

COMMERCIAL FINANCE SOLUTIONS (HB) LTD

Solution, a solution is a product, service, or combination of both which is said to solve a business or consumer's problem

Business owners in many cases are paying FBT on their own company vehicle unnecessarily... Are you one of them?

Actual Cost reimbursement is a viable way to eliminate FBT.

IRD's changes to FBT (Fringe Benefit Tax) which took effect on the 1st of April 2006 removed the tax benefit of "Nine to Five" leases, where an employee (most commonly a shareholder-employee) or a trust would own a vehicle and lease it back to their employer for the period of business use only. This arrangement is now treated the same as company-owned vehicles and therefore is liable for FBT.



How much does the FBT cost of your vehicle reduce your bottom line results?

For vehicles which are leased rather than owned by an employee it is possible for a company to reimburse the employee on an Income Tax and FBT free basis for work related use of the vehicle. Reimbursement can only be for actual expenditure incurred and can only cover revenue cost items; capital costs cannot be reimbursed.

In the case of a vehicle leased under an operating lease (as defined for income tax purposes), the monthly lease payment paid by the employee to the lease company is a recurrent and therefore a revenue cost; as such it is possible to reimburse the employee for the following expenses:

- Fuel and oil;
- Repairs and maintenance;
- Insurance and registration;
- Lease payments under a "Tax Operating Lease".

The IRD specifically allows employers to make a reasonable estimate of actual work related expenses and reimburse employees on this basis and it is commonly accepted that a fair and reasonable basis would be to maintain a log book for a period of three months to determine the average percentage of business use. The reimbursing allowance based on this percentage may only reimburse actual revenue costs and there can be no margin added to the reimbursement.



The end result of this approach is that, in relation to leased vehicles, the business use percentage of all expenses becomes tax deductible to the employer (an expense incurred in carrying on its business); the reimbursement is tax free to the employee.

For vehicles owned by employees (vehicles financed under an agreement other than a “Tax Operating Lease” are still deemed to be owned) the reimbursement method described above will not be as tax effective because they are only able to receive a reimbursement of actual operating expenses (Fuel, Repairs & Maintenance and Insurance) incurred during business use but not any capital costs or reduction in value (depreciation) on the vehicle.

Accepted practice is that a GST input tax credit may be claimed for the GST portion of the reimbursement to an employee provided that (i) original invoices for expenses are kept by the employer that meet the requirements of the GST Act relating to the content of a GST Tax Invoice; and (ii) the employer retains details relating to that part of the invoice reimbursed.

The above statements concerning Tax, GST and FBT are general in nature and you should seek independent tax advice on how this treatment may relate to you.

We are able to provide a traditional Operating Lease that is structured as a “Tax Operating Lease” for clients who wish to use the above treatments as a method of eliminating FBT. This is an ideal solution for those who dislike the restrictions and inflexibility of traditional Operating Lease but want to take advantage of the tax benefits a “Tax Operating Lease” provides.



We have been helping New Zealand business grow by providing them with tailored funding solutions to acquire motor vehicles, plant and equipment and other assets

For more information call Nigel Watkin on 06 835 1356 or 021 472 175.

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Agents for Allied Nationwide Finance Ltd