Inland Revenue
Te Tari Taake

Regulatory Impact Statement: Simplifying the motor vehicle fringe benefit tax rules

Decision sought	*Final Cabinet decisions on policy proposals*
Agency responsible	*Inland Revenue*
Proposing Ministers	*Hon Nicola Willis, Minister of Finance* *Hon Simon Watts, Minister of Revenue*
Date finalised	*19 August 2026*

This proposal seeks to reform the fringe benefit tax (FBT) rules relating to motor vehicles, implementing a category approach to calculate the amount of FBT payable on employer-provided vehicles. This would simplify the current rules and remove compliance costs for businesses.

Summary: Problem definition and options

What is the policy problem?

FBT is an important as a backstop to PAYE by taxing non-cash employee benefits, including private use of employer-provided motor vehicles.

The 2022 FBT regulatory stewardship review found that the rules are complex, costly to comply with, disconnected from the remuneration they are meant to tax, and may be subject to non-compliance. The FBT motor vehicle rules are a particular problem area, especially because the current rules rely on whether a vehicle is **available** for private use, rather than the extent or nature of actual private use. These rules are complex and can lead to over-taxation, inefficient behaviour, and excessive compliance costs.

What is the policy objective?

The objective is to reform the FBT rules for motor vehicles, reducing the complexity and making them more targeted to the benefit being received and the remuneration being substituted. The outcome should be rules that are easier to understand and apply, minimise compliance costs, and increase compliance, which should improve the integrity of the rules.

What policy options have been considered, including any alternatives to regulation?

Scope

The 2022 regulatory stewardship review on FBT identified the motor vehicle rules as one of the main areas of compliance costs and complexity for taxpayers. The scope from Ministers was to focus on changes to the motor vehicle rules (consulted on in the issues paper) with a goal to keep the fiscal position of the changes broadly neutral.

This regulatory impact statement (RIS) proposes legislative changes to redesign the FBT rules relating to motor vehicles. This is consistent with the review's strong recommendation for policy change and stakeholder feedback that the rules required more than just non-regulatory options to make a material impact (more guidance or communication). Alongside legislative change, Inland Revenue would release new interpretative guidance and make operational and systems changes to support the new regime. *Options considered in RIS* This RIS considers options to change how FBT is calculated for motor vehicles, by applying a "category approach" (Option 2) or an "actual use" test (Option 3), in comparison to the status quo (Option 1). Option 2 would apply a simpler category approach when determining private use of the motor vehicle instead of counting days the vehicle is available for private use. Option 2 includes several minor changes to support the overall approach. Option 3 would apply an actual use test when calculating private use, requiring taxpayers to keep detailed logbooks or use GPS trackers on the vehicles. Option 2 is Ministers' and officials' preferred option.
What consultation has been undertaken? The initial motor vehicle proposals (among others) were included in an officials' issues paper "Fringe Benefit Tax – options for change", which was published in April 2025. These proposals aimed to address the problem areas highlighted by Inland Revenue's regulatory stewardship review on FBT in 2022, which involved extensive consultation with stakeholders, including business interest groups and accounting firms. The issues paper focused on how a reimagined FBT regime could be less complex and more targeted to the benefit being received and the remuneration being substituted. Only the motor vehicle proposals from the issues paper are going ahead at this time. Submitters welcomed most of the changes to the rules and indicated that the proposed changes would simplify compliance costs and clarify the rules. Feedback from submitters is reflected in the design of Option 2, for example to ensure the categories capture a range of vehicle arrangements.
Is the preferred option in the Cabinet paper the same as preferred option in the RIS? The preferred option in the Cabinet paper and the RIS are the same.

Summary: Minister's preferred option in the Cabinet paper

Costs (Core information)
This proposal is expected to have a $0.880 million cost over the forecast period. This is made up of a reduction in revenue ($0.580 million) and one-off costs for Inland Revenue ($0.300 million) to implement the new rules. There may also be one-off costs for employers, tax agents and software providers to implement the new rule changes.
Benefits (Core information)
While the additional benefits have not been quantified, the proposal is expected to deliver ongoing benefits for employers, tax agents and Inland Revenue largely through lower compliance costs and rules that are clearer and simpler to apply.
Balance of benefits and costs (Core information)

Does the RIS indicate that the benefits of the Minister's preferred option are likely to outweigh the costs?

The benefits would likely outweigh the costs because Option 2 would result in large compliance cost savings for most parties affected by the regime change. While many of the costs would be upfront one-off costs, the benefits of lower compliance costs and simpler rules are likely to be ongoing.

Implementation

The proposals would be included in the 2026–27 Annual Rates Bill and would apply from 1 April 2027. Inland Revenue will be responsible for producing guidance to support the changes and for the administration of the rules.

Limitations and Constraints on Analysis

The status quo and subsequent analysis rely mainly on stakeholder feedback and anecdotal evidence. This is because there is a lack of holistic data on how businesses apply the FBT rules.

However, there has been extensive consultation on this issue with business representative groups, accounting firms and representative bodies that have insight into FBT's application in the industry. The themes raised within consultation were consistent.

I have read the Regulatory Impact Statement and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the preferred option.

Responsible Manager(s) signature:

Carolyn Elliott

Policy Lead, Inland Revenue

19 August 2026

Quality Assurance Statement	
Reviewing Agency: Inland Revenue	**QA rating: Meets**
Panel Comment: The quality assurance panel from Inland Revenue has reviewed the regulatory impact statement (RIS) titled "Simplifying the motor vehicle fringe benefit rules" and considers that the information contained in the RIS **meets** the quality assurance requirements. The panel considers that despite the noted limited availability of quantitative evidence, the analysis in the RIS is sufficiently robust owing to the clear evidence of consultation with stakeholders, key affected parties and relevant experts.	

Section 1: Diagnosing the policy problem

What is the context behind the policy problem and how is the status quo expected to develop?

1. Employees can receive remuneration from their employer in cash benefits (salary and wages) and non-cash benefits (such as gifts or use of a motor vehicle). Cash benefits mainly fall within the definition of employment income and are taxed at the marginal rate of the employee under the pay-as-you-earn (PAYE) system.

2. FBT is a tax on non-cash benefits provided by an employer to an employee, in connection with their employment. For example, if an employer provides a vehicle for an employee to use for work. In essence, FBT attempts to tax the value of any non-cash benefits received by employees from their employer as if they were cash.

3. While the mechanics of PAYE and FBT differ, the aim is for there to not be a tax preference for one over the other. FBT does this by applying a different rate to the benefit and ensuring the tax outcome and ultimate cost to the employer is the same. The difference in treatment is demonstrated by example one below.

Example one

Stevie works for Ultimate Umbrellas Limited (UUL) who make the award winning Umbrellington, an umbrella designed to withstand Wellington's wind. UUL is considering offering Stevie a choice within his salary package. Either a $1,000 raise or an equivalent in non-cash benefits.

UUL wants to know the tax impact of each option (ignoring the effect of KiwiSaver, ACC and child support).

Cash payment

The $1,000 will be subject to tax at Stevie's marginal tax rate. Assuming Stevie's marginal rate is 33%, he will pay $330 in tax, which will leave him with $670 in the hand. The cost to the company of paying Stevie an extra $1,000 will be $720 (that is, $1,000 less the applicable tax deduction).

Non-cash benefit

In this case, using the 49.25% rate, which is equivalent to Stevie's 33% marginal tax rate, the non-cash equivalent will be to give Stevie non-cash benefits worth $670. In that case the company will pay FBT of $330.

The cost of paying Stevie $670 worth of non-cash benefits is $720 (being the cost of the benefit $670, the FBT payable $330 less the income tax deduction of $280).

Objective of FBT rules

4. FBT was introduced in 1985 as a backstop to the PAYE system to ensure that non-cash benefits provided to employees are taxed the same as cash benefits. Almost all benefits provided from an employer to an employee are captured by New Zealand's current FBT regime. In the year ended 30 June 2025, Inland Revenue collected over $51 billion of tax through PAYE and less than $1 billion of tax through FBT.[1]

5. Prior to the introduction of FBT, it was common for employees to be provided with non-cash benefits in lieu of cash remuneration, for example, cars or low-interest loans. At the time, those benefits were tax free to the employee and could make up a significant proportion of the overall remuneration received from their employer.

6. Once the tax incentive of remunerating employees in non-cash benefits was removed, employers began to reduce these. This is because of the increased compliance costs associated with providing them, making cash remuneration or total remuneration packages a much easier form of remunerating staff. A good example of the effect are low interest rates for employees of banks. These used to be a standard benefit but gradually over time these have been reduced and, in most cases, eliminated and replaced by cash remuneration.

7. Despite the relatively low level of tax collected, FBT remains an important tax to ensure that all remuneration provided to employees is appropriately taxed and that the types of remuneration substitutions seen before FBT was introduced are not repeated.

Regulatory stewardship review on FBT

8. The FBT regulatory stewardship review (the review) was undertaken in 2022,[2] as part of Inland Revenue's regulatory stewardship role. FBT was chosen because it had not been fully reviewed since the reforms in 2006,[3] and because stakeholders have increasingly raised problems with its design and operation.

9. The review undertook significant consultation both with internal and external stakeholders to gauge the issues and pain points of the regime. The review also explored whether FBT is currently fit for the future (for example, working from home trends). A final report was released and set out high-level recommendations for next steps. Overall, the review recommended a policy project be undertaken and the summarised findings are covered in **What is the policy problem or opportunity** below.

What is the policy problem or opportunity?

10. FBT is an important part of New Zealand's tax system. While it does not raise significant amounts of revenue compared to other taxes, it acts as a backstop to PAYE. It prevents employers paying employees in-kind, rather than through cash by taxing the value of any non-cash benefits as if they were cash. One of the most common benefits captured by FBT is the private use of motor vehicles and this is commonly raised as an issue.

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[1] https://www.ird.govt.nz/-/media/project/ir/home/documents/about-us/publications/annual-and-corporate-reports/annual-reports/annual-report-2024.pdf?modified=20241016021401&modified=20241016021401 at p 154.

[2] The final report released can be found at: Fringe benefit tax: regulatory stewardship review

[3] These reforms lowered the threshold for businesses to file FBT returns on minor benefits that are a part of normal business activities.

11. The FBT review in 2022 highlighted that while FBT continues to perform its primary objective, it is not clear the tax functions well. The review found:

- The FBT rules are complex, and the compliance costs are out of proportion to the tax at stake.
- Many interview participants felt that any intuitive connection with remuneration has been lost.
- There are concerns that FBT is not complied with by all businesses nor enforced by Inland Revenue. This was seen as a risk from both fairness and regulatory perspectives.

12. FBT on motor vehicles was identified by the review as complex and the most common area in which misconceptions arise (for example, when applying the work-related vehicle exemption). A good example of the complexity referred to by stakeholders was that to interpret the motor vehicle rules, you must refer to the two interpretation statements released by the Tax Counsel Office (totalling over 100 pages). This leads to the suggestion that the underlying law is complex and in need of review.[4]

13. The policy opportunity shaped by this feedback is to reduce the compliance costs around FBT, reconnect FBT with the remuneration aspect while ensuring the robustness and purpose of FBT as a backstop to PAYE remains. Addressing these concerns should have a flow-on effect to voluntary compliance as the rules better align with the remuneration aspect of providing cash over non-cash benefits.

14. Currently, there is a lack of data collected through FBT returns because the returns do not require details of benefits provided. The system also relies on voluntary compliance, making it difficult to accurately assess the extent of non-compliance. This means we have relied on input from internal and external stakeholders through surveys and other detailed exercises to inform our view of the issues with the current FBT regime.

15. However, we consider the anecdotal evidence to be robust and reliable. The themes of issues raised by stakeholders were consistent throughout consultation.

Motor vehicles

16. The total pool of vehicles that could be subject to FBT (including those not currently returning FBT) is unclear. In 2024 Ministry of Transport statistics indicated there were 4.7 million vehicles in New Zealand. In a 2012 study of the total fleet, around 15% were estimated to be owned by companies, equating to around 705,000 vehicles. However, a significant number of those vehicles will not be within scope of FBT because they are not available for private use (such as pool cars) or are not designed principally to carry passengers.

17. Information from the 2023 Census indicated that 11.2% of people travelled to work using a company vehicle. While not all these vehicles will be subject to FBT (such as some work-related vehicles), this is potentially a good lower indicator of the vehicles that might be subject to FBT. Conversely, that number could be understated because FBT is

[4] IS 17/07: Fringe benefit tax – motor vehicles and IS 25/02: Travel by motor vehicle between home and work

measured on “availability for use”, which could include more vehicles than those used for home to work travel.

18. Given these numbers, the potential number of vehicles that could be subject to FBT is between 78,000 and 705,000 vehicles. Again, these numbers will be overstated because they do not look at various exemptions available but, as a range, these numbers potentially indicate the size of the problem.

Overall problem to be solved

19. In summary, the problem that needs to be solved is twofold:

    - reconnecting the application of FBT to the remuneration impact of providing non-cash benefits to employees, and
    - reducing the excessive compliance costs associated with FBT by simplifying the rules and relaxing the current precision required in calculating FBT.

20. Solving these should lead to greater compliance and integrity of the FBT system.

FBT rules in scope

21. This RIS focuses on the motor vehicle rules, one of the FBT problem areas identified in review and an area stakeholders point to as a source of high compliance costs.

Motor vehicles

22. FBT applies when an employer provides a motor vehicle to an employee and the vehicle is made **available** for private use. These benefits are the largest category of fringe benefits, in terms of dollar value. However, motor vehicles have been identified as the most common area where misconceptions arise and complex rules apply.

23. Since FBT is based on the vehicle’s availability for use, the amount of tax imposed does not differ even if there are limitations on using the vehicle for private use. For example, a vehicle strictly limited to travel from home to work generally incurs an FBT cost identical to a “perk” vehicle, which has no restrictions on private use.

24. Taxing solely based on availability for use can be seen as overtaxing the remuneration aspect of the vehicle. It can also result in some inefficient outcomes. For example, when an employee requires a vehicle for the day, they may be required to travel to a depot first to pick up a vehicle before travelling to a job, whereas it would be more efficient for the employee to take the vehicle home the previous evening to travel directly to the job site the next day.

25. In addition, there are compliance costs associated with paying what is seen as the correct, or fair, amount of FBT. This relies on employers keeping track of the days when vehicles are unavailable or exempt (in the case of work-related vehicles).

26. Having a regime that is seen to be over-taxing a benefit provided or that requires taxpayers to incur significant compliance costs to get to the “correct” or “fair” amount of tax creates issues for the tax system, including increased non-compliance and tax driven behaviours.

What objectives are sought in relation to the policy problem?

27. The objective is to reform the FBT rules relating to motor vehicles, reducing the complexity and making them more targeted to the benefit being received and the remuneration being substituted. The outcome should be rules that are easier to understand and apply, minimise compliance costs, and increase compliance, which should improve the integrity of the rules.

What consultation has been undertaken?

28. As signalled previously, a regulatory stewardship review on FBT was completed in August 2022. This review was primarily diagnostic, aiming to assess FBT's current fitness for purpose. However, a portion of the review considered FBT's fitness for purpose over the next five to ten years. In addition, the review made recommendations to address deficiencies identified. The review involved a programme of loosely structured, internal and external participant-led interviews.

29. The questions asked as part of the regulatory stewardship review covered the policy and design of FBT, the compliance experience, and the administration of FBT, particularly the role played by Inland Revenue in education, communication and enforcement of FBT. Participants included 17 external participants (industry bodies, software providers and accounting firms), and internal participants from 14 groups within Inland Revenue.

30. Once the problem definition and policy project had been approved, Inland Revenue set up a group of internal and external FBT experts to develop and test the proposals.[5] This group informed the development and refining of the proposals in the lead up to the issues paper.

31. An officials' issues paper "Fringe benefit tax – options for change" was published in April 2025.[6] This paper aimed to address the issues identified by the review to reimagine how the FBT regime could work. The principles and proposals focused on how FBT could be less complex and more targeted to the benefit being received and the remuneration being substituted. The two main policy areas were the motor vehicle and unclassified benefit rules. Submissions were open to the public for five weeks and 39 submissions were received from industry bodies, accounting firms, software developers and employers.

32. Submitters welcomed most of the proposed changes and said they would simplify compliance and clarify the rules. For motor vehicles, officials revised the number of categories and their descriptions after considering written submissions. Officials then undertook targeted consultation with submitters who had raised concerns to test whether the revised categories were clear.

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[5] This group comprised around 16 members from stakeholder groups, software developers, accounting firms, and included representatives from non-policy areas within Inland Revenue such as the Tax Counsel Office, systems design and operational teams.

[6] https://www.taxpolicy.ird.govt.nz/consultation/2025/fbt-options-for-change

Section 2: Assessing options to address the policy problem

What criteria will be used to compare options to the status quo?

33. The available options for reforms will be assessed against the following criteria:

Criteria	Explanation
Integrity	Any changes should maintain FBT's ability to protect the integrity of the PAYE system, to prevent benefits being provided in kind in substitution for cash.
Compliance costs	Compliance costs to the taxpayer should be minimised as far as possible.
Clarity and certainty	The proposal should increase the clarity of the law to improve certainty for taxpayers.
Economic efficiency impacts	This refers to the impact of the potential measures on economic efficiency and growth, including any potential impact on work incentives.
Stakeholder support	Changes should be broadly supported by stakeholders.

What scope will options be considered within?

34. The options considered focused on motor vehicles (consulted on in the issues paper) with a goal to keep the fiscal position of the changes broadly neutral. The reduction in compliance costs for taxpayers has not been quantified (in time or monetary terms) or factored into the fiscal cost of these proposals.

35. This RIS proposes legislative changes to redesign the FBT rules relating to motor vehicles. This is consistent with the review's strong recommendation for policy change and stakeholder feedback that the rules required more than just additional guidance. Alongside legislative change, Inland Revenue would release new interpretative guidance and make operational and systems changes to support the new regime.

What options are being considered?

Option 1 – Status quo

36. Option 1 retains the current FBT rules applying to motor vehicles, which consist of three components:

- Calculating the days the vehicle is made available to an employee for private use.
- Determining whether an exemption applies (for example, work-related vehicle or on-call exemption).
- Applying the valuation method (to the type of vehicle) to determine the value of the benefit.

37. Under current rules, employers are required to keep logbooks recording the days a vehicle is used or available for private use (even if they have not actually used it). When a motor vehicle is made available for private use on a particular day, FBT will apply for that day. This is because the current rules attempt to get as close as possible to the actual

availability of a motor vehicle to an employee for private use. This results in complexity and increased compliance costs to get to that precise "correct" amount.

38. These rules include various complex options for maintaining logbooks, undertaking test periods, and defining when a "day" starts and ends.

39. Generally, the taxable value of a motor vehicle benefit is calculated using the following formula each quarter:

Days x Schedule 5 amount ÷ 90

Days is the number of days in the quarter on which the vehicle is made available for private use, reduced by the number of days on which the vehicle was a work-related vehicle, or 90, whichever is less.

The **Schedule 5 amount** is generally 5% of the GST inclusive cost price or 9% of the tax book value.

40. Once the taxable value is determined, this is multiplied by the relevant rate of FBT applied by the employer to calculate the FBT payable.

41. There are also exemptions based on certain types of vehicles, the most common are:

- **Work-related vehicle exemption:** FBT will not apply if a vehicle meets the definition specified in the Act.[7] However, the exemption will cease to apply on any day the vehicle is available for private use that is outside the permitted private use.
- **On-call exemption:** FBT will not apply for the whole day if an employee attends a "call-out". However, an employee on standby for a call-out (but does not attend) will not qualify for the exemption.

Evaluation against criteria

Integrity

42. Currently, FBT attempts to get as close as possible to the actual availability of a motor vehicle to an employee for private use. The intention of this is to accurately reflect the remuneration aspects of the vehicle but this is complicated and can lead to over-taxation.

43. This complexity can also lead to misconceptions about the way the current motor vehicle rules work. A common example is the work-related vehicle exemption. Many consider that once a vehicle meets this definition there is no FBT payable on the vehicle, which is not correct because that test needs to be assessed each day.

44. The consequence of this is that people either knowingly, or unknowingly, get their tax position wrong. This undermines the integrity of the system when compliant taxpayers see non-compliant taxpayers not being penalised for non-compliance.

[7] A full explanation of this exemption can be found in IS 17/07: [FRINGE BENEFIT TAX – MOTOR VEHICLES]

Compliance

45. Currently, employers need to count days when a vehicle is available for private use. This results in increased compliance costs in getting to the precise "correct" amount. This is especially an issue when a vehicle is used infrequently.

46. Additional compliance costs are associated with exemptions, especially knowing when each exemption will and will not apply. For example, the on-call exemption will only apply to a vehicle if the vehicle is used for an emergency call-out during certain times. Employers must track not only when the vehicle is with the employee, but also whether it was used during that period or whether it remained with the employee.

Clarity and certainty

47. The regulatory stewardship review identified that motor vehicles were the most common area of FBT in which misconceptions arise. The length of the two interpretation statements (totalling over 100 pages) released by Inland Revenue on motor vehicles in combination with the FBT guide, suggests that the current law is complex, and in need of review and simplification.

Efficiency

48. The current FBT regime results in inefficient outcomes because the assessment of liability is based on the "availability" for private use of a motor vehicle with no concession made for limitations imposed by the employer on the scope of that private use. For example, when an employee needs a vehicle for a job the next day, there are two options with different FBT outcomes:

    - take the vehicle home after work to lessen travel time in the morning (FBT would apply when the vehicle is stored at the employee's house overnight), or
    - require the employee to travel and pick up the vehicle from the depot before heading to the job (no FBT).

49. In reality, the first situation would be more efficient for the business, but this choice attracts FBT. This is an example of when tax could be influencing business decisions.

50. There are also perceived inequities in some circumstances. For example, if an employee leaves an employer-provided vehicle at the airport for a week while on holiday, FBT would be calculated based on the entire week. This is because the vehicle has been made available for private use for the duration of this time even though it has not moved.

Stakeholder support

51. Submissions received in response to the officials' issues paper overwhelmingly indicated that the current regime relating to motor vehicles requires change.

Option 2 – Category approach

52. Option 2 would reform the motor vehicle rules by calculating a motor vehicle's taxable value based on **how** the vehicle is used for private purposes (approximating the private use and removing day counts), rather than **what type** of vehicle it is or **how many days** it is made available for. This applies a "close enough is good enough" approach to tax the value of the vehicle to the employee.

53. This option would involve:

- Categories of vehicles based on their limitations on private use.
- Most exemptions removed, but introduction of an emergency vehicle exemption.
- "Hygiene" changes to update current minor parts of the motor vehicle rules.
- Updating the valuation method.

Categories

54. Under this option, employers can select a category according to the permitted use of the vehicle, removing the need to undertake day counts or keep logbooks. The category selected generates the relevant category or inclusion rate, which is the percentage of a vehicle's value that is subject to FBT. This simplifies the calculation to:

    Category rate x Schedule 5 amount.

    This would then be multiplied by the relevant rate of FBT applied by the employer to calculate the FBT payable.

55. The categories are set out in the table below.

Table 1: Categories of vehicle use for FBT purposes

	Category	Limitations on use	Inclusion rate
DEFAULT CATEGORY	1 – full private use	**Vehicle <u>mainly</u> for private use** (i.e., perk vehicles). The provision of the vehicle is generally reflected in the employee's remuneration package. For determining whether a vehicle is mainly for private use, the fact that other employees have access to the vehicle or not during business hours is ignored. Vehicle does not have to be branded.	100%
BUSINESS TOOL VEHICLES	2 – partial private use	**Vehicle <u>mainly</u> for business use. Private use is permitted** during rostered days off, public holidays and/or statutory leave days and commuting to and from work. Vehicle must be branded.	35%
	3 – limited private use farm vehicles	**Vehicle mainly for business use and used mainly on farmland in a farming business. Private use is permitted when not working.** Vehicle must be owned or leased by an employer carrying on a farming business and used by a shareholder-employee or if the employer is a trust, used by the beneficiary of the trust. Vehicle does not have to be branded.	35%
	4 – minor private use	**Vehicle for business use. The only private use permitted is commuting** to and from work by the same employee (to the **same worksite**). The vehicle can be used for business use by others at work. Vehicle must be branded.	20%
	5 – no private use	**Vehicle for business use. The only private use permitted is commuting** to and from work, when "work" requires travel across **multiple worksites.** The vehicle can be used for business use by others at work. Vehicle must be branded.	0%
	6 – no private use pool car	**Vehicles <u>exclusively</u> for business use. No private use** (other than incidental use). Vehicle does not need to be sign written (i.e., pool vehicles). These vehicles are generally not allocated to a single employee.	0%

56. Further guidance to clarify use restrictions is set out in the following table:

	Cat 1	Cat 2	Cat 3	Cat 4	Cat 5	Cat 6
Private use allowed on non-workdays	✓	✓	✓	✗	✗	✗
Mainly for business use	✗	✓	✓	✓	✓	✓
Regular commuting permitted	✓	✓	✓	✓	✓	✗
Branding required*	✗	✓	✗	✓	✓	✗
Incidental use permitted	✓ All categories					

*Unless the business obtains a branding exemption.

57. These categories would largely be "set and forget" and remove the need for taxpayers to maintain logbooks,[8] count days or consider whether exemptions apply.

58. This option attempts to take a different approach to assessing the benefit to the employee and works on a "close enough is good enough" approach. This approach recognises the inherent difficulties in determining the value of the benefit of a motor vehicle by getting near enough to an approximation of the benefit rather than seeking to tax the exact benefit. Employers would be able to know the value of motor vehicle benefits at the start of each FBT period, with adjustments only required for purchases, disposals and material changes in use during the period.

Branding requirements

59. Branding is an important and necessary integrity measure for employer-provided motor vehicles and is currently required for work-related vehicles. It is also an area where non-compliance arises.[9] Employees are generally less likely to use a branded vehicle for private use because doing so could bring the employer into disrepute or make non-compliance with FBT requirements more visible.

60. For these reasons, branding would be required for some categories. However, for some categories branding might not always be appropriate, such as for pool cars and certain farm vehicles. When branding might not be suitable, the employer could apply to the Commissioner to exempt particular vehicles from the requirement to permanently affix the employer's signage to the vehicle in some cases.

[8] This option would be still available to elect, using the current section CX 18.
[9] This rule requires prominent permanent branding affixed to vehicles, but taxpayers often use temporary small or magnetic signage on vehicles.

Choosing a category and incidental use

61. These categories consider commuting as private use because of the private benefit received. This means commuting would be ignored when assessing whether the vehicle is used “mainly for business use”.

62. Categories 3 and 4 are similar, with the distinctions being whether the employee is usually travelling to the same workplace (for example, a fixed office) (category 3) or if they are regularly going to multiple workplaces (category 4). The logic for the difference is that if an employee has a fixed place of work, the home-to-work travel is of a private nature, whereas a more itinerant employee (like a builder or a plumber) is travelling “on work” when they leave for their first job location.

63. The definition of “multiple worksites” includes travel within the same business premises required for delivery of the services to the employer, examples include:

- A farm worker takes a vehicle to work on a farm and uses it to travel around the farm to deliver services all day.
- A forestry worker drives from home to the forest and uses the vehicle around the forestry block all day to provide services to the employer.

64. This option would also introduce a concept of “incidental use”, which is use that would not affect the overall classification of the vehicle and assessment of FBT. This use would not attract FBT or need to be accounted for by employers if the use of the vehicle is:

- minor, and secondary to travel between home and work; or
- unusual, of short duration, for a distinct purpose, and not a substitution for remuneration.

65. Examples of incidental use include:

- When an employee is moving house and asks the employer if they can use the employer’s van to move over the weekend.
- When an employee’s car breaks down and they have no other way to pick up their children from school, and their employer lets them use one of the company’s pool vehicles for a week until their car is fixed.

66. As well as irregular incidental use, incidental use would include regular incidental stops made on the way to and from work. For example, school drop-offs on the way to work.

Exemption for certain vehicles

67. This option would retain the exclusion for vehicles over a certain weight (increased to 6,000kgs), which would remove heavy-duty vehicles from the FBT regime (although again it would be difficult to see how these vehicles could be used for private purposes other than some incidental use).

68. While the emergency call exemption would be removed, a new emergency vehicle exemption from FBT would be introduced. An emergency vehicle would be defined as a vehicle mainly used to provide emergency services and:

- operated by:

  - an ambulance service (including air ambulance services):
  - the New Zealand Police:
  - Fire and Emergency New Zealand:
  - the New Zealand Defence Force:
  - a local authority that is required by section 64 of the Civil Defence Emergency Management Act 2002 to provide civil defence emergency management:
  - a volunteer organisation that has a service level agreement with the New Zealand government for the provision of emergency services; that is used for the provision of emergency services to the New Zealand public; and
- either a branded vehicle or fitted with flashing lights, or both, unless the nature of the emergency services being carried out requires the vehicle not to display branding or flashing lights.

Evaluation against criteria

Integrity

69. The "close enough is good enough" approach could lead to over- and under-taxation but overall would result in rules that are easier to understand and comply with at significantly lower compliance costs. This option would clarify the application of FBT to motor vehicles and should increase compliance with the rules, which improves the integrity of the tax system overall. This option should also help to remove the misconception that certain vehicles are exempt from FBT.

Compliance costs

70. This option would simplify the rules and eliminate the need to count days when a vehicle is available for private use. This should result in a significant compliance cost savings.

71. One submitter on the 2025 issues paper suggested that a category approach could reduce their compliance time by 750 hours per year, when factoring in the time required to request, complete, and follow up vehicle logbooks.

Clarity and certainty

72. The category approach has general rules that approximate the amount of the benefit but are easy and intuitive to understand and comply with. Employers would know the value of motor vehicle benefits at the start of each FBT period, with adjustments only required for purchases, disposals and material changes of use. This would simplify and clarify existing rules.

Efficiency

73. Removing exemptions should remove the existing distortion in the rules and remove FBT from the decision of what type of vehicle an employer buys as a work vehicle. For example, the FBT treatment would not vary depending on the type of vehicle used.

Stakeholder support

74. Submissions received in response to the officials' issues paper indicated strong support for this option. The majority of submissions supported a category approach in some form. Any negative feedback largely related to the boundaries of the categories or the amount of FBT that should be applicable to certain types of use. Officials have engaged with these submitters to better understand their concerns and, where possible, ensure that the categories are clear in what type of use they apply to.

Option 3 – Actual use

75. In this option, FBT would be applied on the "actual" use of the vehicle so that there is only a charge when the vehicle is being used for private use. This would require the employer/employee to keep detailed and accurate logbooks or install GPS equipment and monitoring on each vehicle.

76. One of the difficulties of this option is that there is an inherent problem with obtaining accurate use data (even if logbooks or GPS data are used) because of the uncertainty of determining what is or is not private use.

77. This option would also have high compliance costs for both employers and employees because the employee would need to complete a logbook entry for each non-business use of the vehicle. This relies on the employee completing the logbook knowing the rules for what is and is not considered private use and would need to be transferred to the person completing the FBT return at the end of each quarter.

78. While GPS can assist in determining some private use, such as the vehicle being parked at a marina for an extended period, most private use would require judgement to be applied at the end of each quarter.

Evaluation against criteria

Integrity

79. One of the key principles of the FBT rules is that it is not just the use of a vehicle that is a benefit, but the availability for private use. A perk car is a benefit to the employee even if they rarely drive it because it may mean that the employee does not need to have a vehicle of their own. In many cases this would be a significant benefit and one that is clearly part of the person's remuneration, so should be subject to FBT. By focusing on actual use, this option ignores that benefit to the employee (by not subjecting it to tax) so would lessen the integrity of the rules.

Compliance costs

80. Having an FBT regime that depends on accounting for "actual" use would impose additional compliance costs (beyond the status quo) to measure that benefit through logbooks, test periods, or the analysis of GPS data. This may increase the time to prepare FBT returns and would be more compliance heavy than the status quo and have significantly higher compliance costs than Option 2.

Clarity and certainty

81. This option may allow employers to calculate a more precise amount of FBT liability. As a result, FBT may vary more each quarter if actual use changes, decreasing certainty. In addition, it creates a value judgement for each use of the vehicle (whether the use is

private or business related) which, as illustrated by the two interpretation statements (totalling over 100 pages) by the Tax Counsel Office, can be unclear and subjective. Tracking costs closely may also increase the complexity of the regime because it introduces another variable in the rule. This reduces certainty that the position taken by the employer is correct.

Efficiency

82. This could result in inefficient outcomes if taxpayers base their decisions on achieving the lowest FBT cost. It also requires the use of logbooks or GPS tracking, which is compliance intensive and create inefficiencies that are purely driven by tax outcomes.

Stakeholder support

83. Submissions received in response to the officials' issues paper generally indicated that applying FBT on the actual use of a motor vehicle would result in significant compliance costs to employers, although some supported having this as an available option when private use of a vehicle was limited. However, some stakeholders pointed out that introducing this method would not simplify the FBT regime.

How do the options compare to the status quo/counterfactual?

	Option 1 – Status quo	Option 2 – Category approach	Option 3 - Actual use
Integrity	0	++ This should clarify the application of FBT to motor vehicles and increase compliance with the rules.	- Ignores benefit of vehicle being available for private use.
Compliance	0	++ This should result in a significant savings in compliance costs.	- - Results in significant compliance costs over the status quo.
Clarity and certainty	0	++ This would simplify and clarify existing rules.	- Provides employers with a more volatile FBT calculation, which can differ between periods, providing them with less certainty of liability than the other two options.
Efficiency	0	+ Removing exemptions should remove the existing distortion in the rules.	- Risk of inefficiency through decisions based on achieving the lowest FBT cost.
Stakeholder support	0	++ Large support from submitters on the issues paper.	- Noted increased compliance costs, with some support for this as an option for vehicles with limited private use.
Overall assessment	0	++	- -

++	much better than the status quo
+	better than the status quo
0	about the same as the status quo
-	worse than the status quo
- -	much worse than the status quo

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

84. Option 2 is likely to best address the problem, simplifying the rules and reducing compliance costs, while increasing compliance with the FBT rules.

85. Simplifying the FBT rules for motor vehicles would improve clarity and certainty for taxpayers by making the rules easier to understand and comply with. This is likely to significantly reduce the cost of compliance for taxpayers.

Is the Minister's preferred option in the Cabinet paper the same as the agency's preferred option in the RIS?

86. Yes, the Ministers' preferred option is Inland Revenue's preferred option. It is the best option because it improves integrity, lowers compliance costs, provides more certainty and is strongly supported by external stakeholders.

What are the marginal costs and benefits of the preferred option in the Cabinet paper?

Affected groups	Comment	Impact	Evidence Certainty
	Additional costs of preferred option compared to taking no action		
Employers	One-off costs to update internal guidance for staff and applying the new categories to existing vehicles. This would be a new way of accounting for FBT on motor vehicles, so we expect these costs would be a one-off with exceptions being dealt with in the first year. We have a high certainty of this as feedback received to date has reinforced this view.	Low	High
Employees	N/A	N/A	N/A
Tax Agents	One-off costs to update internal guidance for staff and external guidance educating and informing clients. We have a high degree of certainty on this. The switch to a new regime would require initial upskilling but then little ongoing management.	Low	High
Software providers	One-off costs would include systems changes to support the new rules. We consulted with software providers and our view of the impact has been confirmed by them. A software developer was on our reference group designing the proposals to ensure the proposals can be implemented.	Low	High
Inland Revenue	One-off costs would include systems changes to support the new rules and the production of guidance. Ongoing costs would include monitoring compliance activity.	$0.300m over the forecast period.	High

	This position has been confirmed by our internal systems team.		
The Government	Reduction in revenue over the forecast period. This is not completely certain given the lack of information for costing. Behavioural shifts such as higher compliance rates have not been considered in the costing.	$0.580m over the forecast period.	Medium. Costing completed using Inland Revenue data.
Total monetised costs		$0.880m over the forecast period.	Medium
Non-monetised costs		Low	
Additional benefits of preferred option compared to taking no action			
Employers	Ongoing: Increased certainty in how to apply the rules and lower compliance costs as indicated through feedback provided on the proposals. Our view of the certainty is based on feedback received from submissions and at various public forums.	Medium	High
Employees	N/A	N/A	N/A
Tax agents	The simplicity in the rules should clearly indicate whether FBT is payable and reduce “opinion shopping” by clients. Our view of the certainty is based on feedback received through interactions with tax agents and at various public forums.	Medium	High
Software providers	N/A	N/A	N/A
Inland Revenue	Ongoing: Clearer application of the rules. Our view is based on discussions with tax agents and our internal customer compliance team on how much easier the rules would be to apply.	Medium	Medium
The Government	Increased compliance with the rules. Our view on the certainty is based on discussions with tax agents throughout the feedback process.	Low	Medium
Total monetised benefits		N/A	
Non-monetised benefits		Medium	

Section 3: Delivering an option

How will the proposal be implemented?

87. Legislative changes to the Income Tax Act 2007 and the Tax Administration Act 1994 would be required to give effect to the proposals. The proposals would be included in the 2026–27 Annual Rates Bill scheduled for introduction in September 2026. The changes would apply from 1 April 2027.

88. Inland Revenue is responsible for the ongoing operation and enforcement of the FBT regime. Inland Revenue would therefore be responsible for the implementation and administration of the proposals. To implement these changes, there would be changes to the system, forms related to FBT, and guidance.

89. Inland Revenue would be responsible for producing guidance to support the changes and for the administration of the rules as part of its normal operational activity. Detailed commentary would accompany the proposed legislation, and further guidance would be included in an updated FBT guide.

90. Inland Revenue would also work with software providers to ensure the new rules are embedded in their products ready to go from day one.

91. Our product launch would include website information, publications, and reference material such as the Inland Revenue FBT guide. Feedback provided by stakeholders would also inform any additional material or information that needs to be developed and socialised.

How will the proposal be monitored, evaluated, and reviewed?

92. Inland Revenue would monitor the effectiveness of the proposed reforms on an ongoing basis, through normal use of data analytics, compliance activity and feedback from stakeholders.

93. Inland Revenue would continue to engage with stakeholders on how the rules are functioning and make any improvements as required. The objective of the proposals is to simplify FBT and reduce compliance costs. This can be tested through feedback from stakeholders and our regular surveys of particular compliance pain points, of which FBT usually features highly, to see how the proposals are being received and implemented.