27 June 2025

SUBMISSION ON FRINGE BENEFIT TAX

Committee on Fringe Benefit Tax
Inland Revenue Department
PO Box 2198
Wellington 6140

BY EMAIL:

INTRODUCTION

Thank you for the opportunity to submit on the proposed Fringe Benefit Tax rates for electric vehicles. Drive Electric is committed to supporting New Zealand's transition to sustainable transport and achieving our climate objectives through effective policy settings.

New Zealand faces a critical juncture in its electric vehicle adoption journey. Following the removal of the Clean Car Discount and implementation of road user charges for electric vehicles, EV market share has declined dramatically from 27% of new car sales in 2023 to just 7.3% in 2024[1]. This represents a significant setback for our climate commitments and economic competitiveness.

We believe that strategic FBT policy settings can play a crucial role in reversing this trend and accelerating the transition to electric mobility, particularly given that businesses purchase over 60% of new vehicles in New Zealand and typically retain them for 3-5 years before they enter the second-hand market.

SUMMARY OF KEY RECOMMENDATIONS

1. **Reduce the proposed FBT rate for electric vehicles from 19.4% to 15%**
2. **Maintain the proposed 26% FBT rate for internal combustion engine vehicles**
3. **AC 7kWh smart chargers provided by employers for home installation be explicitly exempt from FBT, recognising their essential role in supporting the EV transition**

4. **Implement quarterly monitoring of EV adoption rates and policy effectiveness**
5. **Establish annual policy review to assess whether further adjustments are warranted**

ECONOMIC BENEFITS OF ELECTRIC MOBILITY

The enhanced FBT reduction would deliver substantial economic benefits to New Zealand:

1. Direct Cost Savings: The proposed 15% rate would provide an additional annual benefit for a typical company electric vehicle compared to the proposed 19.4% rate, increasing the economic advantage for employers.

2. Reduced Import Costs: New Zealand spends approximately $8-9 billion annually on fossil fuel imports[3]. Enhanced EV adoption through improved FBT settings would reduce this capital outflow and keep more money circulating within New Zealand's economy.

3. Climate Liability Avoidance: Treasury forecasts from 2023 estimated that New Zealand could face costs of up to $24 billion by 2030 if domestic emissions reduction targets are not met, requiring expensive offshore carbon credit purchases to fulfill our Paris Agreement commitments[4].

4. Network Infrastructure Savings: Widespread adoption of smart charging technology could save New Zealand $4 billion in electricity network costs by 2050 while reducing winter peak demand by 1.9GW, according to EECA modelling[5].

5. Health Cost Reduction: Healthcare costs related to transport pollution amount to $10.5 billion per year[6]. Electric vehicles produce zero tailpipe emissions, directly contributing to reduced public health costs.

6. Commercial Fleet Leadership: With commercial fleets representing 50-60% of new vehicle purchases, enhanced FBT benefits would create multiplier effects throughout the entire vehicle ecosystem as these vehicles enter the second-hand market.

SPECIFIC FEEDBACK ON PROPOSED RULES

Current Proposed Framework:

- Internal Combustion Engine (ICE) vehicles: 26% FBT rate (increase from current 20%)

Recommended Enhanced Framework:

- Internal Combustion Engine (ICE) vehicles: 26% FBT rate (maintain proposed increase)
- Electric vehicles: 19.4% FBT rate (proposed reduction from 20%)[7]
- Electric vehicles: 15% FBT rate (enhanced reduction)

Addressing Market Barriers

Electric vehicles currently face a significant capital cost premium compared to equivalent internal combustion engine vehicles. This represents a price penalty that disproportionately affects electric vehicle adoption. IRD should be commended for tackling this critical policy area, as the proposed reforms create meaningful differentiation between vehicle types[8].

However, businesses currently face additional barriers through RUC payment schedules, with EVs now paying at the same rate as diesel vehicles. These policy settings have contributed to the dramatic decline in electric vehicle market share following the termination of the Clean Car Rebate.

Creating Meaningful Economic Differentiation

The enhanced reduction to 15% would:

- Create a step-change in economic annual advantage over ICE vehicles
- Overcome psychological barriers requiring substantial benefits to offset EV adoption concerns
- Drive fleet manager decisions by providing compelling financial justification
- Signal policy commitment demonstrating government's serious intent regarding climate objectives

Climate Policy Alignment

New Zealand has committed to achieving net-zero emissions by 2050, with the transport sector representing approximately 17% of the country's greenhouse gas emissions[9]. Research by Concept Consulting demonstrates that without strategic policy intervention, New Zealand could face between 100,000 and 350,000 fewer electric vehicles on roads by 2030, potentially costing the economy $900 million to $3.5 billion[10].

The proposed FBT adjustment aligns financial incentives with climate objectives whilst supporting businesses in meeting their environmental, social, and governance commitments. This policy approach becomes increasingly critical given that transport emissions have been identified as one of the largest risk areas that could jeopardise New Zealand's second and third emissions budgets.

Economic Competitiveness

The enhanced FBT benefit would position New Zealand favourably compared to international jurisdictions offering electric vehicle incentives. Countries like Australia,

the UK, and several European nations continue to offer substantial EV incentives and tax benefits that make their markets more attractive for environmentally conscious businesses and investors.

The proposed 15% FBT rate for electric vehicles would help restore New Zealand's competitive position in attracting multinational corporations with strong ESG commitments, particularly as businesses increasingly factor climate policies into their location decisions.

Smart Charging Infrastructure Support

This submission also recommends including AC 7kWh smart chargers for home installation within the FBT framework and make home chargers FBT exempt. Smart charging technology can:

- Facilitate flexible and optimised charging by responding to grid capacity signals
- Lower electricity demand during peak periods and network congestion times
- Enable EV owners to benefit from lower price periods and off-peak incentives
- Support the development of demand-flexible technology ecosystems[11]

IMPLEMENTATION RECOMMENDATIONS

Immediate Action

- Implement the 15% FBT rate for electric vehicles from the next practicable date
- Maintain clear eligibility criteria based on existing electric vehicle definitions
- Establish monitoring framework to track adoption rates and policy effectiveness
- Include AC 7kWh smart chargers in FBT benefit eligibility (average cost $2K)

Ongoing Review

- Quarterly reporting on electric vehicle market share and commercial adoption
- Annual policy review to assess whether further adjustments are warranted
- Sunset consideration as electric vehicle cost parity approaches 40% of the total New Zealand fleet

Supporting Measures

- Coordinate with infrastructure policy to ensure charging capacity meets increased demand
- Engage with industry stakeholders to maximise policy effectiveness
- Public communication to raise awareness of enhanced benefits

PROJECTED OUTCOMES

Market Impact

Based on economic modelling considering enhanced employer incentives and commercial vehicle purchasing patterns, reducing the FBT rate to 15% rather than 19.4% could provide the additional stimulus needed to drive meaningful EV adoption in the commercial sector.

Environmental Benefits

Accelerated commercial electric vehicle adoption would:

- Support New Zealand's goal to reduce transport emissions by 41% by 2035[12], with EVs providing up to 80-90% reduction in CO2 emissions compared to internal combustion engine vehicles[13]
- Improve urban air quality, particularly in business districts, contributing to social cost savings from reduced vehicle-related air pollution. Transport-related air pollution currently costs New Zealand over $10.5 billion annually in health and social impacts[14]
- Demonstrate New Zealand's leadership in sustainable transport policy while helping meet emissions budgets and reducing reliance on international carbon credit purchases[15]

Economic Benefits

Enhanced electric vehicle adoption would:

- Support the development of New Zealand's clean technology sector, potentially saving the economy between $900 million and $3.5 billion by 2030 through reduced fossil fuel imports[16]
- Create employment in charging infrastructure and related services, contributing to the goal of 10,000 public charge points by 2030 (currently at 8,651)[17]
- Reduce exposure to volatile fossil fuel prices while building resilient transport systems

CONCLUSION

The enhanced reduction in electric vehicle FBT rates from the proposed 19.4% to 15% represents a targeted policy enhancement that would significantly improve the business case for commercial EV adoption. This submission demonstrates that the enhanced policy is economically sound, environmentally necessary, and strategically aligned with New Zealand's long-term interests.

The difference between 19.4% and 15% could prove decisive in creating the market momentum needed to achieve meaningful electric vehicle adoption whilst the transition window remains open. Given New Zealand's climate commitments and the critical role of the commercial sector in driving broader market adoption, we respectfully urge the Committee to recommend implementation of the enhanced 15% FBT rate for electric vehicles.

Thank you for considering our submission.

Yours sincerely,

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