

PALMER & ASSOCIATES

CERTIFIED PRACTISING ACCOUNTANTS

July, 2015

Changes to Work-Related Car Expenditures

Changes Effective from: 1 July 2015 (2016 Tax Returns)

Summary of Changes

There are now only 2 options for work-related car expenses:

- Cents per Kilometre Method
- Log Book Method

Changes are being made to the cents per kilometre method so that there is one base rate of 66c that applies to all vehicles (regardless of engine size and type).

Details of Discontinued Methods

Currently there are three methods for calculating work-related car expenses. These methods are the 12% of original value method, the one-third of actual expenses method (if over 5000 kilometres), the set-rate per kilometre method and the log book method.

The 12% of original value method is being discontinued. This method was used if the car had travelled over 5000kms. The 12% is based on the original cost of the car or the market value at the time you first leased it.



The one-third of actual expenses method is also being discontinued, leaving taxpayers with 2 options when calculating work-related car expenses. The one-third of actual expenses method was used if the car had travelled over 5000kms. You needed written evidence for all expenses of the car (apart from fuel and oil which you could estimate based on odometer readings) and could claim one-third of these total expenses, including private costs but not capital costs such as the purchase price.

Change to Cents per Kilometre Method

Up to 30 June 2015, the cents per kilometre that could be claimed on a vehicle was dependent on the size and type of the engine as per the following table:

Rates per Business Kilometre		
Engine Capacity		Cents per km
Ordinary Engine	Rotary Engine	
1.6 litre (1,600cc) or less	0.8 litre (800cc) or less	65 cents
1.601-2.6 litre (1,601 – 2,600cc)	0.801-1.3 litre (801-1,300cc)	76 cents
2.601 litre (2,601cc) and over	1.301 litre (1,301cc) and over	77 cents

The 65c rate (the lowest rate) was applicable to small cars only. ALL taxpayers will now be obliged to use 66c as their base rate, which is smaller than what can currently be claimed for medium to large cars. The rate was established by averaging the running costs for the top five selling motor vehicles (from motoring association data).

Implications

There are effectively two changes that are being made that could possibly have negative implications: the discontinuation of previous methods and the flat rate per kilometre.

Discontinuation of one-third of actual expenses method:

The discontinuation of this method will only negatively affect those whose business-use percentage in their log book is less than 33.33% as they will be losing a proportion of their previously acceptable claim.

Discontinuation of 12% of original cost price method:

The discontinuation of this method will mean that those who have previously relied on this method will need to improve their record keeping to either establish the total kilometres travelled or the actual expenses of the vehicle.

Change in set-rate per kilometre method:

The change of this method to one standard rate will lead to those with medium to large sized cars losing a portion of their previous tax deduction. This could be up to \$550 (77c-66c x 5000kms).

The government is estimated to save \$270 million from the changes made.

These changes will mainly apply to those who have previously used the 12% of original cost price method. If this is the case, you will need to be sure to keep accurate records of your car usage in order to choose between the log-book and cents per kilometre method to ensure the maximum deduction.

We urge those who have previously used the set-rate to perhaps keep a log book for 12 weeks of the year to see if they can get a bigger deduction by using the log book method.

Our aim is to provide relevant information to inform and help create opportunities for our clients. Please note: many of the comments in this publication are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation of the information's applicability to their particular circumstances. If you require further information regarding the contents of this newsletter please do not hesitate to contact our office.