



*Operational Statement*

**Commissioner's statement of a mileage rate for expenditure incurred for the business use of a motor vehicle**

This statement may be cited as “Operational Statement 09/01: *Commissioner's statement of a mileage rate for expenditure incurred for the business use of a motor vehicle*”

This Operational Statement also appears in *Tax Information Bulletin* Vol 21, No 3 (May 2009).

**Introduction**

All legislative references are to the Income Tax Act 2007.

Under section DE 3 a self-employed person may use one of three methods to calculate the proportion of business use of a motor vehicle, namely:

- actual records,
- a logbook, or
- a mileage rate.

Section DE 12(3) requires that the Commissioner sets a mileage rate that taxpayers may use to calculate the expenditure or loss on a motor vehicle that represents the proportion of business use of a motor vehicle. This statement sets a mileage rate as required by section DE 12(3).

**Application**

*Self-employed*

The mileage rate applies in respect of:

- self-employed taxpayers,
- up to a maximum of 5,000 kilometres of work related travel each year,
- motor vehicles irrespective of engine size whether they are powered by petrol or diesel.

The mileage rate applies from the 2008-2009 income year.

The mileage rate does not apply in respect of motor cycles.

*Employee reimbursement*

The mileage rate may be used as a reasonable estimate by employers reimbursing employees for:

- business use of an employee's vehicle, and
- shareholder employees.

## **Mileage Rate**

Under section DE 12(3) the mileage rate set by this statement for motor vehicles is 70 cents per kilometre.

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**9 April 2009**

## **Background** (which does not form part of the Operational Statement)

Section DE 12(3) requires that the Commissioner must from time to time set and publish a mileage rate.

The above rate is based on information obtained from a survey of the running costs of petrol and diesel vehicles across a range of engine sizes.

It includes the cost of repairs and maintenance, purchase prices and the cost of fuel (\$1.58 and \$0.98 per litre for 91 octane petrol and diesel respectively) and is based on 14,000 kilometres of travel per year.

It is noted that the price of fuel is only one component that is considered in the setting of the above mileage rate. Calculations show that fluctuations in the price of fuel have only a small influence on the overall mileage rate. Therefore, it will not be necessary to review this mileage rate each time there is a change in the price of fuel. However, Inland Revenue will continue to monitor fuel prices and issue a revised mileage rate where appropriate. Such a review will also be done at least once a year.

Based on this information, the Commissioner has arrived at a weighted average figure that applies in respect of both petrol and diesel motor vehicles.

### **Alternative methods for the self-employed**

Section DE 3 provides three methods for calculating the business use, namely actual records (section DE 5), a logbook (sections DE 6 to DE 11) and a mileage rate (section DE 12). Therefore those in self-employment may also use either of the following two methods, i.e. they may calculate their actual business related expenditure or use the logbook method. If their business related travel is over 5,000 kilometres then they must use one of these methods.

#### *Actual expenditure (Section DE 5)*

Instead of using the above mileage rate a self-employed person may claim deductions for the actual expenditure they incur and an amount of depreciation loss for the business use of their motor vehicle. If you do this then you must make sure that you keep accurate records to determine the proportion of business use. Those records will need to show the reasons for and the distance of journeys by a motor vehicle for business purposes.

#### *Logbook method (Sections DE 6 to DE 11)*

Alternatively, to establish the proportion of business use of a motor vehicle, a person may keep a logbook for a test period of at least 90 consecutive days.

The log book test period is used to establish the average proportion of travel by the vehicle for business purposes during the logbook term. Taxpayers may then

apply that proportion for the logbook term (up to 3 years) to calculate the deduction for the expenditure that they incur and the amount of depreciation loss for the business use of the motor vehicle.

The logbook must record:

- the start and end of the 90 day test period; and
- the vehicle's odometer readings at the start and end of the test period; and
- the distance of each business journey; and
- the date of each business journey; and
- the reason for each business journey; and
- any other detail that the Commissioner may require.

### **Employee reimbursement**

Section CW 17(2) provides an exemption for an amount that an employer pays to an employee as reimbursement of expenditure incurred by the employee in connection with the employee's employment or service. Employers may reimburse the employee based on the actual expenditure incurred by that employee. Alternatively, section CW 17(3) provides that an employer may make a reasonable estimate of the amount of expenditure likely to be incurred by an employee or group of employees.

The Commissioner accepts that employers may regard the mileage rate set out above when reimbursing employees under section CW 17(2) as being a reasonable estimate under section CW 17(3).

### *Shareholder-employees*

Where shareholder-employees meet the employee criteria, they may be reimbursed using the mileage rate as a reasonable estimate.