

Motor vehicle business use and reimbursements

Reimbursements for vehicle running costs

Inland Revenue allows an employer to reimburse employees - including shareholder-employees - for using their private vehicles for work. To do this, you can use:

- Inland Revenue's kilometre rates, or
- Other published mileage rates if they represent a reasonable estimate. For example, the AA makes mileage rates available free to members and at a cost to non-members. To obtain AA rates call 0800 500 333, or
- Actual costs, or
- A reasonable estimate of the costs likely to be incurred by the employee or a group of employees

Kilometre Rates

Inland Revenue will accept the standard kilometre rates as being a reasonable estimate of the costs likely to be incurred by an employee. The kilometre rates apply for petrol, diesel, hybrid, and electric vehicles. They apply irrespective of engine size and do not apply to motorcycles.

The rates are in two tiers.

The [2022-23 rates](#) are:

- Tier One is calculated as a combination of the vehicles' fixed and running costs. It applies for the business portion of the first 14,000km travelled by vehicle in a year. The Tier One rate for all classes of vehicles is 95 cents/km
 - Where an employee has kept a logbook or other evidence that confirms their employment use, the 95 cents/km rate can be applied to the first 14,000km.
 - If the employee has not kept evidence, the rate of 95 cents/km will be limited to the first 3,500km (25% of 14,000). Above 3,500km, the Tier Two rates may be used for kilometres travelled for work.
- Tier Two accounts for running costs only and applies for the business portion of any travel over 14,000kms. The Tier Two rates are:
 - 34 cents/km for Petrol or Diesel vehicles
 - 20 cents/km for Petrol Hybrid vehicles
 - 11 cents/km for Electric vehicles

Actual or estimated costs

You can reimburse an employee's actual costs instead of using the kilometre rates. To do this, employer and employee must both keep accurate records, including details of private and work-related costs. These expenses could be buying petrol, getting a Warrant of Fitness, paying for maintenance, insurance, and parking. Your records need to show the reasons for all business travel, and the distances of all journeys. Or you can make a reasonable estimate of the costs likely to be incurred by your employee or group of employees.

Shareholder employees

Shareholder employees can ask their company to reimburse them for business travel using a private vehicle (i.e. one not owned by the company).

Use Inland Revenue's [kilometre rates](#) for these calculations.

Tax implications

Reimbursements paid by an employer to an employee are tax free if they compensate the employee for work-related expenses. The employer doesn't take tax out of those amounts paid to employees (including shareholder employees). And the employer should be able to claim a tax deduction for these reimbursements.

Reimbursements for travel from home to a distant workplace can be complex and are not always tax-free. Check with us for more detail on how the rules apply for your situation.