

EV REVOLUTION

TAX CONSIDERATIONS FOR BUSINESSES WITH ELECTRIC VEHICLES

The number of electric vehicles (EVs) on our roads has increased by 2,290% since 2013 and the all-electric Nissan Leaf was recently named the most reliable car in a Consumer NZ survey. It seems that the EV revolution may finally be here.



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UNTIL RECENTLY, EVS WERE TYPICALLY purchased by enthusiasts, keen to embrace new technology and wanting to reduce their oil dependence from traditional internal combustion engine (ICE) vehicles. However, EVs are now becoming more common for general business applications and with this comes a number of questions regarding the potential tax considerations.

FRINGE BENEFIT TAX & PRIVATE USE

Presently, there are no tax advantages for EVs, although there is some lobbying of Government to provide a tax break in the rate of Fringe Benefit Tax (FBT) for EVs. However, for the time being, EVs are subject to the usual rules, if the vehicle is available for private use by employees or shareholder-employees.

Some good news is that privately owned companies can now pay less tax on their new EVs (and also ICE vehicles) by adopting a cost apportionment treatment using a log book. The treatment offers the advantage that the company effectively pays tax (instead of FBT) based on approximate private mileage, whereas FBT applies to every day that the vehicle is available for private use, regardless of the amount of actual private mileage.

The treatment is available for all vehicles purchased after 1 April 2017, and is similar to that used by a partnership or sole trader. Typically, this would involve recording the business vs private travel for a period of 3 months in a logbook and using this information to calculate the percentage of business use.

ELECTRICITY USAGE

According to the Ministry of Transport (MoT) more than 85 percent of New Zealand homes have off-street parking, which makes overnight home charging of an EV easy and convenient. The MoT has already calculated some estimates that the electricity cost to charge an EV is \$3 per 100km.

However, the tax rules need to adapt to this new reality, as most homes usually only have a single meter to record their power consumption. So how does a business owner keep track of the electricity costs associated with charging their business EV from their personal power use?

Some of the characteristics of an effective tax system is simplicity and administrative ease, which may be difficult to maintain depending on the amount of supporting information that needs to be held for claiming such expenditure as a business cost. One solution could be for the adoption of a standard rate for electricity usage using the MoT's standard \$3/100km estimate.

ELECTRIC CHARGING INFRASTRUCTURE

For businesses with a large number of EVs it may not be practical for them to be charged offsite, therefore investment in onsite charging infrastructure will be required.

On 15 June 2017 the Commissioner of IRD issued a general determination for the depreciation rate of rapid DC car charging stations. The estimated useful life of a charging station has been set at 10 years, which enables the cost of installing such equipment to be capitalised as an asset and depreciated at 20% (diminishing value) or 13.5% (straight-line).

OWNERSHIP OPTIONS

There are a number of typical ownership options available to businesses. With EV batteries and overall range projected to keep improving, these are also worth considering:

1. *Business Lease*

Income tax and GST would be able to be claimed on the lease and day to day running costs associated with the vehicle. There is no depreciation claim. Leasing may be a good option if a business intends to own the EV for less than 3 years, as it can regularly swap its older vehicles out for newer technology.

2. *Business Buys EV*

There is an upfront GST claim and annual depreciation deductions can be claimed on the vehicle. Also, tax deductions would be able to be claimed on the day to day running costs associated with the vehicle (including loan interest).

Ownership is often preferable for standard ICE vehicles if a business intends to own them for more than 3 years. However, there are other factors to consider for EVs. There may be the cost of replacement of battery packs in future years, which can be significant. And obsolescence is likely to be a more significant factor given the rapidly evolving technology for EVs.

3. *Private Ownership*

Private owners can claim mileage reimbursement from their business of 81 cents for every kilometre travelled in an EV. When using this method, the owner cannot claim deductions for actual expenditure, GST or depreciation.

The IRD has published a reimbursement rate for EVs, claimable at 81 cents vs 73 cents for ICEs and vehicles that are a hybrid of EV and ICE. The higher rate applicable to EVs is because of their higher fixed costs compared to ICEs, given EVs are more expensive for a similar sized vehicle and may need to incur the expense of a replacement battery in the future.

CONCLUSIONS

Over the coming years there is no doubt that EVs should become part of every business fleet.

Therefore, it is time for the IRD to think about some of the above issues for this technology which is becoming so important. In particular, it is critical that business owners are not discouraged from taking up the technology and that they have simple and fair tax rules that take account of the differences between EVs and the traditional ICE powered vehicles.