

## MOTOR VEHICLE REIMBURSING RATES

We have reviewed the motor vehicle reimbursing rates based upon the 2016 AA review of costs for petrol fuelled cars.

The 2016 AA survey shows an overall nominal **decrease** in running costs of 2.3%, compared to 2015 costs. While pump prices have fallen, 2016 petrol prices have not changed dramatically, remaining on average \$1.99 a litre. Although the price per barrel of crude has continued to drop, local pump prices are governed by the NZ exchange rate and the commodity cost of refined fuel.

Overall running costs have also decreased, the most significant change being the costs of registration, which has dropped from between 20%-60%, depending on the ACC Levy Band. Running costs for insurance and tyres have decreased slightly, as have interest rates, on average dropping 0.97%.

Our formula gives less weight to financing costs, as often the Church is bearing at least some of this cost so our calculation is less sensitive to reductions in this area.

### Rates Update September 2016

As motor vehicle running costs have continued to decrease or remain relatively stable, there is an overall nominal decrease in reimbursement costs for the 2016/2017 year, which is in line with the IRD's annual review.

**The suggested (maximum) reimbursement rates are as follows** (present rates in brackets).

- Up to 14,000 km annual running for all purposes - reimburse work running at 67 cents (71 cents).
- Up to 20,000 km annual running for all purposes - reimburse at 55 cents (58 cents).
- Up to 26,000 km annual running for all purposes - reimburse at 48 cents (51 cents).
- For mileage beyond chosen band range - reimburse at 25 cents (28 cents).

Alternatively, the flat rate of 36 cents per km can be paid for unlimited running (i.e. without the need to record annual mileage and be concerned about exceeding a chosen band).

### Notes:

This review is based on the same assumptions used in the ICWPT/ICB agreement with the IRD in 1996, updated for changes in costs. The calculations have been based upon the AA cost calculations for 2016 with some adjustments for our circumstances.

**Methodology:** The above calculation is based upon the combination of the AA categories for 'compact' cars (1501cc to 2000cc) and 'medium' cars (2001cc to 3500cc).

**Interest costs:** As we have done in the past, we assume that not all interest costs are relevant and claimable. Not all clergy will have actually incurred interest costs on the purchase of their vehicle and where they have, the church has often provided finance at concessionary rates. The AA interest cost component has therefore been halved.

**Petrol price:** A petrol price of \$2.00 has been used in our modelling, which is 0.01 cent a litre above the \$1.99 used by the AA. The average price at the beginning of August was \$1.92 per litre which was just slightly above an average for 2016 of \$1.93. The difference between a slightly higher or lower price does not make a big difference to the overall reimbursement rate. For example a 10 cent litre difference in the two calculations would be just 1 cent per km.

As previously, our calculations are **an average** and are intended to cover a wide range of circumstances. If petrol costs increase significantly, drivers can be expected to move to smaller more efficient cars, which should act as a restraint on rate increases.

In that regard the AA have commented as follows:

*“There has been a continuing trend of manufacturers reducing engine capacities and producing smaller power plants, which are sometimes coupled to turbo systems that are more powerful, yet more efficient. This has resulted in an increase in the threshold of new car prices of vehicles in the medium and large categories”.*

We are aware some other employers may be paying higher rates, but the reimbursement rates as above are tailored to the circumstances of the churches. The ICWPT/ICB formula can be used by any church employees. Reimbursements can be made free of income tax.

**How to use these rates:**

- a) each employee who is expected to use their car for employment related purposes needs to provide, at the beginning of the tax year, a **reasonable estimate** of their annual running km for **all purposes** (i.e. personal, family and work related) for the year;
- b) the odometer reading at the beginning of the tax year must be recorded;
- c) that estimate determines The “chosen band range” e.g. if the estimate is 18,000kms the rate of reimbursement for **employment/work related km** will be 55 cents per km;
- d) however, if the actual **all purposes** km for the year exceeds the top of the “chosen band range”, then the reimbursement of **any work related** km beyond that range will be beyond the “chosen band range” and therefore reimbursed at 25 cents per km, e.g. the band range chosen by the employee was “up to 20,000km per annum” but the actual for the year was 23,000km. The extra 3,000 km included 900 km of **work related km** and was therefore reimbursed at 25 cents per km.

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