


MT 2026 - Fringe benefits tax : operating cost method of valuing car fringe benefits : log book requirements

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TAXATION RULING NO. MT 2026

FRINGE BENEFITS TAX : OPERATING COST METHOD OF VALUING
CAR FRINGE BENEFITS : LOG BOOK REQUIREMENTS

F.O.I. EMBARGO: May be released

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PREAMBLE Under Division 2 of Part III of the Fringe Benefits Tax Assessment Act (the "Act") a taxable fringe benefit arises, broadly, where an employer's car is used by an employee for private purposes or is available for the private use of an employee. Alternative methods of valuing the benefit are provided by sections 9 and 10 of the Act respectively.

2. Under section 9 - the statutory formula method of valuation - the value of the benefit is determined, broadly, by applying a statutory percentage to the original cost of the car to the employer and apportioning the result according to the number of days in which the car is used or available for the private use of employees during the relevant period.

3. The alternative method established by section 10 - the operating cost method of valuation - is available only where the employer elects to adopt its use in the first year in which a fringe benefit arises in relation to the car. Once adopted, this method must continue to be used by the employer in determining the value of any benefit provided to employees through the use of that car in subsequent years (see sub-sections 10(4) to (6)).

4. Under this method, the value of the benefit is determined by ascertaining the total operating costs of the car, as specified in section 10, and reducing this in the proportion of private kilometres travelled by employees to the total kilometres travelled during the relevant period.

5. To establish this private use proportion, it is a requirement of the law that records evidencing the total kilometres travelled by the car during the relevant period be maintained. The total number of private kilometres is determined by deducting from that the kilometres travelled on business journeys, which are required to be evidenced by log book entries.

6. The purpose of this ruling is to detail the requirements of the law as they relate to the preparation of these evidentiary

documents. To this extent, its contents are equally relevant to the income tax substantiation requirements of Subdivision F of Division 3 of the Income Tax Assessment Act as they relate to the substantiation of car expenses incurred by employees and self-employed people in operating their own cars for income producing purposes. A separate Ruling is to issue on the distinction between private and business journeys, particularly in relation to travel to and from an employee's home.

7. Where the taxable value of a car fringe benefit is being ascertained for the purposes of an annual FBT assessment, the relevant period referred to in this ruling is, broadly, that part of the FBT year in which the car is owned or leased by the employer. If, on the other hand, the value is being determined for the purposes of an instalment payment due in respect of the September 1986 or December 1986 quarters, the relevant period is the corresponding part of the quarter.

RULING

8. The requirement that records evidencing the private use proportion of a car be maintained where an employer elects to adopt the operating cost method of valuation is contained in paragraph 10(3)(b) of the Act. By virtue of that paragraph, the total kilometres travelled in the car during the relevant period will be treated as private kilometres unless what are termed "relevant car documents" are maintained.

9. The term "relevant car documents" is defined in sub-section 136(1). By virtue of paragraph (b) of that definition, a document recording the following details in respect of the car must be maintained -

- (a) the odometer reading at the beginning of the relevant period (generally, the relevant FBT year - see paragraph 7);
- (b) the odometer reading at the end of the period;
- (c) the date of each entry;
- (d) the name of the person making the entries.

The entries are required to be made in English and must be signed by the person making each entry. A further requirement of paragraph (b) is that the entries be made as soon as reasonably practicable after the beginning and end of the period.

10. The purpose of this document is to evidence the total kilometres travelled by the car during the relevant period.

11. The second document, which is designed to evidence the number of kilometres travelled during the period on business journeys, is described in paragraph (a) of the definition of relevant car documents. This is a log book, or similar document, that records the following details of each business journey undertaken during the relevant period -

- (a) the date on which the journey began and the date it

ended;

- (b) the respective odometer readings at the start and finish of the journey;
- (c) the kilometres travelled;
- (d) the purpose(s) of the journey;
- (e) the name of the driver;
- (f) the date of the entry; and
- (g) the name of the person making the entry.

As with the first document, entries must be made in English and signed by the person making the entry at the time it is made. Each entry must be made as soon as reasonably practicable after the end of the relevant journey.

12. Sub-section 161(1) of the Act simplifies the log book entry requirements by authorising the use of a single entry to record consecutive business journeys undertaken on a particular day. Thus, for example, if a salesman travels on business continuously throughout a day, only one log book entry would be required for that day. If those journeys were broken in the middle of the day by private use of the car, two composite entries would be required.

13. By virtue of sub-section 161(2) a journey undertaken in a car that is not properly recorded in a log book will be treated as a private journey, notwithstanding that the journey may in fact have been undertaken for business purposes.

14. It should be noted that entries for private journeys are not required. As explained in paragraph 5, the number of private kilometres is determined by deducting the kilometres travelled on business journeys from the total kilometres travelled during the period.

15. While the requirements of the law are generally quite specific, enquiries have been made of this office concerning the timing of log-book entries, the detail required in describing the purpose of a journey and the use of electronic devices to record business journeys. The position where the car's odometer is not functioning has also been raised.

Timing of Entries

16. As noted, log book entries are required to be made as soon as practicable after the end of the relevant journey or, in a case where the provisions of sub-section 161(1) apply, after the end of the last of the consecutive business journeys undertaken on a particular day (see paragraph 12).

17. It should rarely be the case that it is not practical to make a log book entry on the same day as a journey. As a general

rule, therefore, an entry made after the date of completion of a journey will not be accepted as complying with the requirements of the law, with the result that the journey will be treated as private mileage in determining the private use proportion.

18. At the same time it is recognised that there will, on occasions, be circumstances warranting a later entry (e.g. where a doctor is called out on an emergency call late at night). In recognition of this, a limited number of entries made on the day after the date of the relevant journey will generally be accepted without further examination provided there are no unusual circumstances present.

19. Where it becomes necessary to question delayed entries, the journey will not be treated as a business journey unless it can be established that there were genuine reasons for the delay and that the entry itself is soundly based. General statements relating to lack of convenience, etc, would not be sufficient for this purpose.

20. In the light of the preceding, employers may consider it prudent to ensure that delayed entries are accompanied by appropriate explanations.

Purpose of Journey

21. In considering what type of entry is to be recorded in a log book as the "purpose of the journey" it is appropriate to have regard to the objective of the log book requirement - broadly, to provide satisfactory evidence of the extent of business journeys undertaken in a car during a particular period. It will be apparent from this that an entry merely indicating "business" or "miscellaneous business" will be insufficient for this purpose.

22. As a general rule, an entry should be sufficiently descriptive of the purpose of the journey to characterise it as a business journey and to correlate broadly with the distance travelled.

23. The fact that a particular journey is of a kind ordinarily associated with the employment duties of the employee is a relevant consideration in determining the extent of detail required for this purpose. Thus, for example, it would be acceptable for an accountant working in Melbourne who is required to visit a client's premises in Essendon during office hours, to make an entry recording the purpose of the return journey in the following terms, "Client visit, Essendon". Similarly, a farm hand who is required to drive to the local stock and station agent in, say, Colac, could appropriately enter as the purpose of the trip "Purchase of farm supplies, Colac". No further documentary evidence (e.g. receipts evidencing the purchase of supplies) is required.

24. In the case of an employee who is required by the nature of the employment duties to make a number of similar business calls during the course of a day, e.g. a salesman, an entry made

in accordance with sub-section 161(1) (see paragraph 12) which records the number of customer calls and the general geographic area involved would normally be sufficient to satisfy the requirements of the law. By way of example, a salesman who, while working throughout the day in the Bathurst-Orange area of NSW, called on ten existing or prospective customers, might appropriately enter as the purpose of the travel "Ten customer calls, Bathurst-Orange area". If he continued on to Dubbo in the evening for the purpose of visiting customers there the next day, a brief statement incorporating this aspect of the day's travel would be necessary.

25. A further example is that of messenger or courier car drivers. In these cases the cars themselves are readily identifiable with business travel and numerous limited duration delivery/pick-up calls will ordinarily be made on a continuous basis throughout the day. Under these circumstances an entry recording the purpose of, for example, consecutive calls made in a messenger car operating in the Sydney metropolitan area might be along the lines "Deliveries/pick-ups in metropolitan area". In the event that the company's operations are restricted to a limited geographic area it would be unnecessary to repeat the area description for each entry.

Electronic Recording Devices

26. A range of electronic devices which automatically record, with varying degrees of automation, details of journeys undertaken in a car are currently on the market. These vary from pocket computers into which the driver inputs details of individual journeys to devices which, when fitted to a car, are capable of recording some or all of the required information through a combination of automatically recorded details and information input by the driver.

27. Subject to the overall integrity of the recording system being established, no objection will be raised to the use of such devices. The information stored in the device must, however, be capable of being reproduced in printed form. This is necessary to enable the entry to be signed and, where appropriate, to enable unrecorded information to be added (e.g. where the particular device does not record the purpose of the journey - see paragraphs 21 to 25).

28. A question that has arisen in connection with the use of these devices is the frequency with which the printed copy should be produced.

29. As stated in paragraph 17, it is generally expected that entries be completed and signed on the day on which the relevant journey ends. Such a requirement is seen as consistent both with the terms of the law and with the objective of satisfactorily evidencing business journeys - the longer the delay in entering details of journeys, the less reliance that can be placed on the details recorded. These considerations are especially relevant where the particular device is not capable of recording all of the information detailed in paragraph 11. Accordingly, in these

cases, it will generally be necessary for the printed copy to be produced on a daily basis and for the remaining details to be entered, and the completed entry signed, on the same day.

30. Different considerations apply where the particular device is able to record all of the information detailed in paragraph 11. It has been put to this office that it is not practical to require production of hard copy on a daily basis from such devices, particularly as these commonly involve the use of a separate PC printer. Often the nature of employees' duties will be such that access to a printer will not be available on a daily basis, e.g. a commercial traveller who is required to call at the office on a weekly basis only.

31. It is accepted that it would be inappropriate to require daily print runs from such devices. At the same time, notwithstanding that the general integrity of the recording system may have been accepted, the signing of the printed entries is, in effect, a confirmation of the details recorded. Accordingly, it would be inappropriate to extend indefinitely the time between details of the journey being entered and the confirming copy being produced. It follows also that the person signing the printed entry must, in the absence of special circumstances, be the person who operated the device at the time when the relevant journey was undertaken.

32. As a general rule, the adoption of weekly print intervals will be accepted as satisfying the requirements of the law. Longer periods will be accepted only where it can be shown that special circumstances exist, e.g. where the device is physically attached to the car and its removal is a time-consuming process or where weekly access to the necessary printing facilities is not readily available. In these cases, printing intervals of up to one month may be adopted. In all cases, the entries must be signed as soon as reasonably practicable after the printed copy is produced.

33. This office will respond to requests by manufacturers or distributors seeking information about the application of the preceding guidelines to their products.

Faulty Odometers

34. The position where an odometer is not functioning was addressed in MT 2021 (question 28 on page 23). As stated therein, reasonable estimates of distances travelled will be accepted where these are properly recorded in the log book, pending repair of the odometer. It would be expected that the necessary repair would be effected promptly.

COMMISSIONER OF TAXATION
10 September 1986