



Claims for motor vehicle expenses is one of the most popular claims amongst taxpayers, but is also one of the most misunderstood areas.

This brochure will provide an overview as to when you can claim for your motor vehicle, the different methods on how to calculate those claims, and the record keeping requirements of each method.

Please note that this brochure is primarily written for motor vehicle expenses. While there are many similarities between it and other types of travel and related expenses (e.g. taxi travel, airfares, overnight stays), this brochure is not intended to cover these scenarios.

When are my motor vehicle expenses deductible?

Basically, when you use a car that you own or lease for a work-related purpose, you will be eligible to claim some deductions for this travel. There are factors to complicate this statement however.

Car That You Own or Lease

You can only deduct expenses for your car if you are the owner or lessee of the car. There is an exception to this rule for private family arrangements where:

- the car is not in your name for a specific reason (e.g. the car is put into your mother's name as it was your birthday present); and
- you are liable for all the costs associated with the car.

Work Related Purpose

Only travel that is directly connected with work can be claimed as an expense. Where travel is partly private and partly work related, in most cases a portion of the travel will be claimable. While normally it will be obvious if the travel is for work or not, there are occasions when it is not so black and white.

Travel to and from home

While you may think that travelling to work is necessary for you to earn your income (and therefore deductible), unfortunately the ATO and the courts see this travel as private and non-deductible.

There are three main exceptions to this rule however; where you carry bulky tools or equipment, where your home is a base of employment, or where you are an itinerant worker.

Bulky tools

If you carry bulky tools or equipment with you that **cannot** be left at your place of employment, the travel between home and work will be deductible.

The ATO and courts general view "bulky tools" as over 25kg or so large that its impractical to transport any other way.

Where it is merely convenient for you to take those items home (and not necessary), the travel does not fit under this exemption, and is therefore non-tax deductible.

Home as a base of employment

If your home is a base of employment, then essentially you are travelling between workplaces, which is allowable as a deduction.



It is difficult to establish your home as a base of employment however. Even having a home office that you spend a couple of hours a day working will rarely be a base of employment. If you do work at home out of convenience rather than absolute necessity, you will not be treated as having your home as a base of employment.

As a guide to what the ATO deem "absolute necessity", working from home so you can be home at a reasonable time to see your family is not enough. It must be practically impossible for you to spend all the time required at work.

Shifting places of employment (Itinerant workers)

Where you work at several places **per day**, you are essentially treated as if your home is a base of employment (see above), and all your travel is deductible.

Note that we have highlighted "per day" above. Normal contractors or apprentices who go to a different site each day do not satisfy this condition. It is only if the nature of your job is to go to different places of work every day.

Incidental work related travel

Where you are undertaking private travel (e.g. to and from work each day), and you do something work related during that trip (e.g. get the mail), it does not automatically make that trip tax deductible.

This is the same even if a detour is made to perform that work activity.

Non-incidental work related travel

Where you undertaking private travel and you perform major business activities on the way (e.g. visit a client, perform inspections, etc), this is said to be non-incidental and the travel becomes tax deductible.

Making the distinction between incidental travel and non-incidental travel is sometimes difficult. Often incidental travel will be something that can be done by anyone, but you do it because you're the closest, or its convenient for you. Non-incidental travel will be travel for a specific purpose.

Receiving a travel allowance

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When an employee receives a travel allowance, it does not affect whether or not that employees travel is deductible or not.

How much can I claim?

The amount you can claim as a tax deduction for your travel will depend on the method used in calculating your deduction. From the 2016 tax year, there are two different methods available to you (previously four), and you are able to select which method will give you the best result (assuming you meet the conditions).

Log Book Method

We've all heard of this method – you keep records of your travel, and you claim a % of all your motor vehicle expenses.

Calculation of your deduction

Basically, you add up all your motor vehicles expenses and claim a % of these (being the % identified by your log book). Examples of your motor vehicle expenses that are allowable include (but are not limited to):

- Lease payments (if the car is leased) or depreciation (if the car is purchased);



- Interest on finance;
- Petrol;
- Registration;
- Repairs and maintenance; and
- Insurance.

Substantiation requirements

To use this method, you must have maintained a log book for 12 weeks (and re-done every 5 years) that records the following:

- The opening and closing dates of the period;
- The opening and closing odometer readings of the period;
- The total number of business km's for the period;
- The following details of each business trip:
 - The date of each trip;
 - A description of each trip (i.e. purpose of the trip); and
 - The odometer readings at the beginning and end of each trip.

In addition, you are required to keep details of your car's odometer reading at the start and end of each year.

Note: An estimate of your business % is **not** acceptable. The ATO (or MCA) does not have the discretion to disregard the substantiation requirements of the log book method.

In addition, you are required to keep written records of the expenses that you are claiming.

Where you are claiming petrol, you do not need to keep each and every invoice, rather you have two choices:

- Use the odometer records for the year, the average petrol price for the year, and the average fuel consumption of your car (which is available from the internet); or
- Use bank statements / credit card statements / petrol card statements etc.

Set rate per km method

The main condition for this method is that the vehicle you are driving must be a passenger car, and not a commercial vehicle. Vans, many utes, and other similar vehicles are technically excluded from using this method and must use the log book method.

Where you travel less than 5000kms of work related travel, you can use a set rate per km provided by the ATO to work out your claim.

Calculation of your deduction

This one is simple, work related kilometers multiplied by a set rate per kilometer (66 cents for the 2016 year).

Substantiation requirements

The beauty of this method is that there are almost none, just a reasonable estimate of your work-related kilometers.

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What about businesses?

A business that provides a car to its employees (and the business owners are also employees) is generally fully deductible **to the employer** regardless of the actual use of the car. Unfortunately, the employer will most likely also be Fringe Benefits Tax on the car based on the private use of the car. It is for this reason that employers often require employees to complete a log book.

Where an employee is required to pay for the running costs of the vehicle, a log book must be maintained if the employee wishes to claim any of those costs as tax deductions.

Disclaimer

We have provided this document as a very basic guide which is intended to assist people in improving their understanding of the tax laws and how they operate. When considering what actions to take however, there are more factors that should be considered.

This is not intended to be a comprehensive document that can be taken as tax advice, financial advice, or any other kind of advice. The content does not consider any of your personal circumstances and is only generic in nature.

This document is not to be taken as advice under any circumstances. If you are considering acting based on anything written in this document, we suggest you seek professional advice first.

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