SBG

accountants & business advisors

The Motor Vehicle

Guide

Claiming Motor Vehicle Expenses

This guide is designed to explain the deductibility of motor vehicle expenses for employees and self employed persons. It specifically relates to car expenses and excludes vehicles other than cars – for example, utility trucks or panel vans with a carrying capacity of one tonne or more, vehicles with a carrying capacity of nine or more passengers and motorcycles.

Ownership of the Vehicle

You can claim your work-related expenses for a car that you own, lease or hire (under a hire purchase agreement). You cannot claim any expenses relating to a car owned or leased by someone else, including your employer or another member of your family. However, the ATO will consider you to be the owner (or lessee) of a car and eligible to claim expenses where a family or private arrangement made you the owner (or lessee) even though you were not the registered owner. For example, you can claim for a family car that was given to you as a birthday present and despite the fact it was not registered in your name, you used it as your own vehicle and you paid all expenses.

If you own or lease a car or hire one under a hire purchase agreement, you can use one of the four methods explained below to claim your work-related car expenses. Depending on the method you choose, you will need to know or estimate your business kilometres. Later in this guide we explain what constitutes 'business kilometres'.

Method 1 – Cents per Kilometre

- Your claim is a set rate for each business kilometre based on the vehicle's engine size
- You can only claim a maximum of 5,000 business kilometres
- You do not need written evidence

You can claim up to a maximum of 5,000 business kilometres per car even if you have travelled more than 5,000 business kilometres. You do not need written evidence to support your claim but you may need to demonstrate how you calculated your business kilometres.

Calculating your deduction is as simple as multiplying your business kilometres (capped at 5,000 for each car) by the number of cents based on your car's engine capacity.

Car's Engine Capacity		Cents per Kilometre
Ordinary Car	**Rotary Engine car**	**2011-12 Income Year**
1600cc (1.6 litre) or less	800cc (0.8 litre) or less	63 cents
1601cc - 2600cc (1.601 litre - 2.6 litre)	801cc - 1300cc (0.801 litre - 1.3 litre)	74 cents
2601cc (2.601 litre) and over	1301cc (1.301 litre) and over	75 cents

Method 2 – The Logbook Method

- Your claim is based on the percentage of business use of the car
- You need a logbook to substantiate the percentage claim
- You need odometer readings for the start and end of the period you owned or leased the car
- You can claim fuel and oil costs based on odometer records
- You need written evidence for all the other car expenses

The 'logbook' method requires that you calculate your actual business use percentage of your car. You can then claim this percentage of each car's expenses. Car expenses do not include capital costs such as the purchase price of your car or improvements.

If this is the first year you are using this method, you must have kept a logbook for at least 12 continuous weeks. If you started to use your car for business purposes less than 12 weeks before the end of the financial year you are able to continue to keep the logbook into the next financial year so you cover the required 12 weeks. If you want to use the logbook method for two or more cars, the logbook for each car must cover the same period. Your logbook is valid for five years.

Your logbook must specify:

- when the logbook period begins and ends
- the car's odometer readings at the start and end of the logbook period
- the total number of kilometres that the car travelled during the logbook period
- the number of kilometres travelled for work activities based on journeys recorded in the logbook. If you made two or more journeys in a row on the same day, you can record them as a single journey
- the business use percentage for the logbook period.

Your logbook must also show details of each business trip and record:

- the date the journey began and the date it ended
- the car's odometer readings at the start and end of the journey
- how many kilometres the car travelled on the journey, and
- the reason for the journey.

The logbook entries must be made at the end of the journey (or as soon as possible afterwards) and they must be in English. To calculate the claim calculate the total kilometres you travelled in the continuous 12 week period and also calculate the total business kilometres. Divide the business kilometres into the total number of kilometres travelled in the 12 week period to calculate the business percentage you can claim.

If the pattern of business use changes, make a reasonable estimate of what your business use percentage would have been for the whole of the financial year taking into account your logbook, odometer and other records, any variations in the pattern of use and any changes in the number of cars you used during the year. Once you have worked out your business use percentage, you can apply it to your car expenses. You need to keep written evidence of all your car expenses except fuel and oil costs - for example, for registration, repairs, interest and insurance. There are two ways to work out your fuel and oil costs:

- use your fuel and oil receipts, if you have them
- make a reasonable estimate based on your odometer records

Add up your total expenses for fuel and oil, registration, insurance, interest, repairs and maintenance, depreciation or lease payments and any other costs of running your car. Multiply the total amount by your business use percentage calculated from your log book.

Method 3 – 12% of Original Value

- Your claim is based on 12% of the original value of your car
- The value is subject to luxury car limits
- Your car must have (or would have) travelled more than 5,000 business kilometres in the income tax year
- You do not need written evidence

You can use this method if you used your car to travel more than 5,000 business kilometres during the income tax year. This method is also available if you would have used your car to travel more than 5,000 business kilometres had you used it for the whole of the year. You do not need written evidence to use this method but you may need to demonstrate how you calculated your business kilometres.

If you bought the car, you can claim 12% of the cost. If you leased the car, you can claim 12% of its market value at the time that you first leased it. The maximum deduction is 12% of the luxury car limit in the year in which you first used or leased the car.

If you did not own or lease the car for all of the year you need to work out whether you can use this method. First calculate the number of days you owned or leased the car in the income year. If you travelled 5,000 business kilometres or less, multiply the number of business kilometres you travelled by 365. Divide the result by the number of days you owned or leased the car during the year. The answer provides the number of kilometres you would have travelled if you had used the car for the whole financial year. If your answer is more than 5,000, you can use this method to claim your expenses. If your answer is 5,000 or less, you cannot use this method and will need to use the 'cents per kilometre' or 'logbook' method.

Method 4 – One-third of Actual Expenses

- You claim one-third of your car's total expenses
- Your car must have (or would have) travelled more than 5,000 business kilometres in the income year.
- You need written evidence or odometer records for fuel and oil costs
- You need written evidence for all the other car expenses

This method allows you to claim one-third of your expenses for each car. You can use this method if you used your car to travel more than 5,000 business kilometres in the income year. This method is also available if you would have used your car to travel more than 5,000 business kilometres had you used it for the whole of the financial year. You must have written evidence for all your car expenses except fuel and oil costs.

There are two ways to work out your fuel and oil costs:

- use your fuel and oil receipts, if you have them
- keep odometer records and make a reasonable estimate based on those records.

Odometer records need to show the odometer readings of the car at the start and end of the period that you owned or leased the car during the year. They should also show the car's engine capacity, make, model and registration number. You might also need to demonstrate how you calculated your business kilometres and any reasonable estimate you made.

To calculate your claim using this method you need to total your expenses for fuel and oil, registration, insurance, interest, repairs and maintenance, depreciation or lease payments and any other running costs. Divide your total car expenses by 3.

What Travel Is Business Related?

Using your car for work

You **cannot** claim the cost of normal trips between home and work as that travel is private. You cannot claim it even if:

- you did minor tasks – for example, picking up the mail on the way to work or home
- you had to travel between home and work more than once a day
- you were on call – for example, you were on standby duty and your employer contacted you at home to come into work
- there was no public transport near where you worked
- you worked outside normal business hours – for example, shift work or overtime, or
- your home was a place of business and you travelled directly to a place of employment

You **can** claim the cost of trips between home and work if:

- you used your car because you had to carry bulky tools or equipment that you used for work and could not leave them at work – for example, an extension ladder or cello
- your home was a base of employment – you started your work at home and travelled to a workplace to continue the work, or
- you had shifting places of employment – you regularly worked at more than one site each day before returning home.
- Travel between two workplaces

You can claim the cost of using your car to travel directly between two separate places of employment – i.e. when you have a second job. For example, Bob is a full time sales assistant and uses his own car to travel from his normal place of employment to his second job as a waiter. After finishing work as a waiter, he travels home directly. Bob's travel cost from his normal place of employment to his second job is an allowable deduction. However, he cannot claim the cost of travelling home from his second job.

You can claim the cost of using your car to travel:

- from your normal workplace to an alternative workplace – for example, a client's premises – while still on duty and back to your normal workplace or directly home, or
- from your home to an alternative workplace for work purposes and then to your normal workplace or directly home.

For example, Tony is a sales rep based in the city. During the year he was required to attend meetings at his employer's other branch near the airport. He used his own car to travel to the meetings and then went directly home after the meetings. Tony can claim the cost of each journey.

When is an employee's work itinerant?

There have been a number of cases considered by the Courts, Boards of Review and Administrative Appeals Tribunal where deductions for transport expenses were allowed on the basis of the taxpayers' 'shifting places of work'. 'Shifting places of work' is another term for itinerancy. In these cases the obligation to incur the transport expenses arose from the nature of the taxpayers' work, such that they were considered to be travelling in the performance of their duties from the moment of leaving home. The following characteristics have emerged from these cases as being indicators of itinerancy:

- travel is a fundamental part of the employee's work
- the existence of a 'web' of work places in the employee's regular employment, that is, the employee has no fixed place of work
- the employee continually travels from one work site to another. An employee must regularly work at more than one work site before returning to his or her usual place of residence

Other factors that may indicate itinerancy (to a lesser degree) include:

- the employee has a degree of uncertainty of location in their employment (i.e. no long term plan and no regular pattern exists)
- the employee's home constitutes a base of operations
- the employee has to carry bulky equipment from home to different work sites
- the employer provides an allowance in recognition of the employee's need to travel continually between different work sites

Whilst the above characteristics are not exhaustive, they provide guidelines for determining whether an employee's work is itinerant. It is considered that no single factor on its own is necessarily decisive. The question of whether an employee's work is itinerant is one of fact, to be determined according to individual circumstances. It is the nature of each individual's duties and not their occupation or industry that determines if they are engaged in itinerant work.

Example: *Alex is employed as a plumber's labourer and is dispatched to several different sites each day. Alex usually travels directly from home to a different site each day to start work. As his duties require him to travel between sites on a regular basis, travel is an inherent part of his employment and Alex's employment is regarded as itinerant.*

Example: *Joe is also employed as a plumber's labourer, but normally works at a single site. Joe is temporarily assigned other duties for three months that require him to travel between several sites on a daily basis. As travel is not an inherent feature of Joe's regular duties his usual employment is not itinerant. However, his employment would be considered itinerant for the three months he undertakes the temporary assignment.*

- In *Genys* ' case (FCR at 502-503; ATC at 4882; ATR at 362-363), Northrop J quotes Brightman J's statement of this principle in *Horton v. Young* [1972] 1 Ch 157 at 164:

  '...where a person has no fixed place or places at which he carries on his trade or profession but moves continually from one place to another, at each of which he consecutively exercises his trade or profession on a purely temporary basis and then departs, his trade or profession being in that sense of an itinerant nature, the travelling expenses of that person between his home and the places where from time to time he happens to be exercising his trade or profession will normally be, and are in the case before me, wholly and exclusively laid out or expended for the purposes of that trade or profession. I have used the adverb "normally" because every case must to some extent depend on its own facts.'

- In *Case U29* 87 ATC 229; *AAT Case 32* (1987) 18 ATR 3181 (*Case U29*), a carpenter was held not to be engaged in itinerant employment. Senior Member Roach said at (ATC at 233; ATR at 3185):

  'It was argued for this applicant that he too should be characterised as an itinerant worker even though for periods of several months in succession he had as a matter of routine but one place of employment for four days of the week and a second place of employment on a fifth day; and that at intervals of several months, there would be a change in the principal place of duty. Without more I am not satisfied that the applicant should be categorised as an itinerant worker...'

- In *Case T106* 86 ATC 1192; *AAT Case 17* (1987) 18 ATR 3093 (*Case T106*), a taxpayer employed as an 'off-sider' in the building industry was continuously dispatched to sites at various locations. On any one day it was not unusual for the applicant to attend two sites and he often attended different sites on successive days. The Tribunal agreed that the taxpayer's employment was of an itinerant nature.

Example: *Jason is employed as a builder's labourer. He generally works at a single building site for two to three months before moving to another site. Jason is not engaged in itinerant work because:*

- each work site is considered to be a regular or fixed place of employment;

- there is no continual travel between work sites;
- travel is not a fundamental part of his duties; and
- there is no web of work places in his employment.

Requirement to Carry Bulky Equipment

A deduction may be allowable if the transport costs can be attributed to the transportation of bulky equipment rather than private travel between home and work. If the equipment is transported to and from work by the employee as a matter of convenience or personal choice, it is considered that the transport costs are private and no deduction is allowable.

- A deduction is not allowable if a secure area for the storage of equipment is provided at the work place (see *Case 59/94* 94 ATC 501; *AAT Case 9808* (1994) 29 ATR 1232).

- In *FC of T v. Vogt* 75 ATC 4073; (1975) 5 ATR 274 the taxpayer was a musician who kept his instruments and related equipment at home for storage and practice. He would generally transport all of his instruments, including an acoustic bass and electric bass (each with their own amplifying equipment), trumpet and flugel horn, to each place of performance. The Court held that (ATC at 4078; ATR at 279):

  '...in a practical sense, the expenditure should be attributed to the carriage of the taxpayer's instruments rather than to his travel to the places of performance. The mode of his travel was simply a consequence of the means which he employed to get his instruments to the place of performance, that is by carrying them in the motor vehicle which he drove.'

  The extreme bulk of the equipment was a decisive factor in this case. Justice Waddell considered the analogy of a violinist who kept his violin at home for safe-keeping and practice, and stated (ATC at 4078; ATR at 280) that the cost of travelling from his home to the place of performance:

  '...would not be deductible...it could not be said to arise from, nor could it be attributed to, the necessity of getting the violin to the place of performance.'

The requirement to incur transport expenses to carry bulky equipment is a reflection of the practical necessity for the employee's **tools of trade** to be readily available at each work site. For example, in *Case T106* the taxpayer was required to transport shovels, a brick-rake and other minor equipment to each site. The teacher in *Wiener's* case transported paperwork, texts, film cassettes, tape recorders and sometimes a film projector to the various schools attended.

Example: *Bob is a bricklayer who is employed at a building site for six months. He carries a cement mixer, a ladder, shovels, trowels and other equipment to and from the site each day. A secure storage area is not provided at the work site. Bob is not engaged in itinerant employment, however, a deduction is allowable for the cost of travelling between home and work due to the carriage of bulky equipment.*

Example: *Fiona is employed as an electrician. She travels daily between several work sites, carrying a small tool box. Fiona would not be allowed a deduction for the cost of transport between home and work on the basis that she is required to carry bulky equipment. However, she would qualify for a deduction on the basis that her employment is itinerant. The carriage of equipment may support characterisation of Fiona's employment as itinerant because it arises from the practical necessity for her tools of trade to be readily available for use at each work site.*

Example: *Tom is an employee truck driver. He travels to his employer's depot at the beginning and end of each shift to collect and deliver his truck. Although travel is an inherent part of Tom's duties, the cost of transport between his home and the depot is not an allowable deduction. The travel is private because it is between Tom's home and his regular place of employment.*

Disclaimer

The information and commentaries contained in this e-booklet are of a general nature, and neither purport or intend to be advice.

The content is based on information available as at January 2013 and has been extracted from the Australian Tax Office website. While every effort has been made to ensure the information is error free, the authors and publisher offer no warranty as to the accuracy, adequacy or completeness of the information. The information has been prepared without taking into account your objectives, financial situation or needs. The reader or user acknowledges that it has not made known to the author any particular purpose for which this e-booklet is required and that it has not relied in the author's skill or judgment.

The taxation position described is a general statement and should only be used as a guide. It does not constitute tax advice and is based on current tax laws and their interpretation. Readers and users should not act on any matter in this publication without first obtaining professional accounting and/or legal advice with due regard to their own particular circumstances.

This disclaimer shall extend both to the user and to any client of the user who may suffer loss as a result of the use of this booklet and it shall apply even though the author may have been negligent in the publication or preparation of these papers.

Level 2, 8 Market St Melbourne VIC 3000
PO Box 304 Collins St West, VIC 8007

Phone: (03) 9629 6744 Fax: (03) 9629 5944

Email: sbg@sbgaccountants.com.au
Website: www.sbgaccountants.com.au