



Information Sheet

This information sheet explains the current policy proposal included in Budget 2026. The proposal may change as the legislation moves through the parliamentary process. The information is up to date as at 28 May 2026.

Fringe benefit tax changes

What is the proposed change?

The main proposal would simplify the way fringe benefit tax (FBT) applies to motor vehicles by implementing a “category approach”.

FBT is currently based on employers counting the days a vehicle is available for an employee’s private use. This proposal would remove counting days and instead require employers to choose a category (based on the private use of the vehicle) and use that rate when calculating their FBT liability.

An employer would select a category upfront when providing a vehicle to an employee and would only need to revisit this if the expected private use changes materially. These proposed categories are explained in the table below.

Table 1: Categories of vehicle use for FBT purposes

Category	Limitations on use	Inclusion rate
1 – full private use	Vehicle <u>mainly</u> for private use (perk vehicles). The provision of the vehicle is generally reflected in the employee’s remuneration package. For determining whether a vehicle is mainly for private use, the fact that other employees have access to the vehicle or not during business hours is ignored. Vehicle does not have to be branded.	100%
2 – partial private use	Vehicle <u>mainly</u> for business use. Private use is permitted during rostered days off, public holidays and/or statutory leave days and commuting to and from work. Vehicle must be branded.	35%
2b – limited private use farm vehicles	Vehicle <u>mainly</u> for business use and used to support farming operations on farmland. Private use is permitted when not working. Vehicle must be owned by a closely-held company in the business of farming and used by a shareholder–employee. Vehicle does not have to be branded.	35%
3 – minor private use	Vehicle for business use. The only private use permitted is commuting to and from work by the same employee (to the same worksite). The vehicle can be used for business use by others at work. Vehicle must be branded.	20%
4 – minor private use	Vehicle for business use. The only private use permitted is commuting to and from home to work where “work” requires travel across multiple worksites . The vehicle can be used for business use by others at work. Vehicle must be branded.	0%
4b – no private use pool car	Vehicles <u>exclusively</u> for business use. No private use (other than incidental use). Vehicle does not need to be sign written (that is, pool vehicles). These vehicles are not allocated to a single employee.	0%

	Cat 1	Cat 2	Cat 2b	Cat 3	Cat 4	Cat 4b
Private use allowed on non-workdays	✓	✓	✓	✗	✗	✗
Extensive business use	✗	✗	✓	✗	✓	✓
Regular commuting permitted	✓	✓	✓	✓	✓	✗
Branding required	✗	✓	✗	✓	✓	✗
Incidental use permitted	✓ All categories					

Incidental use (use that is infrequent or ad hoc) would not impact the classification of the vehicle or be subject to FBT. The purpose of this rule would be to remove those situations when there is private use of a work vehicle, but it is not remunerative or a substitute for remuneration. For example, an employee using a work van one weekend to move.

What about work-related vehicles?

The proposal would remove existing exemptions (such as the work-related vehicle exemption) because these should be captured within the categories. These should better reflect the range of vehicle use available for employees.

For certain emergency vehicles, there would be a new exemption that would totally exempt these vehicles from the FBT regime.

How would you apply the categories?

Example 1: Fringe benefit tax changes

Catseye Maintenance Limited is a company that maintains cat's eyes on the highways in the Hawkes Bay area. It has 20 employees and 10 of them have been given utes to use for work purposes.

Chalyce is one such employee who has been given a ute. She uses this on workdays for the provision of services by Catseye, but the company allows Chalyce to use the vehicle on the weekends and public holidays. She is not permitted to use the vehicle during days she is on annual leave because the vehicle is required to be used in the business by other employees.

No private use is permitted during rostered days on, other than incidental use and travel between home and work, and the vehicle is branded with the Catseye logo. One week, Chalyce used the ute on a workday to move flats in Napier.

Catseye is checking what category this vehicle should be classed in. It would not fall into proposed Category 1 because the vehicle is not permitted to be used for private use (other than incidental private use and travel between home and work) during a workday. However, the vehicle is available for private use on the weekends. The one-off incidental use of the vehicle to move flats should be ignored in assessing the category the vehicle should fall into. In addition, the vehicle is branded, so the vehicle would fall into proposed Category 2 and be subject to FBT at 35% inclusion rate.

Comparison to current FBT rules

Under the existing rules, Catseye generally pays FBT each Friday, Saturday and Sunday for the vehicle provided to Chalyce. In a typical quarter, Catseye is paying FBT in relation to 36 days. This is equivalent to a 40% inclusion rate (36 days/90 days). Under proposed new Category 2, the inclusion rate is only 35% and there would no longer be the compliance costs of requiring Chalyce to complete and return a logbook

What are the other proposed changes?

Along with the category approach, other “hygiene” changes to improve and update the FBT motor vehicle rules are proposed. The main change would introduce new rates for calculating the value of a motor vehicle for FBT purposes (based on the cost price of the vehicle):¹

- **Cost base:**
 - standard default rate: 22.8% annually or 5.7% quarterly (currently 20% annually or 5% quarterly)
 - hybrid vehicle: 19.6% annually or 4.9% quarterly, and
 - electric vehicles: 17.0% annually or 4.25% quarterly.
- **Tax book value option:²**
 - standard default rate: 47.25% annually or 11.81% quarterly (currently 41.4% annually or 10.35% quarterly)
 - hybrid vehicle: 40.50% annually or 10.13% quarterly, and
 - electric vehicles: 35% annually or 8.75% quarterly.

What affect has the current fuel crisis had on these rates?

None, these rates were all calculated in 2025 and have not been updated to reflect any increase in fuel price. Since that time, any increase in rates is a result of general increases in running a motor vehicle since the rates were last reviewed in 2009.

What affect would this have on taxpayers?

The category approach should mean that taxpayers’ compliance costs are substantially reduced from the current rules.

Major shareholder–employees would still be able to apply an alternative calculation (under section CX 17 of the Income Tax Act 2007) to calculate the benefit.

When would these changes apply from?

These changes would apply for benefits provided after 1 April 2027.

¹ These rates include a discount of 12.5% to reflect the non-availability of the vehicle for private use due to mechanical issues, etc.

² These rates assume Investment Boost has been claimed in respect of the vehicle. Other rates would apply if it has not.