

Operational Statement

OS 19/04b

Commissioner's statement on using a kilometre rate for employee reimbursement of a motor vehicle

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 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.

Employers may reimburse their employee based on the actual expenditure incurred by that employee. Alternatively, s 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.

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.

Information on the use of the Commissioner's kilometre rates is dealt with in two parts. Part "a" explains the deductions for the business use of a motor vehicle. Part "b" (this part) 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 motorcycles or scooters (petrol or electric).

It should be emphasised that the Commissioner is not determining or suggesting what amount an employer must pay to reimburse and employee for the business use of their private vehicle. That is a matter for the employer and employee to agree upon. In this statement the Commissioner is merely confirming that the use of the s DE 12 kilometre rates is an acceptable method of calculating a tax-exempt portion of any reimbursement paid as provided under s CW 17(3).

All legislative references are to the Income Tax Act 2007.

Who does this statement apply to?

As stated above, the kilometre rate method is available to employees. "Employee" is defined in the Income Tax Act 2007 and includes a person who is entitled to receive a

PAYE income payment. While such a payment includes a schedular payment, this statement only applies where the payment is made on behalf of an employer.

Who does the statement not apply to?

- A person who receives the payment in respect of their own business such as a business call out fee.
- A trustee of a trust.
- A partner of a partnership.
- Volunteers (although different rules may exempt some payments. Refer [here](#) (link to Volunteer payments and expenses page on IR website).
- Elected officials.

Application

This statement applies to employee reimbursements made from 16 August 2019.

Summary

1. This statement explains how to calculate the tax-exempt portion of any payment made by an employer to reimburse an employee when the employee uses their private motor vehicle in the employer's business by reference to the use of the Commissioner's kilometre rates.
2. The kilometre rates are set by the Commissioner by reference to industry figures that represent the average cost of operating a motor vehicle. The various rates for selected vehicle types are made up of two tiers. The rates do not consider regional fuel price variances or regional fuel taxes.
3. The Tier One rate is a combination of the vehicle's fixed and running costs. The Tier One rate applies for the employment related portion of the first 14,000 kilometres travelled by the motor vehicle in a year. Beyond that the relevant Tier Two rate, which is only the running costs, applies for the employment related portion of any travel in excess of 14,000 kilometres.
4. The following are the rates per kilometre that apply from 30 May 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

5. An employee wishing to use the kilometre rate to calculate the exempt portion of a reimbursement payment must maintain a logbook or be able to provide other evidence that establishes the employment use of the vehicle for an income year. Note that even where the employee records a logbook test period in accordance with the rules in s DE 6 to DE 11, the annual kilometres travelled must still be recorded so that it is known whether and when the 14,000km total travel for that vehicle is reached each year.
6. In the absence of records as set out in the preceding paragraph, the use of the Tier One rates will be limited to the first 3,500 business kilometres. The Tier Two rates may be used for the kilometres travelled for employment purposes above the 3,500 kilometre threshold.

Operational Practice

7. Where the employee maintains a logbook (explained at [paragraph 11](#) below), 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. Even where the employee records a logbook test period in accordance with the rules in s DE 6 to DE 11, the annual kilometres travelled must still be monitored so that it is known whether/when the 14,000 kilometre threshold is reached each year.
8. However, where no logbook (or other record) is 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 kilometre threshold.
9. 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.
10. The changes to the business deductions take effect for the 2018 income year onwards and require a slightly different approach and calculation of those rates. Changes with regard to employee reimbursement will always be subject to a time lag using those figures. As such, for the 2019/2020 income year employers may reimburse employees using the new rates from the date of this Statement.

Use of logbooks

11. 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](#) (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.
12. 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).

Record of total kilometres travelled each income year

13. An employee being reimbursed using the Commissioner's kilometre rate should record their odometer reading every balance date for each vehicle covered by the reimbursement so that they can determine whether a particular vehicle has travelled 14,000 kilometres (business and non-business) for the year. This is because the reimbursement 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. Alternatively, in the case where no log book is kept, the employer may treat any reimbursement after the first 3,500 kilometres (25%) at the tier two rate. Of course, a test period may establish a different percentage of employment related travel (refer example 3 below).

Use of third-party data

14. It is acceptable to use third party data to assist in making such an estimate although care must be taken to ensure capital/fixed costs are not over represented in the rates applied. This is likely to require some division of the rates to isolate the

running costs from the fixed/capital costs, similar to the two-tier system in the Commissioner's kilometre rates.

Goods and Services Tax

15. The Commissioner's kilometre rates are calculated on a GST inclusive basis. However, input tax cannot be claimed on the estimated allowances paid to reimburse an employee. GST input tax may only be claimed on an actual basis with the appropriate tax invoice being held at the time of claiming.

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

Example One - Single Journey – No Logbook

- Employee used their private vehicle for a single 65km journey for their employment and did **not** maintain a logbook.
- They are entitled to treat any reimbursement as tax-free for the first 3,500 employment related kilometres at the Tier One rate.
- The employer must keep a record of how many employment related kilometres are travelled in the income year (for that vehicle) because any kilometres over 3,500 will only be tax-free calculated at the Tier Two rate.
- The calculation (assuming the 3,500 km figure was not breached) would be:

65km x 0.79 cents (the Tier One rate) = \$51.35 tax free reimbursement

Example Two - Regular Journey – No Logbook

- Employee used their private vehicle, a petrol-powered motor vehicle, for a regular 65km journey for their employment and did **not** maintain a logbook.
- They are entitled to treat any reimbursement as tax-free for the first 3,500 employment related kilometres at the Tier One rate.
- The employer must keep a record of how many employment related kilometres are travelled in the income year (for that vehicle) because any kilometres over 3,500 will only be tax-free calculated at the Tier Two rate.
- The calculation (assuming the 3,500 km figure **was** breached two months earlier) would be:

65km x 0.30 cents (the Tier 2 rate) = \$19.50 tax free reimbursement

Example Three - Regular Journey – Trial Logbook

- Employee used their private vehicle, a petrol hybrid-powered motor vehicle, for a regular 65km journey for their employment and did maintain a logbook (albeit for a three-month trial period).
- Employee's logbook evidences that the vehicle is used 40% for employment related purposes and 60% for private/other use
- They are entitled to treat any reimbursement as tax-free for the first 40% of the vehicles total kilometres up to the first 14,000 at the Tier One rate.
- The employee must notify the employer when the annual kilometres reaches 14,000. This is because any kilometres from that point on will only be tax-free calculated at the Tier Two rate.
- Alternatively, the employer could keep a record of the employment kilometres and use the Tier Two calculation once the claim reached 5,600 kilometres (40% of 14,000). Using this alternative approach will mean that the employee will not need to keep any records beyond the three-month trial logbook period.
- The calculation (assuming the 5,600 km figure was breached two months earlier) would be:
$$65\text{km} \times 0.19 \text{ cents (the Tier Two rate)} = \$12.35 \text{ tax free reimbursement}$$

This Operational Statement is signed on 16 August 2019

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Employee Reimbursement

