Inland Revenue
Te Tari Taake

Operational Statement OS 19/04a

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

Introduction

Operational statements set out the Commissioner's view of the law in respect of the matter discussed and deal with practical issues arising out of the administration on the Inland Revenue Acts.

This Statement explains how the Commissioner's kilometre rates are to be applied. Future rates will be set each year as the necessary third-party data becomes available. This Statement updates and replaces Operation Statement OS 18/01 *Commissioner's statement on use of a kilometre rate for expenditure incurred for business use of a motor vehicle*, issued in July 2018.

The topic of using the Commissioner's kilometre rates is made up of two parts. Part "a" deals with deductions for the business use of a motor vehicle. Part "b" 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.

All references to "motor vehicles" and "vehicles" are referring to motor cars, vans, and tray-back vehicles such as coupe utilities. The rates do not apply to motor cycles or scooters (petrol or electric).

All legislative references are to the Income Tax Act 2007.

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 non-taxable purposes, they must calculate the proportion of business use using either a logbook or actual records. Under s 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.

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 (explained at [18] below), 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 s 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 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. The kilometre rates are set by the Commissioner by reference to industry figures that represent the average cost of operating a motor vehicle. The rates do not consider regional price variances or regional fuel taxes.

6. The various rates for selected vehicle types are made up of two tiers.

7. The Tier One rate is a combination of the vehicle's 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 an income year.

8. The Tier Two rates provide only the running costs. The Tier Two rate must be used for the business portion of any travel after the vehicle has covered 14,000kms total travel in any income year.

9. The following are the rates per kilometre that apply for the 2018/2019 income year:

2018/2019 Kilometre Rates		
Vehicle Type	Tier One Rate	Tier Two rate
Petrol or Diesel	79 cents	30 cents
Petrol Hybrid		19 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 ss DE 6 to DE 11, or some other recording method such as a diary. Paragraphs 18 to 20 of this Statement 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. There is no depreciation deduction or recovery of depreciation where a person has elected to use the s DE 12 kilometre rate method for a motor vehicle.

13. Close companies may use the s 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 s DE 2 to calculate the amount of their deduction.

14. The election by a close company to make deductions under s 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.

15. 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 ss DB 7 or 8 does not relate to a motor vehicle.

Detailed Discussion

Legislation changes

16. 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 at page 70. This can be viewed on Inland Revenue's website here.

17. Without completely restating that explanation, the key features in respect of claiming motor vehicle expenses where a vehicle is used for both business and non-taxable 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 the 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 (s 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 income 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 (s 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 s DE 12 kilometre rate method for that motor vehicle because the Tier One rate includes a depreciation calculation.

- 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 s 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 s 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 s DE 2 to calculate the cost of business use of a motor vehicle, any interest deductions are included in those calculations. This means that there is no separate interest deduction in respect of that vehicle under ss DB 7 or 8.

Use of logbooks

18. Sections DE 6 to DE 11 provide the rules for establishing the proportion of business use of a motor vehicle. Further detail can be found here[i] (link to logbook page on IR website). These rules provide that a person may keep a logbook for a test period of at least 90 consecutive days.

19. 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.

20. In the absence of a logbook (or actual records), s DE 4(2) limits any deductions to a maximum of 25% as a proportion of business use of a motor vehicle, provided, of course, that such a percentage can be justified. For the Tier-One rate, this equates to the first 3,500 business kilometres (14,000 x 25%).

Record of total kilometres travelled each income year

21. 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.

Goods and Services Tax

22. The Commissioner's kilometre rates are calculated on a GST inclusive basis. However, input tax cannot be claimed on these estimated kilometre rates. GST may only be claimed on an actual basis with the appropriate tax invoices being held at the time of claiming.

The following are examples using the kilometre rate method to calculate deductions for the 2018/2019 income year:

Example one – Greater than 14,000 kms travelled – log book maintained:		
The taxpayer uses their 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 2018/2019 income year.		
Deduction:		
Tier One 14,000 x $0.79 x 60%	=	6,636.00
Tier Two 6,000 x $0.30 x 60%	=	1,080.00
Total deduction		$7,716.00

Example two – Greater than 14,000 kms travelled- no log book:
The taxpayer uses their 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 2018/2019 income year and at least 25% (or 5,000km) of this travel was for business purposes. Deduction: Tier One 3,500 x $0.79 = 2,765.00 Tier Two 1,500 x $0.30 = 450.00 Total deduction $3,215.00

This Operational Statement is signed on 16 August 2019.

Rob Wells
Manager – Technical Standards, OCTC

Subpart DE Deductions