FACT SHEET

SBA SMALL BUSINESS ACCOUNTING

USE OF MOTOR VEHICLE FOR BUSINESS PURPOSES

Under the Income Tax Act there are strict rules for claiming motor vehicle running costs as a business expense that can be claimed as an Income Tax deduction.
First one needs to ascertain the business structure and ownership of the motor vehicle to determine which method applies to each situation.
The simplest form is where the vehicle is used 100% for business purposes. In this situation all the motor vehicle running costs can be claimed as a business expense. If the business is a Sole Trader or Partnership, depreciation can also be claimed. If the business is a limited company and the company is the registered owner of the vehicle then the company can also claim depreciation as an expense. Remember that if a vehicle is used 100% for business use you will need another vehicle available for private purposes to satisfy the IRD.

If the business is a company and it owns a vehicle which is either a sedan or station wagon and the vehicle is "available for private use" then Fringe Benefit Tax (FBT) could be payable. It should be noted that if such a vehicle is taken home but not used it is still deemed to be "available for private use". However if the business is operated from home, this will not apply unless it is the only vehicle available for the family to use and FBT will apply. Our recommendation is that there be one vehicle for business use and another for family use and that the vehicle be stored at the workplace (if the workplace is not at home) to avoid paying FBT.

Where a vehicle is used for both business and private use then one must calculate the amount of business usage in order to claim a portion of the motor vehicle running costs as a business expense. The recommended way to do this is to use a logbook. The logbook is then both the proof and the means to enable the calculation to be made.

There are three methods that can be used to ascertain the amount of motor vehicle running costs that can be claimed as a business expense. Both methods require a logbook to provide proof.

1 Mileage Rate
2 Actual Expenditure
3 Logbook Method

Mileage Rate Method

With the mileage rate method a logbook must be kept for the entire period the vehicle is used for business purposes and every business journey recorded showing the following details.

1 The date of the journey
2 The reason for the journey
3 The start and end odometer reading for each journey
4 The distance of the journey.

At the end of each financial year the total business journey distance is calculated and (providing the total is less than 5,000km) multiplied by the rate the IRD publishes from time to time. For the 2013 financial year the rate is $0.77 per kilometre for petrol and diesel powered vehicles. The 2014 rate has not been set at the time of writing this factsheet.

If the mileage rate method is used there is no need to keep separate records of vehicle cost expenditure as the rate published includes an estimate of all running costs and depreciation per kilometre.

Where the vehicle used travels more than 5,000km per year for business use then the "Actual Expenditure" method must be used.

The 5,000km limit only applies to the self-employed or a shareholder employee of a company. It does not apply to an employer reimbursing an employee for using their own vehicle for business purposes. Also in the case of an employer reimbursing an employee one has the option of using either the IRD rate or an alternative one published by a reputable independent source such as the NZ Automobile Association.

It should also be noted that the IRD rate is calculated on several factors and an estimated distance of 14,000km of travel by the vehicle each year. If an employee uses their own vehicle which travels more than 14,000km per year then the employer may need to consider reimbursement based on an alternative method.

Actual Expenditure Method

With the actual expenditure method a logbook must be kept for the entire financial year recording the details required in the "Logbook Method". Also required are all receipts on motor vehicle expenditure incurred for the entire year. At the end of the year the percentage of business usage is calculated from the logbook which is then applied to the receipts to determine how much can be claimed as a business expense.

Logbook Method

With the actual expenditure method a logbook must be kept for a representative period of 90 days to ascertain the percentage of business / private use. The logbook should record the following details.

1. The start and end dates of the 90 day test period
2. The vehicle's odometer readings at the start and end of the test period
3. The date of each business journey
4. The reason for the journey
5. The start and end odometer reading for each journey
6. The distance of the journey.

Once the 90 day period is completed a calculation can then be made to determine the amount of motor vehicle running costs that can be claimed as a business expense.
For example, if the vehicle travelled 10,000 kilometres in the 90 day period and 6,000 were attributed to business use, then 60% of all vehicle running expenditure can be claimed as a business expense.
To maximise the amount claimed one must ensure that all receipts such as fuel, repairs & maintenance, registrations, WOF's and insurance are kept to be included in the expense claim.
Once a test period has been completed, the percentage calculated for business purposes can be used for three years unless during the three year term the business use alters by more than 20 percent in which case another 90 day logbook period must commence to ascertain the new percentage rate.

The IRD state "If there are no records that can be used to establish actual business use, no deductions will be allowed".