CLAIMING AN INCOME TAX DEDUCTION FOR MOTOR VEHICLE EXPENSES

There are four methods available for claiming a tax deduction for expenses relating to your motor vehicle. Below is a snapshot of the various methods:

	Log Book	Cents per km	12% original value	1/3rd actual expense
Can be used…	Under or over 5000km (but best when over)	Under or over 5,000km but limited to 5,000km	Over 5,000km	Over 5,000km
Record keeping	Log book, odometer records and written evidence for other expenses (except fuel & oil)	No written evidence required	No written evidence required, just proof of purchase price	Written evidence for all expenses (except fuel & oil)

The three methods designed for above 5,000 business kilometre claims can each give the best outcomes when claiming a vehicle under certain circumstances. Specific records need to be maintained to get the best claim. It is therefore vital that you keep the required records from the outset; otherwise you may forfeit your right to a deduction.

The four methods are further explained below:

Log Book Method

This method can be used irrespective of the number of kilometres travelled for work each year. Vehicles with substantial business use generally end up with the best claims under this method.

Under the log book method, your deduction is calculated by multiplying the running costs of the car (including depreciation) by the business use percentage.

The log book must be maintained for 12 weeks, and should give a representative business use percentage for your car. The log book should therefore be maintained during a period which reflects normal business use. For example, you would not maintain your log book during the time that you take annual leave.

Once you have maintained your log book for the required 12 weeks, it can be used for the following five years tax returns provided that the business use percentage for your car does not change by more than 10% in that period. Thus, if your business use percentage has changed by more than 10%, you will need to start a new log book.

Where you have kept a log book, it must contain the following information for each business trip:

- The date the journey began and ended,
- The car’s odometer readings at the start and end of each journey,
- The number of kilometres that the car travelled on each journey; and
- The purpose of the journey

Although it may be time-consuming, it is in your interests to record each and every trip, as failure to do so means that your recorded business use percentage will be lower than was actually the case, and tax deductions are lost.

As well as maintaining the above information for each business trip, the following details must be recorded in your log book:

- When the log book period begins and ends;
- The number of business kilometres, expressed as a percentage of the total log book kilometres;
- The total number of kilometres that the car has travelled during the 12 week period;
- The car's odometer readings at the start and end of the log book period; and
- The number of kilometres that the car travelled on journeys recorded in the log book, in the course of producing assessable income.

You are not however required to maintain records of private trips. Those who adopt this method should ensure that their log book is meticulously maintained. The Australian Tax Office has sophisticated audit techniques which readily detect log books that are incorrect or fraudulent.

Under this method, as well as keeping a log book you must keep written evidence for all of your car expenses (fuel, registration, insurance, repairs etc). An alternative to receipt-based record keeping exists for fuel costs which can be claimed according to odometer readings.

Example:
Max's odometer records show that, at the end of the log book period, he travelled a total of 12,000km of which 3,000km were business related. Max would work out the business use percentage as follows:

3,000 ÷ 12,000 = .25 or 25%

This is the business percentage that Max would use as a basis for working out his claim under the log book method. Based on the manufacturer's guidelines, Max then estimates that he uses 12litres of fuel per 100km, with the average price of fuel in his area estimated to be $1.15, he works out his fuel claim as follows:

(3000 x 12 litres) ÷ 100km = 360 litres 360 x $1.15 = $414 fuel costs

To calculate his total deduction, all expenses incurred for the motor vehicle are added.

Repairs & service	$ 900
Insurance & registration	$1,200
Depreciation	$5,000
Interest on finance	$ 800
	$7,900

$7900 x 25% business use percentage =	$1,975
Plus fuel costs	$ 414
Total tax deduction	$2,389

Where you change cars during the year, you can continue to use the same log book percentage for the replacement car. If you nominate to replace the car, you must record the odometer readings at the end of the day for both cars affected by the nomination. Following the nomination, the replacement car is treated as the original car, and you will not need to keep a new log book for the replacement car.

Cents per Kilometre Method

You can use this method to claim a maximum of 5,000 business kilometres. The advantage of this method is that you do not need written evidence to substantiate your claim.

The cents per kilometre rates for calculating deductions for car expenses are outlined below (based on 2013/14 rates):

Engine Capacity	Cents per Kilometre
0 – 1600cc (1.6 litre) or less	65c/km
1601 – 2600cc (1.601 – 2.6 litre) or less	76c/km
2601cc (2.601 litre) and over	77c/km

Example:

Barry is employed by a bank as a mobile lender. He uses his vehicle, with a 2 litre engine to travel from client to client. During the year he travelled 3,500km.

Barry is entitled to a claim of $2,660 (3,500km x 76c)

This method is also available where your vehicle travels more than 5,000km, however your claim cannot exceed 5,000km.

So why would you claim less than you were entitled to by electing to use this method if you have travelled more than 5,000 business kilometres? The answer lies in the fact that under this method, you do not need to produce records or any form of written evidence to make your claim. Therefore where you have only slightly exceeded 5,000km, you may find it worthwhile to forgo the small claim over 5,000km and retain the advantage of not needing to keep any records for your claim.

The 5,000km limit is a per car claim. Therefore where you as an individual travel more than 5,000km but still wish to use this method, by using another car that you own, you can claim up to 10,000km (5,000 for each car) without substantiation provided you actually used each car. Likewise, because the claim is 5,000km per person, per car, more than one taxpayer can claim business kilometres travelled with the same car. For example, a husband and wife can claim 5,000km each for the same car, provided they each have undertaken this travel.

12% of Original Value Method

This method is also only available where you have travelled more than 5,000 business kilometres, or if you would have used your car to travel more than that distance if you had used it for the whole financial year.

Under this method, the tax deduction is simply 12% of the car's cost, or if you leased it, 12% of its market value at the time you first leased it. You must therefore be able to produce proof of the vehicles cost.

The maximum deduction you can claim is 12% of the luxury car tax limit ($60,316) in the year in which you first used or leased the car.

You do not need written evidence to use this method; however, you may need to show how you worked out your business kilometres. Therefore, this method requires very few records to be kept

One-Third of Actual Expenses Method

This method is only available if you travelled more than 5,000 business kilometres during the year.

Under this method, your claim is one-third of the running costs of the car during the financial year.

You must have written evidence for all your car expenses, except for fuel and oil costs. There are two ways to work out your fuel and oil costs:

1. Use your fuel and oil receipts
2. Keep odometer records and make a reasonable estimate based on those records, as shown previously.

Odometer records need to show the readings of the car at the start and end of the period that you owned or leased the car during the year. Your records also need to show the cars:

- Engine capacity
- Make
- Model
- Registration number

You may also need to show how you worked out your business kilometres and any reasonable estimate that you have made.

If your car was not used for work purposes for the whole year, you can still claim one-third of the total expenses method for the year, provided your car travelled (or would have travelled if owned for the whole year) more than 5,000 business kilometres during the income year.

Regardless of which method you adopt, the following rules apply:

- Generally unless your employment is fundamentally itinerant or you carry bulky equipment, you cannot claim a deduction for travel between your home and place of work;
- You can claim travel expenses for work-related tasks you undertake on the way to and from work, for instance stopping off at an alternative workplace to do some work or attending a

meeting on the way to work. Such engagements will generally mean that your whole trip is deductible.

- If, after starting work, you travel from your normal workplace and back to work to attend meetings at other offices for example, you can claim expenses incurred in the course of that trip – but not expenses incurred in your standard trip from home to your normal workplace.