20 August 2019

Ministry of Transport
Via email: cleancars@transport.govt.nz

Dear Sir / Madam

CLEAN CAR STANDARD AND CLEAN CAR DISCOUNT CONSULTATION PAPER

The Corporate Taxpayers Group ("the Group") is writing to submit on the consultation document *Moving the light vehicle fleet to low-emissions: discussion paper on a Clean Car Standard and Clean Car Discount* "consultation document".

About the Group

The Group is a group of over 40 of New Zealand's major New Zealand companies that contributes to the development of tax policy, and to enhancements in tax administration. Significant stakeholders of Group members are New Zealanders, and therefore a New Zealand economy and society that is functioning well is in the interests of the Group.

Consultation document policy proposals

As the Group understands it, there are two major policy proposals within the consultation document, being:

1. The Clean Car Standard: This policy would require vehicle importers to bring in progressively more fuel efficient and electric vehicles.

2. The Clean Car Discount: This policy would make fuel efficient and electric vehicles more affordable for Kiwis to buy, potentially by a discount of up to $8,000 for new vehicles and $2,600 on used vehicles. Vehicles costing more than $80,000 would not be eligible for discounts. This proposal will be timed to replace the exemption from road user charges that applies to electric vehicles (the exemption expires in December 2021).

The Group would like to comment on the Clean Car Discount policy proposal, in particular the issue of Fringe Benefit Tax ("FBT") being too high on electric vehicles[1]. While not an issue raised within the consultation document, the Group believes that the FBT regime may be placing an additional barrier to businesses that wish to increase the number of electric

[1] FBT is levied under the Income Tax Act 2007, all section references in this submission are to the Income Tax Act 2007

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We note the views in this document are a reflection of the views of the Corporate Taxpayers Group and do not necessarily reflect the views of individual members.

vehicles within their organisation, thereby placing a barrier on the goal of reducing emissions in the light vehicle fleet.

Fringe benefit tax on electric vehicles

The Group believes that the FBT rules significantly overtax motor vehicle benefits in a number of instances, and there are a number of ways the rules could be improved to be less of a blunt instrument. For this submission, however, the Group limits its comments to only electric vehicles.

FBT is a tax paid by employers on benefits that are enjoyed by employees, including the provision of a motor vehicle for private use. FBT applies to motor vehicles (including electric vehicles) by applying a formula to the cost price of the vehicle, essentially calculating FBT on the basis of 20% of the cost price of an electric vehicle each year.

The Group believes that this approach overstates the benefit to the employee. This is because the cost of running an electric car will be lower than for a standard vehicle and the capital outlay is higher than for an equivalent standard motor vehicle. In addition, there are technical restrictions on the availability to use electric cars for private use; for example it would be difficult for an employee to use the car for long-distance private travel during weekends and holidays; this may also influence the likelihood of the vehicle travelling 14,000km per year (which the FBT calculations are based on).

The Group would support a lowering of the 20% threshold for electric cars, as the high FBT cost of an electric vehicle (compared to a standard motor vehicle), places a disproportionate tax burden on electric vehicles. This additional burden creates a disincentive in the tax system for employers to provide electric vehicles for employee use and to transition vehicle fleets to electric vehicles over time.

While owners of electric vehicles currently receive a benefit through the exemption from road user charges, this exemption will expire in December 2021, further increasing the barrier to having electric vehicles in a businesses' fleet.

The Group considers that, in addition to lowering the 20% threshold, consideration should also be given to other refinements to the FBT regime. For example:

- Removal of electric vehicles from the FBT net entirely.
- Amend the definition of "work related vehicle" in section CX 38 of the Income Tax Act 2007 ("ITA") to allow electric vehicles within the definition (i.e. only exclude cars which are not electric from the definition in subsection CX 38(2)).
- The definition of "private use" in section CX 36 could be amended to exclude home to work travel in an electric vehicle (which is not a work related vehicle) where the employee is required to store and charge the vehicle outside of working hours.
- Amending section RD 54 to allow employee contributions to the running costs of an electric vehicle (i.e. electricity used to charge it at home) to be estimated and removed from the taxable value of the benefit in a compliance cost friendly way.
- Ensuring that the business tools exemption in section CX 21 applies to the installation of an electric vehicle charging station at the employee's residence. Subsection CX 21(2) casts doubt on the exemption applying at present.
- Ensuring that the cost price of the electric vehicle is not inflated by including the cost of a charging station.

The Group favours low compliance costs and therefore would support treating all electric vehicles in the same manner; i.e. the Group does not support introducing separate rules for different classes of electric and hybrid vehicles, the same rules should apply to them all.

We note for completeness that the Government's Tax Policy Work Programme made public on 8 August 2019 under the heading "Environment / Sustainable Economy" included:

"As part of the work on the environmental tax framework, consider how specific tax regimes, such as FBT, might be used to achieve positive environment outcomes (for example, FBT treatment of employer – provided public transport)."

Therefore this matter is already on the Government's tax policy work programme and should be pursued by Officials.

We would be happy to address any questions in relation to this submission, noting that the Group has raised the issues contained in this submission with Inland Revenue Officials in the past.

For your information, the members of the Corporate Taxpayers Group are:

1. AIA Sovereign
2. Air New Zealand Limited
3. Airways Corporation of New Zealand
4. AMP Life Limited
5. ANZ Bank New Zealand Limited
6. ASB Bank Limited
7. Auckland International Airport Limited
8. Bank of New Zealand
9. Chorus Limited
10. Contact Energy Limited
11. Downer New Zealand Limited
12. First Gas Limited
13. Fisher & Paykel Appliances Limited
14. Fisher & Paykel Healthcare Limited
15. Fletcher Building Limited
16. Fonterra Cooperative Group Limited
17. Genesis Energy Limited
18. IAG New Zealand Limited
19. Infratil Limited
20. Kiwibank Limited
21. Lion Pty Limited
22. Meridian Energy Limited
23. Methanex New Zealand Limited
24. New Zealand Racing Board
25. New Zealand Steel Limited
26. New Zealand Superannuation Fund
27. NZME Limited
28. Oji Fibre Solutions (NZ) Limited
29. OMV New Zealand Limited
30. Pacific Aluminium (New Zealand) Limited
31. Powerco Limited
32. SKYCITY Entertainment Group Limited
33. Sky Network Television Limited
34. Spark New Zealand Limited
35. Summerset Group Holdings Limited
36. Suncorp New Zealand
37. T & G Global Limited
38. The Todd Corporation Limited
39. Vodafone New Zealand Limited
40. Watercare Services Limited
41. Westpac New Zealand Limited
42. WSP Opus
43. Xero Limited
44. Z Energy Limited
45. ZESPRI International Limited

We note the views in this document are a reflection of the views of the Corporate Taxpayers Group and do not necessarily reflect the views of individual members.

Yours sincerely

John Payne

John Payne
For the Corporate Taxpayers Group

cc Emma Grigg, Acting Deputy Commissioner Policy, Inland Revenue