Inland Revenue
Te Tari Taake

Operational Statement 18/01

Commissioner's statement on using a kilometre rate for business running of a motor vehicle

INTRODUCTION

All legislative references are to the Income Tax Act 2007.

This Operational Statement (the Statement) updates and replaces Operation Statement OS 09/01 *Commissioner's statement on use of a kilometre rate for expenditure incurred for business use of a motor vehicle*, issued in May 2009. This Statement explains how the kilometre rates are to be applied and also sets the rates for the current year. Future rates will be set each year as third party data becomes available.

This Statement is made up of two parts. Part One deals with deductions for the business use of a motor vehicle. Part Two deals with the tax treatment of reimbursement payments made by an employer to an employee where the employee uses their private motor vehicle for employment purposes. Both Parts are followed by examples and a flowchart that sets out the process that applies to each.

PART ONE - Deductions for business running of a motor vehicle using a kilometre rate

Where a person intends to claim an expense deduction for a motor vehicle that is used partly for business purposes and partly for other purposes they must calculate the proportion of business use using either a logbook or actual records. Under section DE 2, a person may use one of two methods to calculate the deduction for that proportion of business use, namely:

- A cost method based on actual costs; or
- A kilometre rate method.

Section DE 12(4) requires the Commissioner to set and publish kilometre rates that taxpayers may use to calculate the expenditure or loss on a motor vehicle that represents the proportion of business use of a motor vehicle. This Statement sets out how the kilometre rates are applied.

APPLICATION

The kilometre rates apply from the 2017/2018 income year.

OPERATIONAL PRACTICE

Summary

1. A person must determine the business use of a motor vehicle against the total kilometres travelled by that motor vehicle. A logbook[1], diary, calendar or other suitable method may be used for this purpose. This information will be used to calculate the income tax deduction.

2. A deduction can be made in respect of the business portion of their actual motor vehicle costs. This is known as the cost method. Alternatively, a person may use the section DE 12 kilometre rates set annually by the Commissioner for each vehicle type. This is known as the kilometre rate method.

3. A person wishing to use the kilometre rate method must make an (irrevocable) election to use this method. That election will apply until the vehicle is disposed of.

4. The election must be made on a vehicle by vehicle basis and be made in the year the vehicle is acquired or first used for business purposes. The election to use the kilometre rate method is made by using this method in the person's return of income. If no election is made to use the kilometre rate method the person is deemed to have elected to use the cost method. In either case, the election is irrevocable.

5. An election may also be made for any vehicle used for business that is held at the beginning of the 2017/2018 income year except where that vehicle is disposed of during that income year.

6. The kilometre rates will be set by the Commissioner by reference to industry figures that represent the average cost of operating a motor vehicle.

7. The various rates for selected vehicle types will be made up of two Tier rates.

8. The Tier One rate is a combination of the vehicles fixed and running costs. The Tier One rate applies for the business portion of the first 14,000 kilometres travelled by the motor vehicle in a year. After which the Tier Two rates which includes only the running costs, applies for the business portion of any travel in excess of 14,000kms.

9. The following are the rates per kilometre that will apply for the 2017/2018 income year:

2017/2018 Kilometre Rates		
Vehicle Type	**Tier One Rate**	**Tier Two rate**
Petrol or Diesel	76 cents	26 cents
Petrol Hybrid		18 cents
Electric		9 cents

10. A person wishing to use the kilometre rate method will be required to keep a record of all travel undertaken by the vehicle. This requirement may be met through the use of a logbook in accordance with sections DE 6 to DE 11, or some other recording method such as a diary. Paragraphs 19 to 22 of this Statement

[1] Refer paragraph 19 which explains the use of log books

contain more information on logbooks. Note that although not all travel (non-business as well as business travel) needs to be recorded, a person who uses the kilometre rate method will need to be able to show whether, and when, the vehicle exceeds the 14,000 annual kilometres.

11. The cost method must be used for any vehicle type not included in the above table.

12. The 5,000 kilometre limit to deductions of motor vehicle expenditure using the section DE 12 kilometre rates set out in OS 09/01 no longer applies.

13. There is no depreciation deduction or recovery of depreciation where a person has elected to use the section DE 12 kilometre rate method for a motor vehicle.

14. Close companies may now use the section DE 2 cost method or kilometre rate method as an alternative to paying FBT where a motor vehicle is provided to a shareholder employee, so long as that close company's only non-cash benefit is the availability of a motor vehicle for the private use of the shareholder. The close company must make an irrevocable election to use section DE 2 to calculate the amount of their deduction.

15. The election by a close company to make deductions under section DE 2 instead of applying the FBT rules must be made within the time for filing the company's return of income in which the election is made. Elections are only available for vehicles acquired or first used for business purposes on or after 1 April 2017.

16. Where a close company elects to use subpart DE to calculate the cost of business use of a motor vehicle, any interest deductions are to be included in those calculations. This means that a close company applying subpart DE will need to ensure that any interest deduction under sections DB 7 or 8 does not relate to a motor vehicle.

Detailed Discussion

Recent legislation changes

17. The Taxation (Business Tax, Exchange of Information, and Remedial Matters) Act 2017 introduced a number of amendments that allow a person to use a simplified method of calculating deductions for motor vehicles that are used for both business and other purposes, such as for private purposes. These changes came in to effect from the 2017/2018 income year and are explained in detail in Tax Information Bulletin Vol 29, No 4, May 2017. This can be viewed on Inland Revenue's website here.

18. Without completely restating that explanation, the key features in respect of claiming motor vehicle expenses where a vehicle is used for both business and other purposes are as follows:

- Instead of making a claim for the business use of a motor vehicle based on the actual costs, a taxpayer may elect to have a deduction for the business use portion based on a kilometre rate method.
- In respect of the kilometre rate method, the Commissioner will set rates by reference to industry figures that represent the average cost of using average motor vehicles.
- There is no longer a 5,000km limit restricting the use of these rates.
- The rates will be divided into two Tiers –

  - The first Tier will provide for deductions based on the recovery of both the vehicle's fixed costs and it's per kilometre running costs;
  - The second Tier will provide for the recovery of the vehicle's per kilometre running costs only.
- The Tier One rate is limited to the first 14,000 kilometres (total kilometres in each income year) as the fixed costs of the vehicle ownership would be over deducted with increasing usage if a single rate were used. The Tier Two rates apply for any use above 14,000 kilometres.
- The election to use the kilometre rate method applies on a per vehicle basis and is irrevocable (section DE 2B(3) refers), so a person may not switch back and forth between methods for the same vehicle.
- The election is made by using this method in a tax return for the year in which the vehicle is acquired or first used for business purposes.
- For a vehicle held at 1 April 2017, the election must be made in the return of income for the 2017/2018 income year unless the vehicle is disposed of during that year. Note, there are different rules that apply to close companies wishing to adopt the kilometre rates instead of paying FBT for shareholder employees. This is further explained below.
- If a person uses a vehicle for dual purposes (business and other purposes) but does not make an election to use the kilometre rate method, they are deemed to have made an irrevocable election to use the cost method (section DE 2B(3) refers).
- There is no depreciation deduction or recovery of depreciation for a motor vehicle where a person has elected to use the section DE 12 kilometre rate method for that motor vehicle.
- Where a close company's only non-cash benefit is the availability of a motor vehicle for the private use of a shareholder, that close company may use section DE 2 as an alternative to paying FBT provided that close company also makes an election to apply the kilometre rate method to calculate the amount of their deduction.
- The election by a close company to make deductions using section DE 2 instead of applying the FBT rules must be made within the time for filing the company's relevant return of income.
- Where a close company uses section DE 2 to calculate the cost of business use of a motor vehicle, any interest deductions are to be included in those calculations. This means that there is no separate interest deduction in respect of that vehicle under sections DB 7 or 8.

Use of logbooks

19. Sections DE 6 to DE 11 provide the rules for establishing the proportion of business use of a motor vehicle. These rules provide that a person may keep a logbook for a test period of at least 90 consecutive days.

20. That logbook test period is used to establish the average proportion of travel by the vehicle for business purposes during the logbook term (up to three years). This proportion may be used for deductions using the cost method or where the taxpayer has elected to use the kilometre rate method.

21. The logbook must record:

- The start and the end of the 90 day test period; and
- The vehicle's odometer readings at the start and end of the test period; and
- The distance of each business journey; and
- The date of each business journey; and

- The reason for each business journey; and
- Any other detail that the Commissioner may require.

22. In the absence of a logbook (or actual records), section DE 4(2) limits any deductions to a maximum of 25% as a proportion of business use of a motor vehicle, assuming, of course, that such a percentage can be justified.

Record of total kilometres travelled each income year

23. A person who has elected to use the kilometre rate method must record their odometer reading every balance date for each vehicle covered by an election so that they can determine whether the vehicle has travelled 14,000 kilometres (business and non-business) for the year. This is because the deduction for the kilometre rate method is based on a two Tier approach where the Tier One rate is only available for the first 14,000 total kilometres.

Examples of kilometre rate method to calculate deductions:

Example one – Greater than 14,000 kms travelled – log book maintained:

The taxpayer uses their Holden Commodore 3.6 litre petrol car for both business and private purposes.

The previous log book test period calculates that 60% of the travel is for business purposes.

The car travelled a total of 20,000 kilometres for the 2017/2018 income year.

Deduction:

Tier One 14,000 x $0.76 x 60%	=	6,384.00
Tier Two 6,000 x $0.26 x 60%	=	936.00
Total deduction		$7,320.00

Example two – Greater than 14,000 kms travelled- no log book:

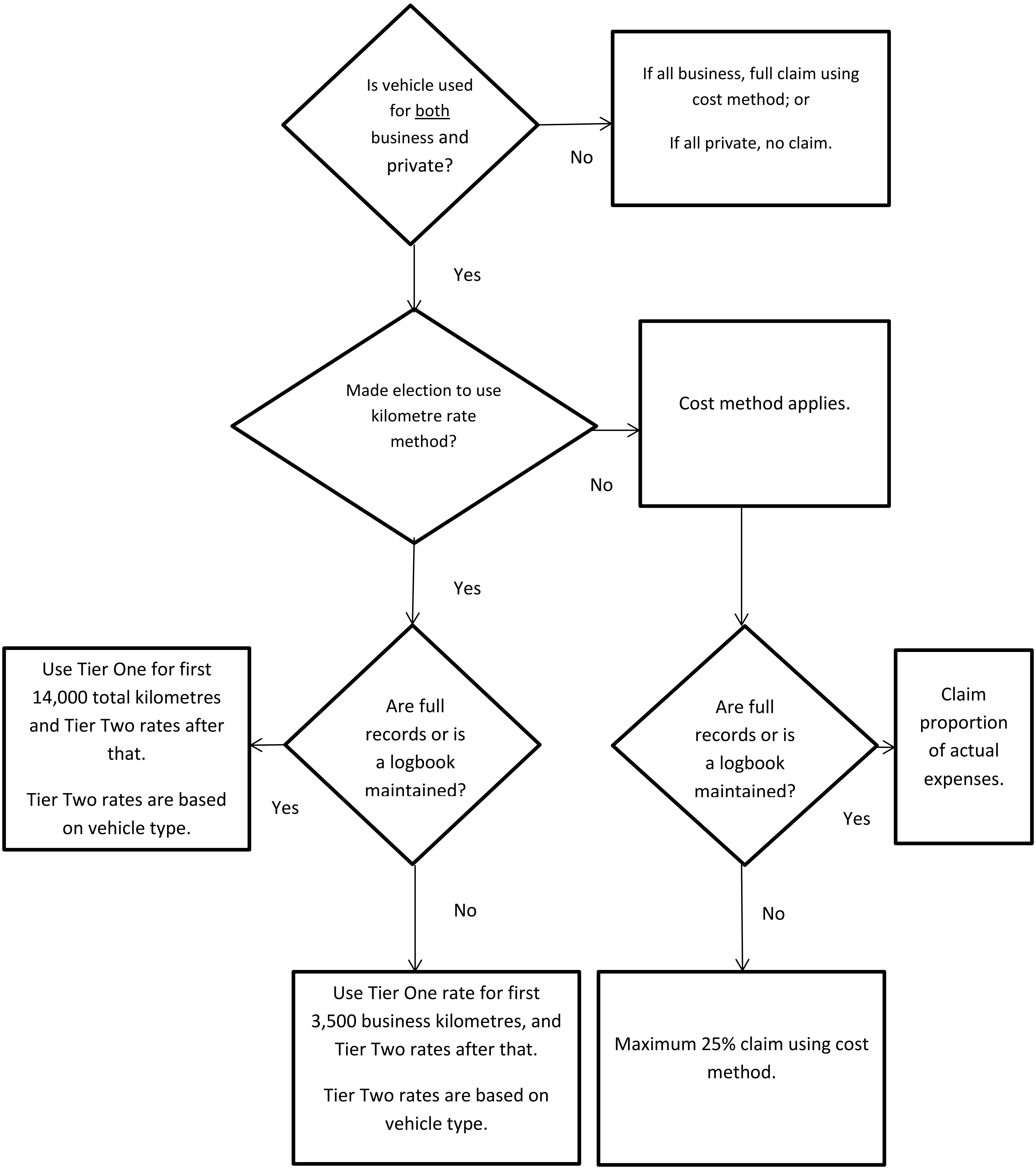
The taxpayer uses their Holden Commodore 3.6 litre petrol car for both business and private purposes.

No log book breakdown or other record of motor vehicle use is maintained. However, it is known that the car travelled a total of 20,000 kilometres for the 2017/2018 income year and at least 25% of this travel was for business purposes.

Deduction:

Tier One 14,000 x $0.76 x 25%	=	2,660.00
Tier Two 6,000 x $0.26 x 25%	=	390.00
Total deduction		$3,050.00

Subpart DE Deductions



PART TWO - Employee reimbursement for business running of an employee's motor vehicle using a kilometre rate

Introduction

24. This Part explains the acceptable method to establish the tax exempt portion of an amount paid to an employee as reimbursement of expenditure incurred by that employee where the employee uses their private motor vehicle in the employer's business.

25. Employers may reimburse their employee based on the actual expenditure incurred by that employee. Alternatively, section CW 17(3) provides that an employer may make a reasonable estimate of expenditure likely to be incurred by an employee or group of employees. It is acceptable to use third party data to assist in making such an estimate.

26. In OS 09/01 the Commissioner accepted that the mileage rate set under that statement could be regarded as being a reasonable estimate of expenditure under section CW 17(3). That general position has not changed except that the method of calculating the kilometre rate method for business deductions has changed and this has necessitated a review of the calculation of using the kilometre rate method for employee reimbursements.

OPERATIONAL PRACTICE

Employee reimbursement

27. Where the employee maintains a logbook, or other evidence that establishes the proportion of employment use for an income year, the calculation of the exempt portion of reimbursement may be based on the kilometre rate set by Inland Revenue. The Tier One rate can be applied for the business portion of the first 14,000 kms (total) travelled by the vehicle in each income year, after which the Tier Two rates will apply. Note that even where the employee records a logbook test period in accordance with the rules in section DE 6 to DE 11, the annual kilometres travelled must still be monitored so that it is known whether the 14,000 figure is reached each year.

28. However, where no logbook or other records are maintained, the use of the Tier One rate to calculate the exemption for employee reimbursement is limited to the first 3,500 kilometres travelled for employment purposes. The Tier Two rates may be used for kilometres travelled for employment purposes above the 3,500km figure.

29. The 3,500 kilometres is based on 25% of the average annual expected (14,000) kilometres travelled for each motor vehicle. 25% is the maximum percentage allowed for business deductions where no logbook is maintained.

30. The changes to the business deductions take effect for the 2018 income year onwards and require a different approach and calculation of those rates. It is accepted that the changes with regard to employee reimbursement will always be subject to a time lag using those figures. As such, for the 2018/2019 income year employers may reimburse employees using the new Tier one rate of 76 cents per kilometre from the date of this Statement. However, the two tiered rates as set out above must be used for the 2019/2020 and subsequent income years.

31. The following are the rates per kilometre that will apply for the 2019/2020 income year:

2017/2018 Kilometre Rates		
Vehicle Type	**Tier One Rate**	**Tier Two rate**
Petrol or Diesel	76 cents	26 cents
Petrol Hybrid		18 cents
Electric		9 cents

The following are examples using kilometre rate method to calculate employee reimbursement for the 2019/2020 income year:

Example three – Greater than 14,000 kms travelled – Logbook maintained:

The employee uses their Holden Commodore 3.6 litre petrol car for both employment and private purposes.

The previous logbook test period calculates that 60% of the travel is for employment purposes.

The car travelled a total of 20,000 kilometres for the 2019/2020 income year.

Deduction:

Tier One 14,000 x $0.76 x 60% = 6,384.00

Tier Two 6,000 x $0.26 x 60% = 936.00

Total amount exempt $7,320.00

Example four – Greater than 14,000 kms travelled – No logbook:

The employee uses their Holden Commodore 3.6 litre petrol car for both business and private purposes.

The journey's related to their employment equated to a total of 16,000kms.

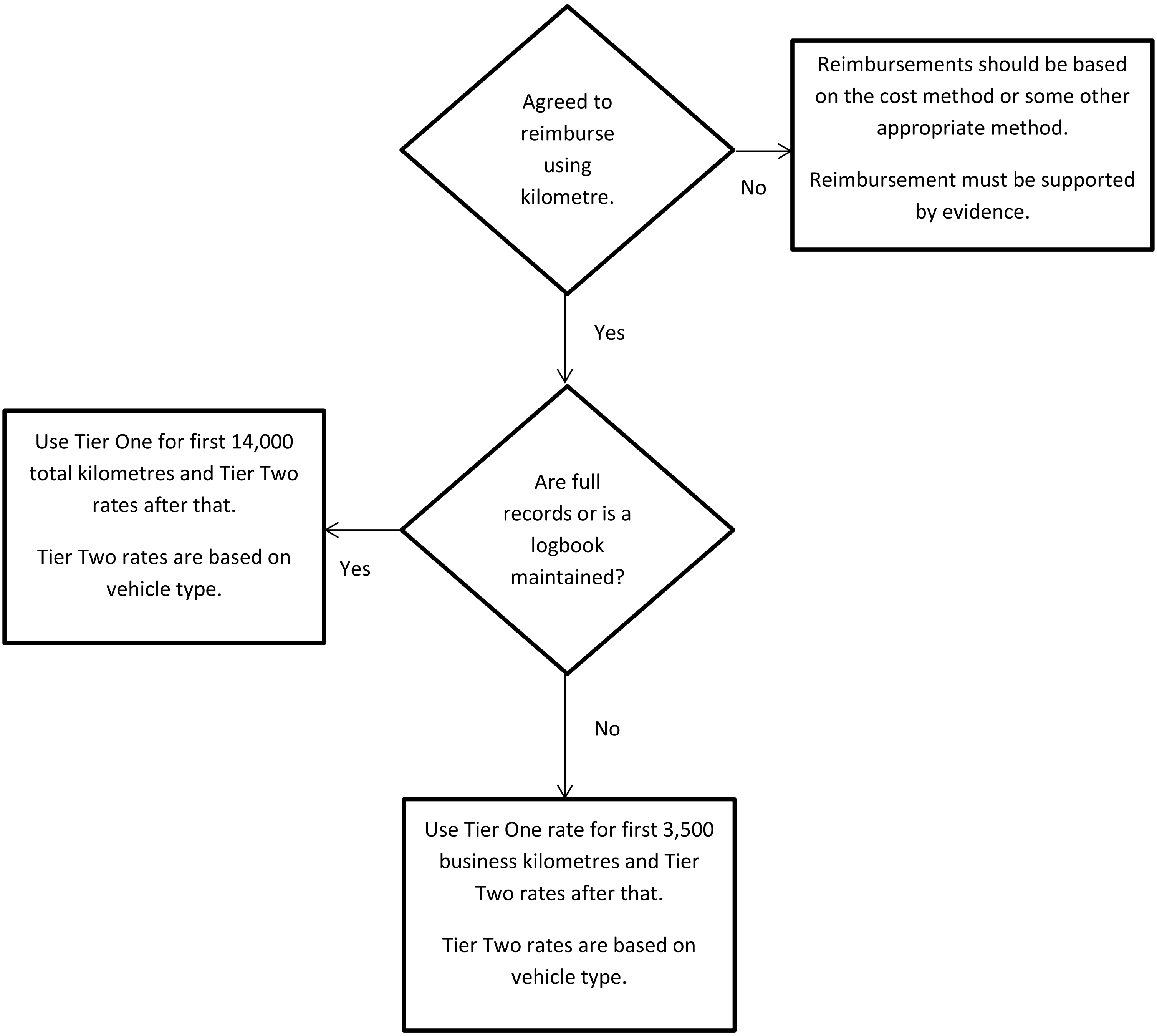
Exempt calculation:

Tier One 3,500 x $0.76 = 2,660.00

Tier Two 12,500 (kms in excess of 3,500) x $0.26 = 3,250.00

Total amount exempt $5,910.00

Employee Reimbursement



This Operational Statement is signed on 4 July 2018.

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