



Buying a Car for Business: Your Tax Questions Answered

The ATO is cracking down on car expense claims this year. Their technology is becoming increasingly sophisticated at catching cheats. Knowing (and following) the rules will not only keep you on the right side of the tax man, it will also help you to make wise decisions when purchasing a car for business.

In this article we answer some of the most commonly asked questions about cars, expenses and tax deductions.

Who should own the car? Me or my company?

This decision will largely depend on what percentage of your car's mileage is likely to be used for business. If the car will be used exclusively for business then it makes sense for the business to buy the car. However, if you expect to use the car largely for school runs and shopping trips then it may be easier to claim the car's use as a personal tax deduction.

What counts as business mileage?

Be aware that the ATO does NOT generally consider kilometers driven between work and home as "business" travel. Even if you stop off to pick up the mail on the way, or have to take multiple trips each day, travel between home and work is still considered private use.

There are exceptions. For example, if your home is your primary workplace and you need to travel to another workplace this would be classified as business use.

If I own the car personally can I make a tax claim for business use?

Yes. There are two different methods you can use for claiming tax credit for business use of your personal car.

The cents per kilometer method allows you to deduct 66¢ for each kilometer driven up to a maximum of 5,000 kilometers annually. No documentation is required but you must be able to demonstrate how you arrived at the number of kilometers if questioned by the ATO.

The taxman is hot on the heels of cents per kilometer cheats. Make sure you have documentation to support your claims.

With the logbook method you are required to keep a logbook for 12 weeks, recording the trip date, opening and closing speedo, kilometers travelled and the purpose of the trip. The logbook is then used to calculate the business use percentage. This is the percentage you can claim on all car related expenses including maintenance, petrol, servicing, insurance, registration, depreciation and financing.

If the business owns the car can the business claim a GST input credit?

Yes. If the car is used exclusively for business you can claim a GST credit on the price of the car, assuming you have a tax invoice. You can also claim a GST credit on lease payments and any costs associate with running the car.

If the car is also used privately you will need to keep a logbook for 12 weeks as outlined above and will only be able to claim the business-use percentage of the GST paid for the car and car-related expenses.

Before you rush out and buy yourself a Ferrari, be aware that the ATO has a car limit of \$57,581. With a few exceptions, you will only be able to claim a GST credit up to one eleventh of this limit.

Will the business have to pay Fringe Benefits Tax on the car?

The business will be liable for FBT on the personal-use percentage of the value of the car and car-related expenses. If you want to avoid FBT you can reimburse the business for this portion of the car's expenses.

If the business owns the car how much can I claim for depreciation?

The business will be able to depreciate the business-use percentage of the value of the car.

It is really important to remember that if you are classified as a small business by the ATO then you will be able to immediately claim the entire purchase price of a vehicle costing less than \$20,000 including GST. A good incentive not to buy more car than you really need!

If I've got sign writing on the car can I write off the costs for my personal mileage?

Wouldn't this be nice? Unfortunately, the answer is no. If you put business advertising on your motor vehicle, the actual cost of the signwriting is tax deductible. However, to claim a deduction for the motor vehicle running costs all the normal rules apply.

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