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Fringe Benefit Tax Review
C/- Deputy Commissioner, Policy
Inland Revenue Department
PO Box 2198
Wellington, 6140
New Zealand

Email: policy.webmaster@ird.govt.nz

9 May 2025

Dear David,

Fringe Benefits tax – options for change

Thank you for the opportunity to comment on the consultation on **Fringe Benefits Tax – options for change** prior to its finalisation.

CPA Australia represents the diverse interests of more than 175,000 members, including over 3,300 members in New Zealand, working in over a 100 countries and regions supported by 19 offices around the world. We make this submission on behalf of our members and in the broader public interest.

We strongly support the reform of New Zealand's Fringe Benefit Tax (FBT) regime, particularly with respect to the overarching goal of reducing compliance costs for taxpayers. FBT in its current form is complex, resource-intensive, and often disproportionate in its administrative burden relative to the revenue it generates or the risk it addresses.

We make the following summary comments and key points for your consideration:

1. **Eliminate low-value benefits from any FBT regime** entirely – not just exempt them conditionally.
2. **Enable FBT calculations based on an alternative year-end** (e.g. June) with a wash-up mechanism.
3. **Eliminate different valuation tiers** where possible – for example, fuel-type tiers for vehicles. Use the lowest tier universally.
4. **For home-based businesses**, apply FBT to only 50% of vehicle benefits to reflect mixed use.
5. **Increase the de minimis threshold** for unclassified benefits from $200 to $500.
6. **Simplify rules by removing unnecessary complexity and discretion**, creating a clear and scalable system.

The proposals in the consultation paper are a promising step forward. However, we urge officials to go further in eliminating low-value, low-risk compliance burdens. FBT compliance should not require complex classification, detailed tracking, or subjective assessments for trivial benefits.

By simplifying the system and trusting businesses to apply good faith categorisation with appropriate safe harbours, Inland Revenue (IR) can materially reduce compliance costs, improve engagement, and modernise the FBT regime.

Please refer to the Appendix for our response to the questions raised in the consultation paper. If you have any queries about this submission, please contact me on jenny.wong@cpaaustralia.com.au or Bill Leung, Tax Technical Advisor on bill.leung@cpaaustralia.com.au.

Yours sincerely,

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Mr Rick Jones
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Acknowledgements

CPA Australia would like to acknowledge the following Tax Committee members for their input and guidance in shaping this submission:

- Mr Angus Ogilvie FCPA (Aust.), Chair of Tax Committee – New Zealand
- Mr Jeffrey Owens FCPA (Aust.), Tax Committee – New Zealand
- Mr Darshana Elwela – Tax Committee – New Zealand
- Mr Richard Ashby CPA (Aust.), Tax Committee – New Zealand
- Mr Jamil Eldar, CPA (Aust.), Tax Committee – New Zealand
- Professor Adrian Sawyer, FCPA (Aust.), Tax Committee – New Zealand
- Mr Peter Loerscher, CPA (Aust.), Tax Committee – New Zealand

Appendix

Detailed discussion

Response to discussion questions

Chapter 6 – Connection with remuneration

Q6.1 Should the value of a motor vehicle be determined by reference to external calculations undertaken by remuneration consultants or built up by Inland Revenue from external resources (such as the AA)?

We find it unpersuasive that remuneration consultants would have the requisite skill to approximate the running costs of different types of motor vehicles, despite anecdotal assurances received from consultants by IR. Such consultants are not inherently skilled in valuation of vehicles. The AA is a trusted source and provides mileage costs for vehicles for tax purposes already. Other sources would include motor vehicle dealers and vehicle appraisers/valuers.

We support using external resources like AA or remuneration consultants to estimate vehicle values. However, we strongly recommend setting one standard rate across all vehicles, rather than different rates by fuel type, to avoid unnecessary complexity. If a universal rate is chosen, the lowest current rate (e.g. for Electric Vehicles) should apply across the board.

Q6.2 How often should these rates be set (annually or a certain number of years)?

For the purposes of simplicity, rates should be set every three or four years to align to the most common length of vehicle leases. Rates should be reviewed at most every three or four years to reduce recalculation frequency and compliance disruption. This periodicity aligns with practical business vehicle replacement cycles.

Q6.3 Should FBT be calculated based on the limitation on private use of the vehicle?

On equity grounds the status quo should be retained but **keep the number of categories to a minimum**. Over-categorisation creates ambiguity and compliance risk. A simple three-tier model is acceptable, but consideration should be given to collapsing Category 2 and 3 if the distinctions between the two categories are too subtle in practice.

We suggest IR carefully consider the compliance cost/tax cost trade-off. There seems to be a view that taking away choice/flexibility reduces compliance cost, but if that results in larger FBT liabilities, in our view, what we have is simply trading one cost for another. For example, take the new 0% and 35% categories (category 3 and 2) for vehicles which will be limited to no private use/home to travel only. Compared with the current rules, this will mean that any weekend use will now result in a vehicle being 100% taxable (as Category 1) rather than ability to pay FBT on two days, if during the work week the vehicle currently qualifies as a work-related vehicle. From some employers the additional tax/cash cost may outweigh any compliance saving.

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Q6.4 Do employers see the ability to categorise a vehicle at the time of acquisition of the vehicle as workable?

Yes, provided that categorisation is truly “set-and-forget” unless a material change occurs. Employers should not be required to reclassify annually or track actual use. Vehicle use can reasonably change over a period of time to accommodate the changing circumstances of a business. For instance, a vehicle used by a salesperson and able to be taken home on an unrestricted basis might revert to being used as a pool vehicle to be used only during working hours. This is common where a business restructures. There should be the ability to change the categorisation of the vehicle accordingly.

Chapter 7 – Motor vehicles – options for change

Q7.1 What should the weight limit be for the purposes of determining if a motor vehicle is subject to FBT?

It seems consistent to peg the weight of the motor vehicle to the standard licence at 6,000 kg.

Q7.2 Notwithstanding that most of these types of vehicles are likely to fall out of FBT naturally, is it appropriate to remove them via exemption?

Yes, emergency service vehicles should be exempted by legislation although thought should be given to including other agencies such as NZ Red Cross, Civil Defence and Taskforce Kiwi.

Q7.3 Is the suggested exemption suitable, and does it capture all vehicles used for those services?

We believe it will cover all vehicles although it may warrant direct consultation with various agencies to ensure that any legislative exemptions are thorough and not too restrictive.

Q7.4 Would the removal of the ability to use tax value as a cost base option have any negative consequences?

No, eliminating tax value simplifies the regime and reduces optionality-driven complexity. In practice most employers default to the cost price of the vehicle and so we do not have a strong view about removing the tax value option. It is also recognised that as most periods for which a specific motor vehicle is provided is 3-4 years, it takes longer than this time for the ATV method to provide a lower level of FBT.

Q7.5 Should the FBT regime move to a more hybrid approach based on the availability for private use but also considering the permitted private use of the vehicle?

Yes, but less is more. Introduce clear, practical thresholds – for instance, treat a home-based business vehicle as 50% taxable to acknowledge mixed-use without tracking. “Availability for private use” is perhaps the most strongly resented aspect of the current regime. While the justification is sound, there is a widely held view by the public that it is unfair to impose a tax unless the vehicle is actually used. However, we acknowledge that relaxing the criteria to “actual use” would be open to abuse and may not support the integrity of the taxation system. As noted, it would also run contrary to the stated goals of this review to simplify the FBT system. We support the inclusion of a hybrid approach outlined in the consultation document.

Q7.6 Should there be an option for taxpayers to use actual costs to determine the private running of a vehicle?

No, this would increase compliance costs significantly. If offered, it should be limited to large entities or those with specialised software. See above.

Q7.7 Should any option to use actual costs be restricted to a certain group of taxpayers or available more widely?

We do not believe that “actual costs” should be an available method.

Q7.8 Do submitters prefer a more exact calculation or a “close enough is good enough” approach to the calculation of motor vehicle benefits bearing in mind the latter approach could result in under- and over-taxation?

Yes, absolutely. A "close enough" model reflects **real-world usage and materiality**, and aligns with New Zealand’s practical, principle-based tax framework. We support the intention to reduce compliance and so for that reason believe that “close enough is good enough” is a good approach. The acknowledgement of “close enough is good enough” (80/20) is positive. The issue is that this is not something that has always been borne out when draft legislation is introduced (the approach has been to design rules to capture the exceptions/potential abuse) or when IR’s operational areas apply the rules (e.g. the more subjective elements, such as what is considered incidental private use of a vehicle).

Chapter 8 – Remuneration approach for motor vehicles

Q8.1 Do you think a scaled rate of FBT would bring the impact of FBT closer to actual use than is currently the case?

It is difficult to form a view as there is such variety of ways company vehicles are employed.

Q8.2 Are the categories appropriate?

Yes, they appear to cover most contingencies. However, the distinction between category 2 (restricted private use) and 3 (incidental use excluded) is not clear.

Q8.3 Do you see any issues classifying your vehicles using these categories following the "close enough is good enough" principle?

No, other than the possibility that certain entities may be disadvantaged by over-taxation.

Q8.4 Do you think a move closer to benefit value would increase compliance with FBT?

It is difficult to form a view here but given the simplicity of the regime, it would be very difficult to avoid.

Q8.5 Are the proposed rules around incidental use appropriate, clear and workable?

We believe they are coherent and easy to understand. However, the distinction between category 2 (restricted private use) and 3 (incidental use excluded) is not clear.

Q8.6 Do you think this option would lower your compliance costs for FBT and by what degree?

Yes – potentially by **over 50%**, especially if:

- Logbooks are eliminated;
- Fuel-type distinctions are removed;
- Home-based business vehicles are defaulted to 50% usage; and
- Tiered benefits are simplified into a single, standard calculation.

Compliance cost savings for most SMEs would not be significant but could be potentially quite large for corporate taxpayers.

Q8.7 Do you think the work-related vehicle exemption is still required when moving towards more of a usage test and why?

Yes, as there are instances of vehicle use where there is no obvious fringe benefit ie. distinct from category 3.

Q8.8 Can you provide examples of when the work-related vehicle exemption might still be required?

No, we have been unable to identify any at present but there almost certainly will be.

Q8.9 Are there any work-related vehicles that would be subject to FBT when there is no private usage and provide examples?

We have been unable to identify any at present but there almost certainly will be.

Q8.10 How often do you have vehicles which are used for emergency call outs which are currently exempted from FBT?

This is not common and restricted to a very small number of companies who offer service callouts on a 24/7 basis e.g., those who service hydraulic equipment, subcontractors of electricity lines companies.

Q8.11 Do submitters agree with the integrity measures that are proposed?

We are supportive where these measures reduce the compliance costs for taxpayers.

Q8.12 Are there any other measures that should be included to assist in the integrity of the regime?

We have no comment.

Q8.13 Do submitters prefer major shareholder–employees filing their FBT liability on the company income tax return or the FBT return for the company?

We would prefer separate returns as FBT has a distinctly different tax base.

Q8.14 Do submitters agree with a maximum value for a vehicle to use categories two and three when those vehicles are used by major shareholder–employees of a close company? Is $80,000 an appropriate value?

No, some shareholder-employees chose vehicles that exceed this value for genuine reasons and these vehicles would be excluded at such a low threshold. Some utility vehicles exceed $80k in value, particularly those with larger towing weights.

Q8.15 What are submitters' views on company branding on vehicles?

We see some benefit in compliance terms and identifying the correct category of vehicle use by being able to readily identify the business a vehicle belongs to.

Q8.16 What are submitters' views on removing the ability of taxpayers to count days when a vehicle is unavailable for private use?

The current exemption is comparatively rare especially for SMEs. However, there are limited occasions where vehicles are unavailable for long periods. Panel beating is such a situation with often a prolonged period of time where a vehicle is unavailable, exacerbated by the delay in getting an appointment with panel beaters that may take many weeks. One can imagine a situation where a vehicle has not been written off but is undriveable until repaired. On balance, we do believe that IR should reconsider removing this exemption entirely to cover exceptional circumstances.

Q8.17 Do submitters anticipate any practical issues with the proposed approach? For example, are vehicles often assigned to different drivers who may use the vehicles in different ways?

This is unlikely in our experience. Unless the vehicle is a pool vehicle, most company vehicles are assigned to only one driver.

Chapter 9 – Unclassified benefits

Q9.1 Are the three factors a sensible test for whether a benefit is provided "in substitution for remuneration"? Would any other factors be more appropriate?

The approach does seem reasonable but **not necessary if a blanket exemption is used for low-value benefits**. Administrative time spent assessing whether flowers or chocolate are remunerative is disproportionate.

Q9.2 Would it be feasible to apply this test?

Yes, it is intrinsically simple.

Q9.3 Are there any unclassified benefits that would not receive the correct treatment under this test?

No.

Q9.4 Would a per benefit test help to reduce compliance costs?

Yes, despite it being somewhat arbitrary.

Q9.5 Is $200 the right cap? Should it be higher/lower?

The **$200 threshold is too low**. We recommend **increasing this to $500 per benefit**, to reflect inflation and materiality, and to align better with modern business practices. We note that the Australian Taxation Office uses a cap of $300 which might be somewhat more generous. CPA Australia believes strongly in indexation to CPI, particularly for marginal tax rates, but sees no reason why indexation should not be applied to any threshold. As such, perhaps the cap should be set by regulation to afford IR more flexibility. On unspecified benefits, the $200 per benefit cap (notwithstanding our recommendation that the cap should be higher) seems on balance a better option than the list approach, (as employers are not having to track benefits provided against the list) but we can understand how others may have a different view. Again, the key determinant of success for this will be how IR will practically enforce the rules, if audited.

Q9.6 Are there any unclassified benefits that are not in substitution for remuneration that would not receive the correct treatment under a $200 per benefit cap?

None that we can think of.

Q9.7 Would a list excluding non-remunerative unclassified benefits help to reduce compliance costs?

Yes, it would assist taxpayers to comply but again, a **better solution is to exempt all benefits under $500**, rather than policing lists that need constant updating.

Q9.8 Are there any other benefits that should be included on the list?

None come to mind.

Q9.9 Which option would be more effective at reducing compliance costs and strengthening the link to remuneration; option one or option two?

Option One is preferrable as it is quite broad in operation and less prescriptive.

Q9.10 Do submitters who operate such schemes see any issues with the proposed treatment?

We have no comment.

Q9.11 Is the on-premises exemption still necessary under these two options?

Yes, as on-premise activities may well involve more participants and therefore cost. Such activities also lack a strong personal benefit quality and is generally not in substitution for remuneration.

Chapter 10 – FBT on entertainment expenses

Q10.1 What are submitters thoughts on moving the entertainment deduction limitation within the FBT regime?

We are not wholly convinced of the merit of this proposal. Our main concern is that many close companies are not currently in the FBT net and so the introduction of an FBT approach may require significant re-education and additional compliance cost. However, if it has to be moved, this integration **would streamline accounting and reduce interpretive complexity** for those who are already in the FBT net. However, it is necessary to apply the same de minimis rules as for other benefits to avoid overreach. Similarly, mandating that entertainment expenditure should be subject to FBT in all cases (when this should be optional). For entities in losses or non-taxpayers this would result in a new cash tax cost. In other situations, potentially just rearranging the deck chairs – if compliance costs are shifted to FBT (due to having to establish new processes, etc)

Q10.2 Are there any concerns submitters see with this approach?

Our members in public practice do not report the issues raised by some with the existing regime and do not see it as onerous. We do wonder if this is a concern only for larger corporate businesses.

Q10.3 Are taxpayers comfortable with the trade-off between potentially paying more tax in respect of the adjustment and the reduction in compliance costs?

We are not convinced that including entertainment in the FBT regime would materially decrease compliance costs. However, there is merit in a de minimis cap that would placate most SMEs.

Q10.4 Do submitters see any issues with removing the current exemptions?

Re-education would be significant.

Q10.5 Which option do submitters prefer? Why?

Given feedback received from some that the existing regime is confusing, Option two is cleaner and easier for taxpayers to understand.

Q10.6 Any other issues that submitters think should be considered?

Chapter 11 – Miscellaneous issues

We have no comment on the Q11 questions.

Q11.1 Do submitters agree with the proposed change in calculating the value of a subsidised transport benefit?

Q11.2 What are submitters views on the proposed valuation rules for rebates passed on to employees?

Q11.3 Are there any issues with the proposed treatment for open loop cards in deeming these to be subject to FBT rather than PAYE?

Q11.4 Is the proposed treatment of global insurance plans workable for employers or is there a better way to apportion these?

Q11.5 Do submitters see any issues with the proposed deeming of certain reimbursements to be subject to FBT rather than PAYE?

Q11.6 If the entertainment proposals in chapter 10 do not proceed how could a better boundary rule be enacted to make it clear which benefits are subject to the entertainment deduction limitation or FBT?

Chapter 12 – Data, filing and integrity

Q12.1 Do submitters see any issues in providing more detailed FBT information when they file their returns?

Only if such categorisation is minimal and does not add extra tracking burdens. The overall goal should be **simplified filing and automation through software**.

Q12.2 Would the ability to electronically file returns via software increase the use of software to assist in FBT compliance?

We would expect that existing software providers will add an FBT component but it is unlikely that this alone will increase the use of software by those not using software currently.

Q12.3 Do submitters see any value in being able to file their first three quarters based on 25% of the prior year's FBT liability?

We have no comment.

Q12.4 Do submitters see any issues with doing this?

We have no comment.

Q12.5 Do submitters have other practical ideas which would make FBT return preparation easier?

We have no comment.

Q12.6 Do submitters see any issue with the proposed declaration in the income tax return of the taxpayer?

We have no comment.

ADDITIONAL RECOMMENDATIONS

Alternative FBT Year-End Election

We support the proposed changes to the quarterly filing system, which would allow businesses to use the previous year's FBT liability as a down payment for the first three quarters. This would reduce the need for detailed calculations each quarter. This aims to simplify the filing process and reduce compliance costs for businesses.

We strongly recommend allowing businesses to adopt an FBT year ending **30 June** (or other alternate dates), regardless of their tax year. This would:

- Align better with payroll and financial systems;
- Allow businesses to base 3 quarterly estimates (Sep, Dec, Mar) on the prior June-end benefit valuations (i.e., use ¼ of prior June FBT cost); and
- Perform a **single wash-up** in the June quarter.

This method reduces interim estimation effort and centralises FBT calculation once annually. We submit the benefits of moving and aligning the FBT year-end with 30 June. This difference in year-end is the approach currently in place in Australia, i.e. FBT (31 March) and income tax (30 June). This would significantly simplify the filing process and reduce the compliance burden for businesses and tax agents.

Implementation and Timing

We would like to enquire about the implementation and timing of the proposed changes, questioning whether they would be effective from April 2026. Assuming legislative changes make the August omnibus tax bill, they are unlikely to be enacted until March 2026, just before the proposed effective date. In particular, we raise concerns with the challenges of retrospective implementation of any of the above changes and the need for clear guidance on the implementation timeline. Furthermore, the challenges of implementing the new simplification measures, including the need for clear guidance and education for both businesses and software upgrades, and for IR staff, warrants a careful consideration on the commencement time.