Tax Facts – Motor Vehicles

We are often asked about the taxation treatment of motor vehicles. There are a number of reasons for this, the first being that the Inland Revenue Department rules are complex and New Zealander's, as a rule, have an emotional attachment to their cars. Further, in the event of the Inland Revenue Department choosing to make enquiries into a tax return, they will place significant weight on the way this particular expense is treated. We believe, therefore that it is imperative that we all get this right from the start.

The key taxes to consider are Income tax and Goods and Services Tax (GST). However, if you trade through a company then Fringe Benefit Tax (FBT) may apply. Zebra has a fact sheet for FBT on motor vehicles which may be helpful if this applies to you.

The aim is to ensure that you get the correct tax deduction for the cost of running your motor vehicle when it is used to derive taxable income.

What is business mileage?

In order to claim a tax deduction, the business travel must be undertaken by the vehicle wholly for the purpose of deriving taxpayers income.

The Inland Revenue Department has strict rules which exclude the deduction of travel that is deemed to be from home to work.

The travel between two business locations, neither of which is the taxpayers home, is straight forward business travel. The complication arising where the taxpayer works from home. Generally, for business travel to commence from the taxpayers home office the following need to apply:

The vehicle is essential to transport goods or equipment for the performance of work. A good example of this is a musician that needs to transport his instruments, amplifiers etc

Where the taxpayer's home is fixed work place. An example would be a lawn mowing franchisee and is required travel to various different customers' sites during the day.

Where a taxpayer is required to be assessable at home for work duties and is required to respond to emergency calls. An example would be a self employed midwife who needs to assemble equipment before attending to a patient.

Finally, where the taxpayer performs a significant part of their work from home and the travels to their office to continue performing the same duties. An example would be a real estate agent who works from their home office and then needs to attend the firm’s office to meet a customer.

Logbooks

A taxpayer is required to either keep continuous and detailed record of business mileage to support the claim for reimbursement. However as an alternative, a logbook could be kept for a test period of the consecutive months (90 days). The test period should represent an average period of business travel by that vehicle. Check out Zebra's FAQs to see what the log book needs to cover.

Once business travel has been established, we need to consider the method of reimbursement or otherwise.

Reimbursement of business use of personal motor vehicles using standard rates

In summary, this is the most straight forward method. The method is available for self-employed, company shareholder employees and any other staff member. The motor vehicle remains a personal asset of the taxpayer and the business simply reimburses them for the cost of business travel. Each year the Inland Revenue Department issues a flat rate (currently it is 72 cents per km for the 2016 tax year). If you operate in your own name or as a partnership, there is a limit of 5,000 business km per year. The Inland Revenue Department will also accept other widely published, and reputable, rates such as those prepared by the AA. These rates will vary depending on a number of factors such as value of the car, total annual km etc. These rates are only available to AA members.

Reimbursement of business use of personal motor vehicles using actual cost

Where the annual km's travelled for business use is greater than 5,000km the tax payer is required keep detailed records of all costs such as fuel, registration, insurance, repairs, depreciation and interest. The business proportion as determined above is then applied to the total cost to establish the income tax deduction.

Business owning the motor vehicle (not a company)

Instead of the two reimbursement methods above, the business could acquire the motor vehicle and pay for all the running costs. It may also be possible to recover a proportion of the GST element of the purchase price, which includes second hand motor vehicles. The business is then able to claim the business proportion of all costs for income tax purposes and recover a proportion of GST on certain running costs. At Zebra, this is our preferred method of claiming motor vehicle expenses as it keeps your administration time to a minimum.

Trading through a company and the company owns the motor vehicle

Businesses' that trade through a company have the added complication of FBT. The FBT rules are complex and easy to get wrong, especially where the vehicle is of the nature of a private vehicle as opposed to a trade or what the Inland Revenue Department call 'work related vehicles'. A work related vehicle can be a ute, truck, van and in some cases a station wagon where the rear seats have been permanently removed. The business logo or name must be predominately and permanently displayed. In these circumstances, generally there will be no FBT on the vehicle especially if it is stored at home for insurance purposes and any private use is purely incidental. For example, stopping off for fish and chips on the way home from your last job for the day.

If you own a private motor vehicle though a company Zebra strongly recommends that you get advice on the correct income tax, GST and FBT treatment as the penalties can be significant.

How do I purchase the vehicle?

How is the best way to buy to finance the new purchase and should I lease it or buy it? Generally, this is simply a financing decision. Motor Vehicle traders, especially the major brands, occasionally offer very good deals for leased vehicles and these are quite often worth a look at. A lease may also be a good idea if you are frequently updating your vehicle, although you need to be careful if your annual mileage is higher than average. A full maintaining lease also has some benefits as it fixes your motoring cost.

If you have access to cheaper borrowing, such as a draw down on a home loan, and you tend to upgrade your car less frequently then purchasing it yourself could be the better option. Please feel free to contact enquiries@zebratax.nz if you are still unsure.