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### **Can you use your farm vehicle for private travel?**

When a vehicle on the farm is being used for both business and private purposes there are rules on how you deal with this private use.

Generally speaking, if you are a sole trader or a partnership you, as the owner, simply make an adjustment for the private use based on your vehicle log book. (Note: any employees will be treated the same way as a non-shareholder employee (see below)).

If you are operating through a company structure, then actual private use, or even simply being available for private use, will trigger Fringe Benefit Tax (FBT). (Different rules apply for Look through Companies).

The FBT rate is 49.25% and is charged on the fringe benefit value. The annual fringe benefit value is calculated at 20% of the GST inclusive purchase price of the motor vehicle.

When you pay FBT on a motor vehicle, you will be able to claim the full amount of GST, depreciation and all running expenses associated with that vehicle

For FBT purposes a motor vehicle is a vehicle with a gross laden weight of less than 3,500 kgs.

### **Non- shareholder Employee Use**

If a vehicle is available to non- shareholder employees, then FBT will apply. There are limited exemptions for work related vehicles. A work related vehicle must not be a car. A ute, truck or van would qualify as work related vehicles. However sedans, station wagons and four-wheel drives designed for the carriage of passengers in most circumstances won't qualify. Station wagons with the rear seat permanently bolted down or removed may be eligible.

To be exempt from FBT the work related vehicle must have the employer's logo or name prominently and permanently displayed on its exterior.

A work related vehicle is excluded from FBT on days where the employee's only private use (actual or available) is:

- Travel between work and home, which is necessary and a condition of their employment; and
- Any other travel which is incidental to the business use

Sufficient records must be maintained by the employer to substantiate the days claimed as FBT exempt under the work related vehicle exclusion.

It is not just the type of vehicle that provides the exclusion from the FBT regime; it is also how that vehicle is used, or is available to be used, on that particular day that excludes it. This is often misunderstood, with the assumption being made that there is an automatic exclusion from FBT for vehicles with the physical attributes of a work related vehicle.

For the days that the vehicle is available for private use, the company will need to pay FBT on that at 49.25%

### **Shareholder-Employee Use**

If private use of a vehicle is made available to a shareholder employee- then you have the following options:

1. You can calculate the value of the fringe benefit, and then charge that to the shareholder. This reduces the fringe benefit payable to the department to Nil. The amount charged is treated as company income (which you will pay income tax on) and will be offset by deducting all running costs associated with that vehicle.
2. The company pays fringe benefit to the department at 49.25%

If you are assessed for FBT, here are some ways you may be able to reduce that cost

1. You can either use the Cost Method or the Tax value method depending on the cost of the vehicle.
2. There may be savings by using different calculation rates that are available - the 'Alternate Rate' and 'Single Rate' option. This will depend on the cash remuneration and the value of the car.
3. Accurately track non -usage days for motor vehicles which are unavailable for private use due to out of town business trips. To qualify as a non-usage day, the business trip has to be for at least 24 hours but where that criterion is satisfied, the part-days at the start and end of the 24 hour period also qualify.

For any vehicles that are in your asset register, it is a good idea to have a chat with your accountant as to the best way to handle how these should be treated and the impact on FBT.

At CooperAitken we have a calculator that demonstrates the impact on your cash flow if the vehicle is purchased in the company name or privately.

For more information please contact Imran Raza 07 889 7153

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