



# Small business

## Motor vehicle expenses

This information will help you when claiming a deduction for motor vehicle expenses for your business – whether you use a registered tax agent or lodge your own return.

### Key points

- The way to calculate your claim depends on your business structure.
- If you change your business structure, your entitlements and obligations may change.
- You must apportion your expenses between business and private use.
- You must keep records for five years to prove your expenses.

### Types of motor vehicles

The type of motor vehicle you drive can affect how you calculate your claim. A motor vehicle is either a car or an 'other vehicle'.

#### Car

A 'car' is a motor vehicle that is designed to carry:

- a load of less than one tonne, and
- fewer than nine passengers.

Many four-wheel drives and some utes are classed as cars.

#### Other vehicle

If your motor vehicle is not a car it's an 'other vehicle'. Other vehicles include:

- motorcycles
- minivans that can carry nine or more passengers
- utes or panel vans designed to carry loads of one tonne or more.

**i** Expenses incurred in running a ute are not automatically tax deductible; you need to use the ute in your business and claim the business portion only.

### Types of expenses

Common types of motor vehicle expenses you can claim include:

- ✓ fuel and oil
- ✓ repairs and servicing
- ✓ interest on a motor vehicle loan
- ✓ lease payments
- ✓ insurance
- ✓ registration
- ✓ depreciation (decline in value) of the vehicle.

### Business structure

Your business structure affects your entitlements and obligations when claiming deductions for motor vehicle expenses.



#### Sole traders and partnerships

If you operate your business as a sole trader or partnership (where at least one partner is an individual), the way to calculate your deduction depends on the type of vehicle and how it is used. The vehicle can be owned, leased, or hired under a hire purchase agreement.

You can only claim motor vehicle expenses that are part of the everyday running of your business (such as travelling between different business premises). If the vehicle is used for both private and business purposes, you must exclude any private use (such as driving your children to school).

#### Cars

 For cars, you can use the cents per kilometre method or the logbook method.

##### Cents per kilometre method

You can claim a maximum of 5,000 business kilometres per car.

The rate per kilometre (68 cents from 1 July 2018 to 30 June 2020 and 72 cents from 1 July 2020) takes into account your car running expenses, including depreciation.

You can't make a separate claim for depreciation of the car's value.

You don't need written evidence, but you must be able to show how you worked out your business kilometres (for example, calendar or diary records).

For claims above 5,000 kilometres, you must use the logbook method to claim the entire amount.

For more information, see [ato.gov.au/centperkm](https://ato.gov.au/centperkm)

#### Other vehicles

For all other vehicles, you can't use the cents per kilometre or logbook method.

Your claims must be for actual costs for expenses you incurred, based on receipts.

You can use a diary or journal to separate private use from business use.

**i** If you're a sole trader with simple tax affairs, you can use the myDeductions tool in the ATO app to keep a logbook and record business-related car trips and other car expenses. For more information, see [ato.gov.au/mydeductions](https://ato.gov.au/mydeductions)

##### Logbook method

You can claim the business-use percentage of each car expense, based on logbook records.

You must record:

- when the logbook period begins and ends
- the car's odometer reading at the start and end of the logbook period
- details of each journey including
  - start date and finishing date
  - odometer readings at the start and end
  - kilometres travelled
  - reason for the journey.

You must keep the logbook for a period (at least 12 continuous weeks) that is representative of your travel throughout the year. You can then use this representative period to calculate your claim for five years if you:

- keep the logbook
- take odometer readings at the start and end of each year that you use it.

Work out the percentage of business travel from your logbook and use this to claim your business-related car expenses.

You can't claim capital costs, such as the purchase price of the car, but you can claim this as depreciation.

For more information, see [ato.gov.au/logbook](https://ato.gov.au/logbook)

## Business structure (continued)



### Companies and trusts

If you operate your business as a company or trust, you can only claim the actual costs for motor vehicle expenses that are part of the everyday running of your business (such as travelling between different business premises, visiting clients or picking up goods for sale). Actual costs are based on receipts for expenses incurred.

✘ You **cannot** use the cents per kilometre or logbook method to calculate your claim.

**i** If your business is a private company that provides a vehicle to a shareholder or their associate to use in their capacity other than as an employee, this may be treated as a dividend or loan (Division 7A) which could affect the deductibility of your motor vehicle expenses.

For more information, see [ato.gov.au/Div7aFBT](https://ato.gov.au/Div7aFBT)



### Motor vehicle ownership

There are further considerations depending on the ownership of the vehicle.

#### Vehicle owned or leased by your business

Your business can claim a deduction for the running expenses of a vehicle that is owned or leased by your business.

**i** If the vehicle is available for private use by an employee or their associate (such as a spouse), fringe benefits tax (FBT) may apply.

For more information, see [ato.gov.au/carfringebenefits](https://ato.gov.au/carfringebenefits)

#### Vehicle owned by your employee

If your employee uses their own vehicle for business-related purposes and you pay them a motor vehicle allowance or reimburse them their costs, your business can claim a deduction for the allowance or expenses reimbursed, such as the cost of fuel.

**i** You can't claim depreciation if the vehicle is owned by your employee.

Your employee can claim a deduction for costs related to the business use of their vehicle in their own tax return, less any reimbursements or allowance they received from your business.



## Depreciation of a motor vehicle

If you work out your deduction for expenses using the logbook method or actual costs, then you can generally claim a deduction for capital costs, such as the purchase price of a motor vehicle, over a period of time. This is known as depreciation or a decline in value.

You can apply the:

- ✔ simplified depreciation rules – by adding the motor vehicle's cost to the small business pool or using the instant asset write-off (if eligible), or
- ✔ general depreciation rules – by claiming a deduction over the effective life of the asset.

If the business vehicle is a car, there's a limit on the cost you can use to work out your depreciation claim. For the 2018–19 and 2019–20 income years, the limit is either:

- \$57,581, or
- the cost of the vehicle if it's less than this amount.

**i** If you're a sole trader or partnership and use:

- the cents per kilometre method, you cannot make a separate claim for depreciation of the vehicle as this is already taken into account
- the logbook method, you can only claim depreciation on the business portion of the motor vehicle's cost.

For more information, see [ato.gov.au/depreciation](https://ato.gov.au/depreciation)



## Records you need to keep

The records you need to keep depends on the method you use to calculate your motor vehicle expenses. Regardless of the method you use, you will need to keep:

- ✔ loan or lease documents
- ✔ details on how you calculated your claim
- ✔ tax invoices
- ✔ registration papers.



For more information, speak with your registered tax agent or visit [ato.gov.au/motorvehicleexpenses](https://ato.gov.au/motorvehicleexpenses)