

## MOTOR VEHICLE REIMBURSING RATES 2021/22

The Anglican Legislation Unit has reviewed the motor vehicle reimbursing rates based upon the 2021 AA review of running costs for petrol fuelled cars (this is a purchased resource so we cannot distribute).

### Methodology

This review is based upon 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 2021 with some adjustments to reflect our circumstances. IRD produces annual vehicle kilometre rates as follows:

<https://www.ird.govt.nz/income-tax/income-tax-for-businesses-and-organisations/types-of-business-expenses/claiming-vehicle-expenses/kilometre-rates-2020-2021>

Please note that the ICWPT/ICB agreement with the IRD in 1996 requires us to adjust these rates in several ways relating to the treatment of interest costs and the methodology used to reflect church circumstances.

The calculation is based upon the combination of the AA categories for 'compact' cars (1501cc to 2000cc) and 'medium' cars (2001cc to 3500cc) to represent an 'average' vehicle.

As we have done in the past, we assume that not all interest costs are relevant and claimable. Not all clergy will have 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 as part of the agreement with IRD.

### Hybrid/electric vehicles

With the increasing prevalence of hybrid and electric vehicles we considered differentiating the reimbursement rates by vehicle type. We note that while IRD distinguishes between petrol/diesel, hybrid, and electric vehicles, its combined fixed and running cost rate (79 cents per kilometre) is the same across vehicle type. This is probably a factor of higher fixed costs matching the lower operating costs. While in the future we envisage the possibility of providing differentiated rates, for 2021 it is not considered necessary. In the future it is likely that we will need to consider the increased capital costs of hybrid and electric cars net of any government rebate, when factoring in our financing cost assumptions.

### Annual change

The 2021 AA survey indicates an overall decrease in running costs by 2.9%:

*...due to a mix of changing factors during the year fixed costs across the board saw a small increase of 2%, while flexible costs fell by around 10%. One of the most significant changes was the cost of fuel which was calculated previously at \$2.22. This year, there were significant global factors that led to a drop in the price of fuel to \$1.96.*

Lower interest rates mean financing costs are lower, but, as in previous years, our formula gives less weight to financing costs as the church is often bearing at least some of this cost (low interest costs are therefore only nominally reflected).

### Rates Update July 2021:

Motor vehicle fixed and running costs have decreased: this is reflected in the change in reimbursement costs for the 2021/22 year.

**The suggested (maximum) reimbursement rates are as follows** (previous year's rates in brackets):

- Up to 14,000 km annual running for all purposes - reimburse work running at 75 cents (76 cents).
- Up to 20,000 km annual running for all purposes - reimburse at 60 cents (63 cents).
- Up to 26,000 km annual running for all purposes - reimburse at 53 cents (55 cents).
- For mileage beyond chosen band range - reimburse at 27.4 cents (31.0 cents).

Alternatively, the flat rate of 40 cents (43 cents in 2020) 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). This is based on the above rates and annual mileage of 75,000kms to cover all eventualities.

#### **How to use these rates**

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. Decreases in the past three years, as regards overall vehicle running costs, reflect the increasing fuel efficiency of recent-model vehicles. In that regard the AA have commented as follows:

*“Manufacturers are continuing to develop technologies to reduce consumption, as well as smaller capacity, turbo-charged engines that produce a level of performance that was not achievable before”.*

We are aware some other employers may be paying higher rates, but the reimbursement rates 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 should 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 18,000 kms the rate of reimbursement for **employment/work related km** will be 60 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 27.4 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 would therefore be reimbursed at 27.4 cents per km.

PER MANAGER  
ANGLICAN LEGISLATION UNIT

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