

Fact sheet: FBT on company vehicles

FBT on Company Cars

When a company makes a vehicle available for an employee (including a shareholder-employee), the company will be subject to fringe benefit tax (FBT). This applies whether or not the vehicle is actually used for private purposes.

Option for close companies

Close companies providing motor vehicles to shareholder-employees can now elect to apply the motor vehicle deduction rules and therefore not have to pay FBT on the benefit provided to shareholder-employees.

The election applies only to new motor vehicle arrangements between close companies and shareholder-employees and will continue to apply until the close company stops using the motor vehicle for business use or until the close company disposes of the motor vehicle.

Exemptions from FBT

Various exemptions from FBT apply. These are summarised below.

Work-related vehicles

It is important to understand that not all “business” vehicles are “work-related vehicles” for FBT purposes. To qualify as a work-related vehicle, all four of the following requirements must be met:

1. The principal design of the vehicle cannot be for carrying passengers. Vehicles that are likely to qualify include utes, light pick-up trucks, vehicles that are permanently without rear seats such as vans, station wagons, hatchbacks, panel vans, and four-wheel drives. This will also apply if the rear seats have been welded down or made unusable because of a permanent fixture such as shelving. Taxis are also included, as are minibuses.
2. The company’s name or logo must be permanently and prominently displayed on the exterior of the vehicle. Magnetic or removable signs are not acceptable.
3. The company must notify affected employees or shareholder-employees in writing that the only private use allowable is travel between home and work, or travel incidental to business travel. It is advisable that this notification be by way of letter, rather than just referring to it in an employment agreement. We can help you prepare the right documentation here.
4. The company must record checks (which must be quarterly) on each vehicle, to ensure that the restriction is being followed. For example, the company might check the logbook and petrol purchases.

If a work-related vehicle meets the four conditions above but is available for private use on certain days, such as Saturdays and Sundays, a partial exemption is available.

If a vehicle is stored at a company shareholder’s home which is also the company’s premises, there must be no private use of the vehicle at all in order to qualify for the above exemption.

If the shareholder’s home is a secondary place of business, there must be a private use restriction to qualify for the exemption. The Company would have to show that the vehicle is not available for private use.

Vehicles with a gross laden weight of more than 3,500 kilograms are not subject to FBT. This tends to cover all larger trucks and buses.

Daily Exemptions

Daily exemptions apply for certain emergency calls and some out of town travel and can reduce the amount of FBT payable for vehicles otherwise available for private use.

How is the FBT calculated?

- FBT is calculated based on either the vehicle's cost price (including GST), or on the vehicle's tax value
- A motor vehicle's tax value is its value for tax depreciation purposes at the beginning of the relevant tax or income year
- Once you have chosen to use either the cost or tax value option you must continue that option until either the vehicle is sold, the vehicle lease ceases, or five years have passed
- If you are using the cost price option, FBT is calculated at 5% per quarter of the GST inclusive cost price of the motor vehicle, multiplied by 63.93%, being the FBT (using the single-rate option). Note the cost of the motor vehicle in relation to which a payment under the clean vehicle discount scheme received by you is net of the amount of the payment.
- If you are using the tax value option, FBT is calculated at 9% per quarter of the GST inclusive depreciated value of the motor vehicle, multiplied by 63.93% being the FBT (using the single-rate option)
- The FBT liability is reduced by the number of the days the vehicle was not available for private use or was exempt from FBT
- There is also a provision for FBT to be paid at 49.25%. If the employee is on a salary of less than \$180,000, this is an option that should be considered. It does involve reconciliation at the end of March each year. We can provide further details on this option.
- FBT is normally payable quarterly but can be filed quarterly, annually or by income year. Filing frequency depends on the type of company you manage, the benefits you provide and how much tax you pay.

Inland Revenue policy on restricted private use by shareholder employees

To claim that a shareholder-employee has restricted private use of a company vehicle, the company must:

- Show details of the restriction
- Confirm that the shareholder-employee is aware of the restriction
- Maintain a logbook recording both business and private mileage on a daily basis or elect to maintain a three-month test period to establish the use of a vehicle by an employee; and
- Produce a logbook on request as evidence that the restriction has been complied with

Deciding on Vehicle Ownership

In relation to a motor vehicle, a company must decide whether it is better that the vehicle in question be owned by the company or the shareholder-employee. We can help you to decide the best course of action here.

Our Recommendation

Inland Revenue are quite strict about the FBT rules. If you fail to establish the right ownership structure, or do not have the right documentation, the FBT cost to your company could be significant. We suggest that we get together to find the best way to legally minimise your FBT exposure.

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Important: Clients should not act solely on the basis of the material contained in this article. Items herein are general comments only and do not constitute nor convey advice per se. Changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. This article is issued as a helpful guide to our clients and for their private information. Therefore it should be regarded as confidential and should not be made available to any person without our prior approval.