; and
- Non-work-related use that is minor, infrequent and irregular.

Practical Compliance Guideline 2018/3 Exempt car benefits and exempt residual benefits: compliance approach to determining private use of vehicles (**PCG 2018/3**) provides guidance to assist taxpayers in determining when the private use of a non-car is considered minor, infrequent and irregular. Relevantly, PCG 2018/3 provides that the private use of a non-car will be minor, infrequent and irregular when the following is satisfied (provided several other conditions are also met):

> Any diversion from home to work travel adds no more than two kilometres to the ordinary length of that trip; and
>
> For wholly private travel (excluding trips between home and work), the employee does not use the vehicle to travel:
>
> - More than 1,000 kilometres in total; and
> - A return journey that exceeds 200 kilometres.

For more information of the PCG, please see our previous **article**.

Logbooks

The operating cost method can be used to value car fringe benefits, or taxable non-cars that result in a residual fringe benefit.

Under the operating cost method, if a valid logbook is maintained, taxpayers can reduce the taxable value by the business percentage. When considering whether a valid logbook has been kept, the key considerations are:

- Each logbook must be kept for a continuous 12-week period (which is representative of the travel patterns of the vehicle for the period in which the logbook will be relied upon).

- A new logbook is required to be prepared every 5 years.

- At a minimum, the logbook must include the following details for each business trip – the date the trip began and ended; the odometer reading at the start and end of the trip; the number of kilometres travelled; and a sufficient description of the purpose of the journey.

If an employee has not maintained a logbook, their previous logbook has expired, or the logbook does not meet the definition of a valid logbook, a reduction to the taxable value will not be available under the operating cost method (though you may still value the vehicle utilising the statutory formula method). Both alternatives may return a higher taxable value if the employee performs substantial work-related travel.

Therefore, we recommend that employers review their fleets leading up to the end of the FBT year to identify which vehicle have valid logbooks. Importantly, where vehicles do not have a valid logbook, consider where maintaining a logbook would be beneficial in future FBT years.

Hire Cars

It is important to track the length of time a hire car is provided to an employee and review these arrangements when preparing your FBT return.

Where a hire car is provided to employees for their private use for a period of less than 3 months, a residual fringe benefit will arise.

However, where an employee is provided the hire car for their private use for 3 or more months, a car fringe benefit will arise.

As the valuation methods are vastly different between the two outcomes above, employers will require different information, and the administrative burden is much higher when the length of time extends past the 3-month mark. The earlier you are made aware of these arrangements, the easier they are to manage at FBT year end.

For further information, please don’t hesitate to contact one of our Employment Taxes specialists or refer to the following articles on the PwC employment taxes website:

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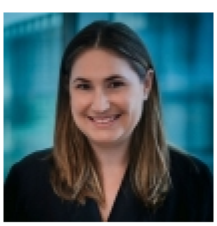

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