GSTB 2000/2 - How to claim input tax credits for car expenses

GST Bulletin

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Australian
Taxation
Office

How to claim input tax credits for car expenses

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This Bulletin will apply on and from 8 July 1999, the date of Royal Assent to the GST legislation.

This document was published prior to 1 July 2010 and was a public ruling for the purposes of former section 37 of the ***Taxation Administration Act 1953*** *and former section 105-60 of Schedule 1 to the* ***Taxation Administration Act 1953****.*

From 1 July 2010, this document is taken to be a public ruling under Division 358 of Schedule 1 to the ***Taxation Administration Act 1953****.*

A public ruling is an expression of the Commissioner's opinion about the way in which a relevant provision applies, or would apply, to entities generally or to a class of entities in relation to a particular scheme or a class of schemes.

If you rely on this ruling, the Commissioner must apply the law to you in the way set out in the ruling (unless the Commissioner is satisfied that the ruling is incorrect and disadvantages you, in which case the law may be applied to you in a way that is more favourable for you - provided the Commissioner is not prevented from doing so by a time limit imposed by the law). You will be protected from having to pay any underpaid tax, penalty or interest in respect of the matters covered by this ruling if it turns out that it does not correctly state how the relevant provision applies to you.

[Note: This is a consolidated version of this document. Refer to the ATO Legal Database (http://law.ato.gov.au) to check its currency and to view the details of all changes.]

About this Bulletin

If you are registered, or required to be registered for GST, you are entitled to an input tax credit if you incur a car expense for a creditable purpose. You incur a car expense for a creditable purpose if you use your car in carrying on your enterprise. However, the expense is not solely for a creditable purpose if you use your car for private or domestic purposes or you use it in relation to making input taxed supplies such as residential accommodation. Where this is the case, you need to determine the extent to which you use you car for a creditable purpose, that is, you need to determine your extent of creditable purpose for car expenses.

The GST law does not contain specific rules for calculating the extent of creditable purpose. Rather, it relies upon using the basic rules established in the law.

GST Ruling GSTR 2000/15 discusses how you may determine the extent of creditable purpose for claiming input tax credits and making adjustments. In the Ruling, the Commissioner states that you may use any fair and reasonable method to establish your extent of creditable purpose. Your extent of creditable purpose is applied to your full input tax credit for a car expense to obtain the amount of input tax credit you can claim. This Bulletin expands on the principles outlined in the Ruling and explains how you can claim an input tax credit for a car expense. In particular, the Bulletin provides simple methods for calculating your extent of creditable purpose where you use certain methods for income tax purposes.

This Bulletin does not consider the income tax consequences of claiming input tax credits for GST. The income tax consequences will be considered in a further Bulletin.

The income tax methods

The income tax law contains specific rules for individuals and certain partnerships to follow in calculating their income tax deduction for car expenses. The four methods contained in Division 28 of the *Income Tax Assessment Act 1997* are:

- cents per kilometre;
- 12% of original value;
- one-third of actual expenses; and
- log book.

Information on these methods is contained in TaxPack and other relevant publications.

The effect of differences between rules for income tax and GST is that the amount of input tax credit allowable cannot be obtained directly from the car expense claim calculated using the four income tax methods (ie, you cannot just claim one eleventh of your income tax claim). However, if you are using one of the above car expense methods for income tax purposes, then you may wish to use the same information, where appropriate, to determine your extent of creditable purpose for GST. If you follow the rules outlined in this Bulletin, the Commissioner will accept that you have correctly calculated your entitlement to input tax credits on your car expenses.

You can use a different method from the one you use for income tax, provided you meet the requirements of the method you choose.

While this Bulletin focuses on the income tax methods, the principles established can be used to calculate the extent of creditable use of any vehicle, including those types of vehicles, such as utilities, exempted from the income tax methods.

Determining the extent of creditable purpose for GST

You have to determine the extent to which you use, or plan to use, your car for a creditable purpose before you can calculate the amount of input tax credit you are entitled to claim for your car expenses. You can use any method to determine your extent of creditable purpose, provided it is apt to give a fair and reasonable representation of the use, or planned use, of your car.

In most cases, the business use of your car for income tax purposes will be the same as its use for a creditable purpose. In these cases you can use your business use percentage as your extent of creditable purpose.

However, your business use will not be the same as your use for a creditable purpose where some of your travel:

- is for the activities that you do in connection with earning certain PAYG withholding payments (these activities are not part of your enterprise for GST purposes); or
- relates to making input taxed supplies such as residential accommodation.

The relevant PAYG withholding payments include salary and wages, remuneration as a company director, and payments made under a labour hire arrangement.

Example 1
Ian is a lecturer in management at the university and also carries on a consulting business. He uses his car both in his duties as a university employee and in his consulting business. The travel he undertakes in carrying on his consultancy business is for a creditable purpose, while the travel he undertakes as an employee of the university is not for a creditable purpose.

Where you use your car for these other purposes, you will have to adjust your extent of creditable purpose to take account of these non-creditable uses.

In this Bulletin, "business kilometres" and "business use" refer to the kilometres travelled in the course of producing your assessable income. Therefore, if you use your car in your employment or you use it in relation to making input taxed supplies, your business use or business kilometres will have to be adjusted in order to determine your extent of creditable purpose.

If you are an employer who supplies a car to an employee, the private use of the car by the employee will not affect the extent to which you use the car for a creditable purpose. In allowing an employee the benefit of using the car, you are still using the car for the purposes of your enterprise. It is the use you make of the car that determines the extent of creditable purpose. Where you allow an employee to use a car for his or her private purposes, you will need to consider the effect of the fringe benefits tax law.

Formula method

If you use the cents per kilometre method for income tax, you are not required to calculate an extent of business use. Therefore, you need a method to work out your extent of creditable purpose. You can do this using the following formula:

$$\frac{\text{reasonable estimate of business kilometres per tax period}}{\text{reasonable estimate of total kilometres per tax period}}$$

where the estimate of business kilometres is the same as that used for income tax purposes, excluding any travel in respect of employment or making input taxed supplies. Business and total kilometres can be estimated from odometer readings, service records or any other reasonable basis.

Example 2
Abigail has a hairdressing salon and uses her car to purchase occasional supplies from her wholesale supplier and to do the weekly banking. Her diary records show that she has used her car for these business purposes for 900km during the quarter. Abigail had her car serviced on 1 May and notices that the previous service was four months previous. During that time, she travelled 8,000 km so her estimated total annual usage is 24,000km (12months / 4months x 8,000km) and her estimated quarterly usage is 6,000km (24,000km ÷ 4).

Since all her business use is for a creditable purpose, the extent of creditable purpose is:

$$\frac{900}{6000} \quad \textit{or} \quad 15\%$$

You do not have to be using the cents per kilometre method for income tax to use this formula for GST.

When you use the formula, your extent of creditable purpose may change from one period to the next. For instance, in Example 2 above, if during the next tax period Abigail travelled 1,500 business kilometres and her estimated total quarterly usage is still 6,000 km, her extent of creditable purpose would be 25% ($^{1500}/_{6000}$). Where your extent of creditable purpose changes, you may be required to make adjustments in respect of expenses over $1,100 (including GST). (see **Making adjustments for changes in the extent of creditable purpose**)

For income tax purposes, the cents per kilometre method is limited to the first 5,000 business kilometres in a tax year. This limitation will not apply for GST purposes, provided your records are sufficient to show that the extent of creditable purpose you use is a fair and reasonable approximation of the actual use of your car.

Set rate method

This method does not have a statutory basis. It has been developed having regard to compliance costs and accepts what is likely to be reasonable at particular levels of kilometres travelled.

If a reasonable estimate of the kilometres you travel for a creditable purpose for a year does not exceed 5000, you can use the following set rates. The rate you use depends on the number of kilometres:

Estimated kilometres travelled for a creditable purpose for a year	Assumed extent of creditable purpose
0 – 1250	5%
1251 – 2500	10%
2501 – 3750	15%
3751 – 5000	20%

For example, if your estimated annual kilometres for a creditable purpose is 2600, the Commissioner will accept 15% as a reasonable estimate of your extent of creditable purpose for car expenses.

The one third creditable purpose method

For income tax purposes you may be able to use the 12% of original value or one third of total expenses methods if you travel over 5,000 business kilometres. By its very nature, the $^1/_3$ method assumes a business use of $33^1/_3$%. For recoupment of depreciation purposes, the 12% method also assumes a business use of $33^1/_3$%.

Similarly, the Commissioner will accept that your extent of creditable purpose is $33^1/_3$% where you travel, or are likely to travel, more than 5,000 kilometres in the year for a creditable purpose. Like income tax, you have to show how you worked out your business kilometres.

Example 3 - business use is wholly creditable

Edward imports a range of catering products for use in restaurants and is registered for GST. Most of his customers are in the Brisbane CBD area but, once a month, he visits customers in Toowoomba and Hervey Bay. Edward does not keep a log book. However, he has noted that each trip is just over 600km in total. Since he does this trip twelve times a year, his total business travel exceeds 5,000 km. Edward can assume an extent of creditable purpose of $33^1/_3$%.

Where your business use includes travel for both creditable and non-creditable purposes, you may use an extent of creditable purpose of $33^1/_3$%, provided your creditable use is over 5,000 km.

Example 4 – business use not wholly creditable

Ian, from Example 1, estimates he will travel 8,000 business kilometres in the year, of which 6,000 km will be in respect of his consultancy business. As Ian expects to travel over 5,000 kilometres for a creditable purpose, he can use an extent of creditable purpose of $33^1/_3$%.

If your use for a creditable purpose alone is not over 5,000 km, you will have to use another method such as the formula method or set rate method to calculate your extent of creditable purpose. This is because the $33^1/_3$% rate is based on a formula that assumes your estimated travel for creditable purposes will exceed 5,000 kilometres in the year.

Example 5 – business use not wholly creditable

Megan conducts an interior design business and is registered for GST. She is also employed part-time by a local paint manufacturer, providing advice on colour schemes for new homes. Megan uses her car in both her business and employment. She is able to show she uses her car for in excess of 5,000 business kilometres each year, but her use in respect of her interior design business does not exceed 5,000 km.

As she travels over 5,000 business kilometres, Megan would be able to use the one third of costs method or 12% of original value for claiming car expenses for income tax. As her total kilometres for a creditable purpose does not exceed 5000, she cannot use the one third creditable purpose method. She will need to use another method, for example the formula method or the set rate method.

The "log book" method

If you maintain a log book and all of the business use of your car is for a creditable purpose, the Commissioner will accept that the percentage of business use obtained for income tax can also be used as the extent of creditable purpose. If your business use is not entirely for a creditable purpose, for instance, your business use includes travel for your employment or travel in respect of input taxed supplies, then you have to reduce your extent of creditable purpose accordingly.

For income tax purposes, your log book is valid for 5 years. Similarly, the Commissioner accepts that this method establishes the extent of creditable purpose for 5 years, provided you are not required to keep a new log book or your portion of non-creditable use does not change.

Example 6

Charlotte runs her own business as an horticulturalist. She maintains a log book for twelve weeks in the 2002-3 year that shows 4,800km of the 8,000 total kilometres travelled during that twelve week period were for business use. For income tax purposes, Charlotte's business use percentage is 60% (4,800 ÷ 8,000). Charlotte does not make input taxed supplies, so her extent of creditable purpose will also be 60%.

First tax period of a new business

When you start a new business and purchase a car for the business, you will need to make a reasonable estimate of the extent to which you plan to use the car for a creditable purpose so that you can claim an input tax credit for the acquisition of the car.

If you have chosen a method for your car expenses for income tax, this may help you to determine your extent of creditable purpose. For instance, if you intend to use the 'one third of actual expenses' or the '12% of original cost' method and you plan to travel over 5,000 kilometres for creditable purposes, you may use an extent of creditable purpose of $33^1/_3$%. If you intend to use the cents per kilometre method, you could use either the formula method or the set rate method. Where you choose the set rate method you will have to make a reasonable estimate of your planned use for a creditable purpose. Where you choose the formula method you will have to make reasonable estimates of your planned use for a creditable purpose and your total use.

Alternatively, you may base your claim for initial input tax credit on your estimate of the actual business use during your first tax period. For example, based on your estimate of total actual travel during that period, you could use the formula method or set rate method to calculate your extent of creditable purpose for your initial input tax credits.

If the actual use of your car in the first tax period is insufficient to make an estimate, you may use some other reasonable basis to estimate your extent of creditable purpose. (See Ruling GSTR 2000/15 for guidance.)

Calculating the amount of input tax credit you can claim

Your claim for an input tax credit is limited to the extent that your purchase is used for a creditable purpose. The amount of the input tax credit is calculated as follows:

Full input tax credit	x	Extent of creditable purpose	x	Extent of consideration

where the *full input tax credit* is the amount of input tax credit if the acquisition had been solely for a creditable purpose, and the *extent of consideration* is the percentage of the consideration that you have either paid or are liable to pay. In most cases, the extent of consideration will be 100%. Where you are claiming input tax credits for an importation, the extent of consideration is not relevant.

Example 7

Stephen owns a bookbinding business and only occasionally uses his car for business. He has kept a note of the business use which, for the current quarter, was 750km. Since Stephen purchased the car he has travelled an average 24,000km per year or 6,000km per quarter. Using the formula method, Stephen can determine his extent of creditable purpose as follows:

$$\frac{750\text{ km}}{6000\text{ km}} = 12.5\%$$

In this tax period, Stephen has paid his car insurance of $550. He has retained his insurance renewal notice, which is also a tax invoice, and has also retained a dozen petrol receipts, all under $55, to a total of $330.

The amount of GST included in his acquisitions is $50 for the insurance and $30 for the petrol. Therefore, the full input tax credit is $80.

Stephen can calculate his input tax credit claim as follows:

$$\$80 \quad \times \quad 12.5\% \quad \times \quad 100\% \quad = \quad \$10.00$$

Making adjustments for changes in the extent of creditable purpose

Where there is a difference between planned use and actual use, or where the actual use changes from one year to another, there will be a change in the extent of creditable purpose. This may mean that you have to make an adjustment to correct the amount of input tax credit that has been claimed in a previous period. The Commissioner will issue a Ruling that explains more about what an adjustment is and when an adjustment is necessary.

Adjustments are generally not necessary where the price of each expense is $1,100 or less (including GST). This means that, for most practical purposes, no adjustments will be required for car running expenses such as fuel, servicing, and insurance.

Usually, it is only where you have claimed an input tax credit in relation to the purchase of a car that the issue of adjustments arises.

If you use an assumed extent of creditable purpose (i.e., under either the set rate method or one third method), and continue to use the same percentage, then your extent of creditable purpose will not change. Therefore, you will not have to make any adjustments. However, if some of your business use is for a non-creditable purpose, and the proportion of your non-creditable use changes, you may have to make an adjustment.

Example 8

Ashley runs a home hair dressing service. He estimates that his business kilometres are over 5,000 per year, and he has elected to use an assumed extent of creditable purpose of $33^{1}/_{3}$%. Provided he continues to travel over 5,000 business kilometres and use an extent of creditable purpose of $33^{1}/_{3}$%, he will not have to make adjustments.

Similarly, if you use the "log book" method you will only be required to make an adjustment if there is a substantial change in your percentage of business use or your non-creditable business use changes.

If you use the formula method you may have to make an adjustment if your extent of creditable purpose changes. At the end of each adjustment period, you will have to calculate your actual use of the car for creditable purposes. This can be done by calculating your extent of creditable purpose over the period you have used the car.

Example 9

Duncan runs a small hotel in his country town. On 15 March 2003, Duncan purchased a new car for $33,000. At that time he estimated his business use was 20%, so he claimed an input tax credit of $600 (3,000 x 20%) in his Business Activity Statement for the March 2003 quarter.

Up to 30 June 2004, Duncan's estimated business use for the six quarters has been, 280 km, 870 km, 750 km, 1200 km, 1100 km and 1200 km, and his estimated total kilometres has been 1400 km, 3480 km, 3000 km, 3000 km, 3300 km and 3300 km respectively. Therefore, his extent of creditable purpose percentages for the quarters have been:

March 2003	$^{280}/_{1400}$	=	*20%*	*June 2003*	$^{870}/_{3480}$	=	*25%*
Sept 2003	$^{750}/_{3000}$	=	*25%*	*Dec 2003*	$^{1200}/_{3000}$	=	*40%*
March 2004	$^{1100}/_{3300}$	=	*33%*	*Jun 2004*	$^{1200}/_{3300}$	=	*37%*

At the end of the June 2004 quarter, Duncan can calculate his actual use for creditable purposes as follows:

$$\frac{\textit{Sum of quarterly percentages of creditable purposes}}{\textit{Number of quarterly periods}}$$

or,

$$\frac{20 + 25 + 25 + 40 + 33 + 37}{6} = \frac{180}{6} = 30\%$$

As the actual use (30%) is different from the planned use (20%) on which Duncan based his initial claim for input tax credit for the purchase of the car, Duncan is entitled to a decreasing adjustment of $300 [(30% - 20%) x *$3000] in respect of the GST paid on purchase of the car. He will make the adjustment in his Business Activity Statement for the June 2004 quarter.*

Changing methods to calculate your extent of creditable purpose

You may change the method you use to determine your extent of creditable purpose. However, if you do, and your extent of creditable purpose changes, you may have to make an adjustment in respect of input tax credits claimed in previous tax periods.

Example 10

On 1 July 2002, Victoria started up her business of mobile pet grooming and care. She purchased a car from a registered used car dealer for $26,400 which included $2,400 GST. Victoria estimated that her business kilometres would be over 5,000 and she elected to use an assumed extent of creditable purpose of $33^{1}/_{3}$*%. On her first Business Activity Statement, Victoria claimed an input tax credit of $800 ($2,400 x* $33^{1}/_{3}$*%) in respect of the acquisition of the car. She continued to use an extent of creditable purpose of* $33^{1}/_{3}$*% for the remaining tax periods in the year.*

However, the business grew rapidly and Victoria changed to the 'log book' method in the first tax period of her second year in business. She was able to show a business use of 60%. Because of this, she has claimed too little input tax credit for the acquisition of the car and she can make an adjustment to reflect this.

The purchase of cars

Phasing-in rules

With the phasing-in rules under the GST transitional legislation, there are limits to the extent that an input tax credit is available to purchasers of new cars. Generally, no input tax credit can be claimed where the car is acquired or imported before 1 July 2001. The exceptions to this are where the car is acquired or imported as trading stock, the acquisition or importation would have been exempt under the Sales Tax law if it had continued, or the car is acquired by an insurer in settling a claim to replace an insured vehicle.

If a new car is acquired or imported on or after this date but before 1 July 2002, the amount of input tax credit you are entitled to is reduced by 50%. For cars acquired or imported on or after 1 July 2002, the normal rules apply.

Input tax credits are available on the purchase of second hand cars from dealers who are registered for GST as from the implementation of GST on 1 July 2000.

Depreciation limit

The amount of input tax credit is limited where the GST inclusive market value of the car exceeds the car depreciation limit for the financial year in which you first used the car for any purpose and, for the purposes of the *A New Tax System (Luxury Car Tax) Act 1999*, you are not entitled to quote an Australian Business Number in relation to the supply. Where these conditions apply the input tax credit is limited to 1/11 of the car depreciation limit of that year.

Records required in order to claim an input tax credit

The amount of input tax credit for a creditable acquisition depends upon the amount of GST payable on the supply of the thing acquired. Therefore, to claim any input tax credit, you must hold appropriate documentation. For expenses greater than $55, you will need to hold a tax invoice.

The Commissioner will issue a Ruling that explains the requirements for tax invoices. Documents such as insurance renewal notices can serve as tax invoices provided they meet the information requirements set out in the Ruling.

There will be many expenses under $55 for which a tax invoice may not be available, the most common being petrol. In these cases, receipts and diary entries are acceptable documentation of the expense incurred. The amount of input tax credit available on a creditable acquisition is $^{1}/_{11}{}^{th}$ of its cost. However, the amount of input tax credit you can actually claim will depend upon your extent of creditable purpose.

If you calculate your car expenses using either the “one-third” or “log book” methods, then the records you are required to keep for income tax may be used to substantiate your claims for input tax credits. However, both methods allow a reasonable estimate of fuel and oil expenses. This is not acceptable for GST as the GST law requires input tax credits to be based upon actual expenses rather than estimates.

Similarly, if you calculate your car expenses using either the “cents per kilometre” or “12% of original cost” methods, the records you are required to hold for income tax will not be sufficient for GST purposes. You will need to keep records of all of the expenses you have incurred in order to claim input tax credits.

Input tax credits and car allowances and reimbursements

Division 111 of *A New Tax System (Goods and Services Tax) Act 1999* allows you to claim input tax credits when you reimburse your employees, agents, officers or partners for any expenses they incur in connection with you carrying on your enterprise. However, a reimbursement must be for an actual expense. Thus, if you undertake to pay a proportion of your employee’s vouched car insurance expenses and all of the petrol dockets he produces, you may be entitled to claim an input tax credit. If you pay a car allowance to an employee that is not based on actual expenditure, even if it is calculated on actual mileage, this is not a reimbursement and no input tax credit can be claimed.

Do you need more information

If you have any questions or need more information on GST and the New Tax System, you can:

- phone the business Tax Reform Infoline on **13 24 78**; or
- download information from our website at **www.ato.gov.au;** or
- obtain *A Fax From Tax* on **13 28 60**; or
- write to us at PO Box 9935 in your capital city.

If you do not speak English and need help from the ATO, phone the Translating and Interpreting Service (TIS) on **13 14 50**.