

Methods for Calculating Work-Related Car Deductions

If you use your vehicle in the course of your employment, there are four methods for calculating work-related car deductions. These are listed below ranked in order of complexity and substantiation requirements:

Method	Description	Substantiation Requirements
Cents per Kilometre	Number of business kilometres you travel throughout the year is multiplied by a set rate determined by the ATO. The set rate is designed to capture the types of car expenses, including depreciation, you incur throughout the year. This claim is limited to the first 5,000 business kilometres travelled	None
12% of Cost of Vehicle	Provided annualised business kilometres exceed 5,000km you may claim 12% of the cost of your vehicle each year as a work-related motor vehicle deduction. The cost base used is limited to the applicable depreciation cost limit	Proof that annualised business kilometres exceed 5,000km Purchase contract for vehicle
One-Third Operating Costs	If business use if not known, 1/3 of all running costs incurred throughout the year, including depreciation, are claimed	Evidence of running expenses incurred
Log Book	As per one-third operating costs method, however business use percentage per log book determines the pro-rata claim	Evidence of running expenses incurred + log book

It is important to note that travelling between home and work does not count as business use, unless your home is your place as business.

Operating Costs Method

The log book approach to the operating costs method is generally the most tax advantageous provided the business use of your vehicle is substantial. Operating costs included in the calculation of work-related deductions will be determined by whether the car is owned outright or whether it is subject to a finance arrangement. Possible inclusions in operating costs are discussed below:

1. Interest

If the vehicle is subject to a hire purchase arrangement, you are entitled to include the interest component of your monthly hire purchase repayments in your operating costs.

2. Running Costs

You are entitled to include all running costs in your operating costs. Running costs include petrol, registration, insurance, repairs and

maintenance costs. You can estimate petrol costs provided certain criteria are met.

3. Depreciation

If the vehicle is owned outright or subject to a hire purchase arrangement, you are entitled to include depreciation in your operating costs. It is worth noting that the cost price limit caps the total depreciation you can claim. For the year ended 30 June 2011, the cost price limit as \$57,180. Therefore if you acquire a vehicle for \$70,000 during the year ended 30 June 2011, you will only ever be able to include \$57,180 of the total \$70,000 cost price in your operating costs over the life of the vehicle.

4. Leasing Costs

If you lease a vehicle, the arrangement is treated as a rental arrangement therefore you are entitled to include the monthly lease payments in your operating costs. That is unless the vehicle exceeds the cost price limit, in which case the lease arrangement is treated as though it were a hire purchase arrangement for tax purposes and you claim interest and depreciation up to the cost price limit instead.

It is worth noting that if you have entered into a novated lease arrangement with your employer, you cannot claim any work-related car deductions as you do not have the contractual relationship with the vehicle during the period of novation. If you do incur any running costs during the novation period you should have them reimbursed by your employer.

The operating costs claimable under each acquisition scenario are summarised below:

Scenario	Operating Costs
Purchased outright	Running costs and depreciation*
Hire purchase	Running costs, depreciation* and interest component of monthly hire purchase repayments
Lease	Running costs and monthly lease payments, unless value of vehicle exceeds cost price limit in which case lease arrangement is treated as a hire purchase arrangement for tax purposes

* Depreciation is calculated with reference to the cost price limit in force

Record-Keeping Requirements

Keeping records is an important aspect of claiming work-related car deductions. If ever an ATO audit or review is carried out on your income tax return and the record-keeping does not meet ATO requirements, you may be denied the relevant, and often, substantial deductions claimed. Therefore you should ensure the following:

- You maintain copies of your vehicle purchase contract, and if relevant, your vehicle finance contract or loan statements
- You maintain all receipts for running costs ie: petrol, registration, CTP insurance,

comprehensive insurance, repairs and maintenance costs. In respect of petrol expenses, you have the option of estimating these expenses by using a combination of kilometres travelled and average fuel costs

- You complete a log book at least once every 5 years, and complete it in accordance with ATO requirements
- You retain all of the above for a period of at least 5 years after lodgement of the relevant income tax return

What Next?

If you use your car for work-related purposes, contact your manager or partner at Isaacs & Cole to discuss how you can maximise your tax deductions.

Disclaimer: The information contained in this fact sheet is not intended as specific advice. Please contact Isaacs & Cole to discuss your individual situation.