



FINANCIAL SERVICES FEDERATION

18 November 2016

Via email to: policy.webmaster@ird.govt.nz

The Financial Services Federation (“FSF”) is grateful for the opportunity to submit on the Inland Revenue Department’s discussion paper on the review of fringe benefit tax for the private use of electric cars and the depreciation rate review.

Background – the FSF:

By way of background the FSF is the industry body representing responsible and ethical finance and leasing providers in New Zealand. The FSF has over fifty members and affiliates providing first-class financing, leasing, and credit-related insurance products and services to over 1 million New Zealand consumers and businesses. The FSF’s affiliate members include internationally recognised legal and consulting partners. A list of the current membership is attached to this submission as Appendix “A”.

Many of the FSF’s members provide finance for motor vehicles – either via loans or lease products – to consumers and businesses. These vehicles are predominantly powered by internal combustion engines (“ICE’s”) but the market for electric vehicles (“EV’s”) is steadily increasing. As such FSF members would support an FBT and depreciation regime that is as neutral as possible to type of propulsion method.

With that as the FSF’s main concern, the FSF makes the following specific comments with respect to the issues raised in the discussion paper.

Depreciation rate:

The FSF believes that the market for EV’s in New Zealand is still very young. Because of this there is not yet a second-hand or used vehicle market for these types of vehicles and therefore there is no available data on the residual value of these vehicles once they are on-sold.

Similarly the FSF notes that there is not yet enough data available on the cost of repairs so it is not possible to determine the costs of normal wear and tear as these vehicles age.

The FSF would be concerned to see any changes made to the current depreciation regime in the absence of any such data and would strongly recommend that, at least for the next 2 to 3 years, EV’s should be subject to the same treatment for depreciation as ICE vehicles. This situation should be reviewed at the end of this timeframe when it is expected that data with regard to running costs and residual values on a second-hand vehicle market should be at hand.

Fringe benefit tax:

Similar comments apply with respect to what might be the appropriate treatment for EV’s in relation to FBT as to those made previously in relation to depreciation rates. At this stage the FSF believes there is insufficient data available to accurately determine what the actual running costs of EV’s might be (although anecdotally it would seem that these are likely to be lower).

On this basis, FSF members are not yet able to provide the information sought in table 2 of the discussion paper but would be happy to do so when such information might have become more readily available. Again this is likely to be within a 2-3 year period.

The FSF does acknowledge that the current method of calculating the benefit of an employer-provided vehicle based on a percentage of the cost price or the depreciated value of the vehicle could deter businesses from providing their staff with EVs based on the fact that, at least currently, EVs are priced higher at cost than similar sized ICEs. The FSF would therefore support some evening out of the FBT regime to ensure that business owners are neither encouraged nor discouraged to choose EVs over ICE vehicles or vice versa.

The FSF is aware of a submission on the discussion paper that is being made by Drive Electric which represents a diverse range of parties interested in mainstreaming EVs in New Zealand. Drive Electric have suggested that a “negative loading” could be applied to the 20% fringe benefit assessment of the use of an EV for such time as it takes for the cost differential between EVs and ICE vehicles to even out. The FSF believes that this is a proxy for taking into account the lower running costs for EVs. Albeit anecdotal, and not able to be supported by empirical data, it is understood that the running costs are lower for these vehicles and therefore when taken into account together with the existing higher purchase price it could be argued that a lower FBT calculation rate of, say, 10% on cost should be used. As such, the proposal of a negative loading should be seen as giving rise to an overall FBT cost which is comparable to FBT on the comparable sized ICE vehicle being replaced and this is reasonable in light of the lower running costs offset by higher initial price. It is not simply a discount on the FBT.

On this basis, the FSF would support Drive Electric’s suggestion of a “negative loading” to reduce the fringe benefit tax impost on business owners over the shorter term with further review again within the 2-3 year period.

FSF members would be comfortable with some levelling of FBT so that that paid on an EV is consistent with that paid on the vehicle that is being replaced. The FSF believes that business owners would thus be able to make decisions that are in accord with the Government’s tax policy framework which states:

“as much as possible the tax rules should neither encourage nor discourage business owner’s investment choices and decisions”.

It should be noted that businesses will make decisions with regard to which type of vehicle they provide to their staff based on several criteria of which the FBT regime is only one. Other considerations as to what type of vehicle is most suitable will include matters such as running costs and the best vehicle to do the job that is required. For example, where a business provides a vehicle to an employee who will use it as a tool of trade mainly within city boundaries, an EV would likely be an appropriate choice for that business owner. However it is still the case that the network for re-charging EVs is not entirely conducive to their use in situations where employees have to travel long distances throughout rural areas and therefore it is important that business owners should not be discouraged from continuing to provide ICE vehicles to their employees in these circumstances.

Once again, the FSF is grateful for the opportunity to provide input into this review and would be happy to be contacted for further consultation if required. The FSF would certainly welcome the opportunity to provide further feedback and data should it be decided to review these issues again in 2-3 years' time.



Lyn McMorran
EXECUTIVE DIRECTOR
FINANCIAL SERVICES FEDERATION

A National Federation of Financial Institutions

Financial Services Federation Inc.
11th Floor, Morrison Kent House, 105 The Terrace, PO Box 10-053
Telephone (04) 472 1731, Fax (04) 472 1732, Wellington 6143

www.fsf.org.nz

Membership List as at 1 November 2016

Debenture Issuers - (NBDT) Non-Bank Deposit Takers	Vehicle Lenders	Finance Company Diversified Lenders	Credit Reporting Other	Insurance	Affiliate Members
<p><u>Rated</u></p> <ul style="list-style-type: none"> • Asset Finance (B) • Fisher & Paykel Finance (BB+) <p><u>Non-Rated</u></p> <ul style="list-style-type: none"> • Mutual Credit Finance • Gold Band Finance Limited 	<ul style="list-style-type: none"> • BMW Financial Services • Branded Financial Services • Community Financial Services • Go Cars Finance Ltd • European Financial Services • Mercedes-Benz Financial Services • Motor Trade Finance • Nissan Financial Services NZ Ltd • Onyx Finance Limited • Toyota Finance NZ • Yamaha Motor Finance <p><u>Leasing Providers</u></p> <ul style="list-style-type: none"> • Custom Fleet • Fleet Partners NZ Ltd • LeasePlan NZ Ltd • ORIX NZ • SG Fleet 	<ul style="list-style-type: none"> • Advaro Limited • Avanti Finance • Caterpillar Financial Services NZ Ltd • Centracorp Finance 2000 • Finance Now • Future Finance • Geneva Finance • Home Direct • Instant Finance • John Deere Financial • Latitude Financial • Personal Finance Ltd • South Pacific Loans • The Warehouse Financial Services Group • Thorn Group Financial Services Ltd • Turners Finance Limited 	<ul style="list-style-type: none"> • VEDA Advantage <p><u>Debt Collection Agencies</u></p> <ul style="list-style-type: none"> • Baycorp (NZ) • Consumer Credit Management Limited • Dun & Bradstreet (NZ) Limited 	<ul style="list-style-type: none"> • Autosure • Protecta Insurance • Provident Insurance Corporation Ltd • Southsure Assurance 	<ul style="list-style-type: none"> • American Express International (NZ) Ltd • AML Solutions • Buddle Findlay • Chapman Tripp • EY • Finzsoft • KPMG • PWC • SimpsonWestern

