25OIA2440

4 July 2025

[redacted]

Dear [redacted]

Thank you for your request made under the Official Information Act 1982 (OIA), received on 17 June 2025. You requested the following, in respect of the kilometre reimbursement rates for the 2024–2025 income year:

1. *The methodology used to calculate the current kilometre reimbursement rates for each vehicle type (petrol, diesel, hybrid, electric).*
2. *The assumptions and data sources used for:*
   - *Fixed costs (e.g., depreciation, purchase price, insurance, registration)*
   - *Running costs (e.g., fuel, maintenance, Road User Charges)*
3. *Any modelling documents, spreadsheets, working papers, or internal analysis used in setting the rates.*
4. *The rationale for the large difference in Tier 1 rates, especially the reduction for hybrid and electric vehicles.*
5. *Whether there was any public consultation or stakeholder input before the rates were finalised.*
6. *Whether any external consultants or organisations were engaged to provide data or analysis.*

The Commissioner of Inland Revenue is required to set a kilometre rate so that taxpayers who use a motor vehicle for business purposes may claim expenditure for the business portion of vehicle running costs. The kilometre rates are set under section DE 12 of the Income Tax Act 2007 (ITA) as an alternative optional method for claiming vehicle expenditure. Alternatively, taxpayers may decide to claim actual expenditure incurred by them supported by business records of all expenditure.

Employers are permitted under section CW 17(3) of the ITA to make a reasonable estimate of vehicle running expenditure for the purpose of employee reimbursements of the business use of private motor vehicles used to benefit an employer's business. While the Commissioner's vehicle kilometre rate is set for an earlier income year for business taxpayer claim for vehicle expenditure, the Commissioner accepts employers may use these rates set by Inland Revenue in place of making a reasonable estimate provided an employer is satisfied a rate used represents likely expenditure incurred for reimbursement purposes. In an employer's reimbursement situation, near enough is good enough for the purpose of making a reasonable estimate although employers will need to turn their mind to reimbursement amounts should vehicle running costs fluctuate during a current income year to satisfy themselves any reimbursement remains a reasonable estimate of likely costs incurred.

The vehicle kilometre rate is set annually for an income year (1 April to 31 March) on a retrospective basis to reflect more accurately the likely expenditure incurred for a year. The vehicle ownership cost and running cost data used to calculate the Commissioner's vehicle kilometre rates is purchased from a reputable motor vehicle industry organisation and is the intellectual property of that provider. Therefore, Inland Revenue's methodology, including modelling documents, used to calculate the vehicle kilometre rates is withheld under section

9(2)(b)(ii) of the OIA to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information.

However, in the spirit of the OIA, I can provide you some general context relating to the methodology. The methodology utilises industry knowledge of likely motor vehicle values over the first five years of a car's estimated useful life. The kilometre rate calculations include industry assumptions for various vehicle types on:

- The average vehicle purchase price and likely depreciation on vehicles that travel an annual average distance.
- Fixed costs of ownership (relicensing, insurance, warrant of fitness, interest on capital outlay, depreciation) and
- Running costs (fuel consumption for average travel, oil, tyres, repairs, and maintenance).

Average monthly fuel prices for an income year are also taken into consideration. Road User Charges have been included for the hybrid and electric vehicles, that applied from 1 April 2024.

Setting the vehicle kilometre rates is an operational requirement of the Income Tax Act 2007, Inland Revenue does not typically consult with external parties when these rates are set for an income year.

Prior to the 2025 income year, the Commissioner has set the rates as being a single Tier 1 rate for all vehicle types (petrol, diesel, hybrid and electric), intended to recover the first 14,000 kilometres of running a motor vehicle, with 14,000 kilometres per annum being the average use of a motor vehicle in New Zealand. After running the vehicle for 14,000 kilometres all the holding costs, such as insurance, depreciation etc, will have been covered. Therefore, the rates then provided a Tier 2 rate, which covers the running costs (fuel, oil, tyres etc) only.

The Commissioner had concerns that the various types of vehicles had different running cost but used an average for Tier 1 purposes as non-petrol- or diesel-powered motor vehicles were only a minor part of the New Zealand motor vehicle fleet. Over time those different types of motor vehicles became increasingly common, and the spread of actual running costs was getting wider. The effect of that being that an increasing number of motorists were able to claim a deduction that was higher than the costs they would likely incur. On that basis, when the 2024 vehicle kilometre rates were issued the Commissioner advised interested parties such as Chartered Accountants Association Australia and New Zealand and other taxation industry representative groups that he would be reviewing the way the kilometre rate would be set.

As a change of Commissioner practice was proposed for setting kilometre rates for each vehicle type, targeted consultation occurred between December 2024 and March 2025 to canvas the likely impact for business taxpayers, software developers and employer representative groups, that contributed to some delay in publication of the 2025 income year vehicle kilometre rate, which were published in May 2025. The 2025 update to rates included some guidance to clarify employer obligations. Inland Revenue has undertaken to review the Operational Statements 19/04 (a and b) to clarify business taxpayer and employer obligations should they decide to use the Commissioner's vehicle kilometre rate option for claims for the business use portion of vehicle expenditure. The Operational Statements are available on Inland Revenue's Tax Technical website (www.taxtechnical.ird.govt.nz) by searching for *Operational Statements 19/04*.

As required by section 9(1) of the OIA, I have considered whether the grounds for withholding the information requested is outweighed by the public interest. In this instance, I do not consider that to be the case.

Right of review

If you disagree with my decision on your OIA request, you have the right to ask the Ombudsman to investigate and review my decision under section 28(3) of the OIA. You can contact the office of the Ombudsman by email at info@ombudsman.parliament.nz.

Publishing of OIA response

We intend to publish our response to your request on Inland Revenue's website (ird.govt.nz) as this information may be of interest to other members of the public. This letter, with your personal details removed, may be published in its entirety. Publishing responses increases the availability of information to the public and is consistent with the OIA's purpose of enabling more effective participation in the making and administration of laws and policies and promoting the accountability of officials.

Thank you again for your request.

Yours sincerely

Maria Szymanik
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