

Income tax – Motor vehicle expenses

The deductibility of motor vehicle expenses is given special treatment by the IRD reflecting the widespread use of the motor vehicle as a business asset and the ease with which usage can be switched between business and private purposes.

Records needed to be kept to ensure accurate claims are made

Self-employed individuals need to keep complete and accurate details of motor vehicle mileage and running expenses incurred.

Such details should include invoices for:

- The purchase of the vehicle;
- Any permanent extras added to the vehicle;
- Lease agreements where applicable;
- All running costs including details of petrol and maintenance; and
- The types of expenses that are likely to be deductible including fuel, oil, repairs and maintenance (tyres, servicing, parts, panel beating, cleaning, and so on), insurance, warrant of fitness fees, registration fees, road user charges, and parking.

Car parks

The IRD has confirmed that the cost of leasing a parking space for a business vehicle is deductible. According to the IRD, if a car is used extensively for business purposes, a deduction will be allowed for the cost of using a parking space. However, merely using a car as a matter of convenience for travel between home and place of business, is private usage and not deductible.

Deductible expenses

If you use your motor vehicle partly for business purposes and partly for other purposes, only the proportion of the total motor vehicle expenditure (including depreciation) that relates to the business use may be claimed as a deduction.

The business proportion must be determined by either maintaining a record of all business use, or by keeping a logbook of business use for a 3-month test period every 3 years

You may choose between these two options.

If a motor vehicle is not used for private or other non-business use or is not providing a fringe benefit, then no apportionment is required.

Only self-employed individuals (including partners in a partnership) are required to apportion their motor vehicle expenditure.

Log book and recordkeeping

There are two options available to ensure that all motor vehicle expenses are claimed

1. Log book for full year

One option for determining the business use proportion of a motor vehicle is for you to keep a record of all business trips made in the vehicle during the income year. You must maintain a complete and accurate record of the reasons for and the distances of all business trips, and any other details that may be required by the IRD. The business use proportion for the income year is the total distance of all business trips during the year divided by the total distance travelled by the vehicle during the year.

2. Three-month test period

Another option, where you use a vehicle for a combination of uses, is to instead keep a logbook for 90 consecutive days only, generally commencing on the first day of the income year in which you commence to keep the logbook. A record of the total distance travelled in the motor vehicle during the logbook application period must be kept.

The business use during the 3-month test period is treated as representative of business use for the whole of the income year.

The maintaining of a log book does not remove the requirement to keep records verifying the expenditure incurred, but simply apportions the use of the vehicle between business and private use, in order to determine the deductible expenditure.

A logbook must:

- Be kept for a period of not less than 90 consecutive days, commencing on a date elected by you;
- Record complete and accurate details of the reasons for and the distance of business trips, and any other details required by the CIR;
- Record the total distance travelled by the motor vehicle during the period the logbook is maintained; and
- Be kept for a period that represents or is likely to represent the average proportion of travel, for business and non-business purposes, of that motor vehicle for the logbook application period.

The 'logbook application period' is the period for which the business-use proportion established by a logbook will be used for apportioning motor vehicle expenses. The logbook application period cannot exceed 3 years.

Note: If there are no records that can be used to establish actual business use, no deduction will be allowed.

Tax planning

Much of the tax planning effort in relation to motor vehicles involves attempts to minimise the exposure to FBT.

Motor vehicles may be 'acquired' as business assets in a number of different ways including outright purchase, hire purchase, operating lease, and finance lease. Another alternative is for employers to reimburse the running costs of vehicles owned by employees. Each option has different tax consequences which can be quite complex, involving income tax, FBT, and GST considerations.

Example: A company has two shareholders and directors who are a married couple.

The husband is employed by the company. For some years the company leased four motor vehicles for use in its business. The husband then decided to purchase four motor vehicles privately and lease them to the company at market rates. As a shareholder-employee, can he claim depreciation on the leased vehicles?

He must claim a deduction for depreciation on depreciable property owned during an income year. As a shareholder-employee he incurred the depreciation expense as a result of leasing the motor vehicles to the company. The expense is deductible because the depreciable property owned is used in deriving gross income.

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- Before making any decisions regarding motor vehicles purchases.
- We can assist you in understanding the legal or financial implications.
- If you consider that any of the issues contained in this fact sheet may affect you.

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