

A-Z Guide

ALLOWANCES (TRAVEL AND MILEAGE)



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# Use This Guide to Understand

- Employers can use either actual expenditure or mileage rates to calculate tax free reimbursement of travel expenses.
- Travel allowances may also be paid for employees' travel between home and work. These must be taxed where the benefit is greater than the cost to the employee.
- Employers can either use the published IRD rates or those of a reputable independent New Zealand source representing a reasonable estimate (e.g. New Zealand Automobile Association Inc rates).

## What are Travel Allowances?

Employees who are required to travel for the benefit of the employer are entitled to be reimbursed without being taxed for the expense associated with that travel. Any amount that is in excess of reimbursing an employee's costs is considered a benefit allowance and is therefore taxable. Two methods of calculating the tax-free amount are detailed below; these are actual expenditure, and reimbursing rates. Travel allowances are used to compensate an employee for travel between home and work, where certain conditions have been met.

## Travel Allowances

Travel allowances are where an employer pays a cash allowance to an employee for travel between home and work.

A cash allowance paid to an employee for travel between home and work is tax free if the amount paid meets two conditions:

- The amount paid reimburses an employee's additional transport costs.
- There are one or more special circumstances, as below.

Where an employee is:

- Working outside the normal hours of work, for example overtime, shift, or weekend work
- Carrying work related tools and equipment - for example, they usually take the bus to work but in this instance must use some other form of transport to shift work-related gear
- Travelling to fulfil a statutory obligation
- Has a temporary change in workplace
- Has some other condition of their job
- No adequate public transport system serves the workplace

For all of these special circumstances, except f), the tax-free amount is the actual cost of travel between home and work, less the employee's usual costs. When using the special circumstance f), the first \$5 of the daily allowance is taxable, any additional amount is tax free.

# Motor Vehicle Reimbursement Rate

If employees use their own motor vehicle for work-related use, they can be reimbursed using motor vehicle reimbursing rates, rather than by a travel allowance. Employers can use either the IRD kilometre rates (as below), or rates published by a reputable independent New Zealand source representing a reasonable estimate. Inland Revenue has advised that the rates of the New Zealand Automobile Association may be used, as they are considered one such reputable independent source.

The IRD rates below take into account the employee's responsibility for fuel, insurance and maintenance costs. IRD has published the most recent reimbursement rate for the 2023/2024 income year. This rate applies for the reimbursement of business travel by self-employed persons and can also be used by employers to reimburse business travel by employees.

## The IRD rate applicable for the 2023/2024 income year is:

Vehicle type	Tier one rate	Tier two rate
Petrol or diesel	\$1.04 cents	35 cents
Petrol hybrid	\$1.04 cents	21 cents
Electric	\$1.04 cents	12 cents

The tier one rate combines the vehicle's fixed and running costs and can be used for the first 14,000 km of business travel in a year. This includes private use travel. The tier two rate covers running costs only and can be used for business travel over 14,000 km. Employees should keep a logbook or other record to show their business-related use of the vehicle. If you require specific income tax advice, please contact IRD directly.

## Remember

- Always call AdviceLine on 0800 300 362 to check you have the latest guide.
- Never hesitate to ask AdviceLine for help in interpreting and applying this guide to your situation.
- Use our AdviceLine employment advisors as a sounding board to test your views.

This guide is not comprehensive and should not be used as a substitute for professional advice.

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