



Commercial Vehicles

Tax Tips for Small Business

Introduction

Vehicles are permanent feature of the Aussie business landscape. From trusted utes and commercial trucks to vans and sedans, for many business owners vehicles are considered a standard cost of doing business.

Yet they can also be a common tax trap. Without the right knowledge of the various deductions and thresholds, chances are you're paying more tax than you should or (as is common among busy business owners) making incorrect deductions that could potentially leave your business on the wrong side of the ATO.

In this guide we reveal the secrets of business vehicles, and how you can leverage various incentives and write-offs to minimise your tax liabilities and maximise your deductions.



Business Vehicles

Types and Categories

In Australia, business vehicles are defined and categorised based on their intended use and purpose. Categorisations are important for taxation, registration, and regulatory purposes. Main vehicle categories include:

Light Commercial Vehicles (LCVs)

These are vehicles designed primarily for carrying goods and have a Gross Vehicle Mass (GVM) of up to 4.5 tonnes. Examples include vans, utes and small trucks used for business purposes.

Heavy Commercial Vehicles (HCVs)

These are vehicles with a GVM exceeding 4.5 tonnes. They include larger trucks and transport vehicles used for transporting goods.

Business Passenger Vehicles

These are passenger cars that are primarily used for business purposes. They may be owned or leased by a business for employee transportation or other business-related activities. Tax implications and deductions may vary based on their business use percentage.

Specialised Vehicles

Specialised vehicles are those designed for specific business purposes, such as construction, agriculture, or emergency services. Examples can include bulldozers and tractors.

Fleet Vehicles

Fleet vehicles refer to a group of vehicles owned or operated by a business or organisation. These vehicles can include passenger cars, LCVs, and HCVs, and they are typically managed as a single entity.

Rental Vehicles

Rental vehicles are used by businesses in the short-term for various purposes, including transporting employees or clients, attending meetings, or for specific projects.

Government and Non-Profit Vehicles

Government agencies and non-profit organisations often have their own categorisation and taxation rules for vehicles used in their operations.



Vehicle Tax Deductions

A Checklist

- Fuel and oil
- Repairs and servicing
- Interest on loans
- Lease payments
- Insurance cover premiums
- Registration
- Depreciation (decline in value)



Quick Tip: It's always best to get advice from a qualified tax professional when calculating business-related vehicle deductions.

Tracking and Calculating Vehicle Expenses and Deductions

The Two Different Methods

There are generally two ways you can track and log your vehicle expenses to claim tax deductions: Actual Costs Method and Cents Per Kilometre. Let's take a look at each method so you can determine which is best for your business.

Actual Costs Method

The Actual Costs method involves tracking and documenting all actual expenses associated with the vehicle's use for work-related activities. Here's how the Actual Costs method typically works.

Logbook: Maintain a logbook that records your vehicle usage over a representative 12-week period. This logbook should include details such as the dates of travel, starting and ending odometer readings, total kilometres driven, and a breakdown of the purpose of each trip (e.g, business, personal, and other work-related activities).

Track Expenses: Keep a detailed record of all expenses related to the operation and maintenance of your vehicle. This includes fuel, maintenance and repairs, insurance, registration fees, lease or finance payments, depreciation, and other relevant costs.

Calculate Business Use Percentage: Based on the information in your logbook, calculate the percentage of your total vehicle usage that is attributable to work-related activities. This percentage will be used to apportion your vehicle expenses.

Allocate Expenses: Apply the business use percentage to each expense category. Multiply each expense by the percentage of business use determined from your logbook. This will give you the deductible amount for each expense category.

Record Keeping: Maintain organised records of all receipts, invoices, and other documentation that support your claimed expenses. These documents are important for substantiating your deductions in case of an audit.

Claiming Deductions: When preparing your tax return, report the calculated deductible expenses on the appropriate sections of your tax form.

It's important to note that the actual costs method requires careful record-keeping and accurate documentation. The logbook itself should comply with the ATO's requirements and guidelines. Additionally, you need to update your logbook every five years or if there are significant changes in your vehicle usage.

Cents Per Kilometre

The 'cents per kilometre' method allows you to claim a deduction for the business use of your car based on a standard rate for each kilometre you travel for work-related purposes.

To use the cents per kilometre method, you must meet certain eligibility criteria:

- You can only claim for work-related trips, not for private travel.
- The maximum number of kilometres you can claim is generally capped at 5,000 kilometres per car.
- You don't need written evidence for your car expenses.

Here's how the cents per kilometre method works.

Standard Rate: The ATO sets a standard rate for claiming deductions based on the number of kilometres you've travelled for work purposes.

Calculation: To calculate your deduction using the cents per kilometre method, you simply multiply the number of kilometres you've travelled for work-related purposes by the standard rate. For example, if you travelled 2,000 kilometres for work and the standard rate is 72 cents per kilometre, your deduction would be $2,000 \text{ km} \times \$0.72 = \$1,440$.

Records and Documentation: While you don't need written evidence for car expenses when using the cents per kilometre method, it's still a good idea to keep a record of your work-related trips. This could include a diary with details of each trip, such as the date, destination, purpose of the trip, and number of kilometres travelled.

Cents Per Kilometre Rates

2023–24: 85 cents per kilometre

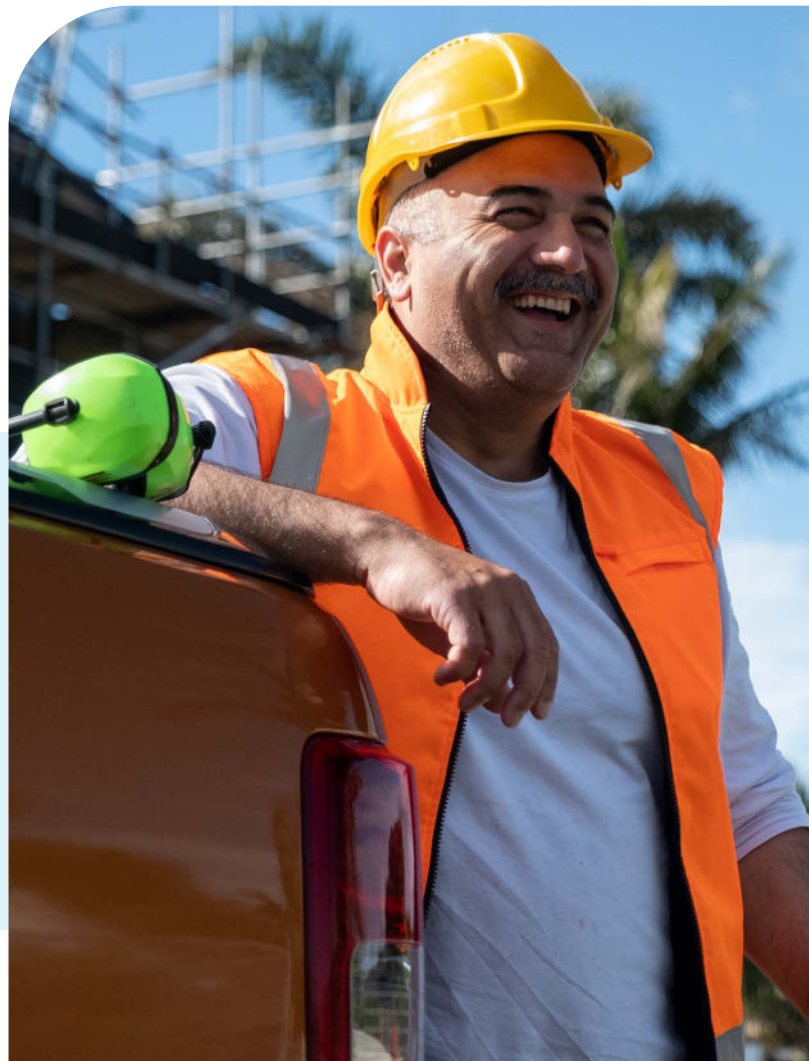
2022–23: 78 cents per kilometre

2020–21 and 2021–22: 72 cents per kilometre

2018–19 and 2019–20: 68 cents per kilometre

2017–18: 66 cents per kilometre

Quick tip: It's important to note that tax laws and regulations can change, so it's always a good idea to consult with a qualified tax professional when calculating and claiming tax deductions related to your vehicles.





Minimising Vehicle Tax

Tips and Advice

Choose the Right Vehicle

Select vehicles that are eligible for tax deductions. In Australia, vehicles classified as "commercial vehicles" often receive more tax incentives. These can include vans, trucks, and other vehicles primarily used for business purposes.

Claim Depreciation

You can claim deductions for the depreciation of your business vehicle's value over time. There are different methods to calculate depreciation, such as the diminishing value method or the prime cost method. Consult with your accountant to determine the best approach for your business.

Keep Accurate Records

Maintain detailed and accurate records of all vehicle-related expenses, including fuel, maintenance, repairs, insurance, registration, and interest on loans. Proper documentation is crucial to support your claims and deductions.

Use the Actual Costs Method

If your vehicle is used for both business and personal purposes, you can use the actual costs method to determine the percentage of business use. This can help maximise your tax deductions.

Consider Leasing

Depending on your circumstances, leasing a vehicle rather than purchasing it outright might provide you with more flexible tax deductions. Leasing payments could be fully deductible if the vehicle is used solely for business purposes.

Maximise Fuel Tax Credits

If your business uses vehicles for traveling long distances, you may be eligible for fuel tax credits (FTCs). These credits can offset the excise or customs duty you pay on fuel. Keep accurate records of fuel usage and consult your accountant for guidelines on claiming FTCs.

Employee Contributions

If employees use company vehicles for personal use, consider implementing an employee contribution arrangement. This allows employees to contribute towards the cost of using the vehicle for personal purposes, which can reduce the fringe benefits tax (FBT) liability for your business.

Fringe Benefits Tax (FBT)

Be aware of the FBT rules and exemptions. Vehicles used primarily for business purposes may be exempt from FBT, but personal use of company vehicles can trigger FBT liabilities. Consult with a tax professional to manage FBT obligations effectively.

Seek Professional Advice

Tax laws and regulations can be complex and subject to change. Consulting with a qualified tax advisor or accountant who specialises in small business taxation can help you navigate these complexities.

Remember, individual circumstances vary, so it's important to tailor these tips to your specific business situation. Always stay informed about the latest tax rules and seek professional advice to ensure you're making the most informed decisions for your small business.

The Five Golden Rules of Buying a Vehicle for Your Business

Want to purchase a vehicle for your business? Here are the things you could keep in mind.



Get Across the GST

A car purchased for your business will be subject to GST. However, if your business is registered for GST and you purchase a vehicle for business purposes, you may be able to claim a GST credit for the GST included in the purchase price. However, there are certain conditions and limitations to consider.

Understand Depreciation and Capital Allowances

When you buy a car for business use, you may be eligible to claim deductions for the decline in value (depreciation) of the car over time. Australia has a system of capital allowances that means businesses can claim deductions for the cost of assets, including cars, used in their business activities. The depreciation deductions are generally calculated based on the car's cost, its effective life, and its business usage percentage.

Leasing vs Buying. Know Which Is Best for Your Business

Whether you lease or buy the car can also impact the tax implications. Leasing arrangements may have different deductions and GST treatment compared to outright purchases.

Investigate the Instant Asset Write-Off

Take advantage of the instant asset write-off threshold, which allows you to claim an immediate deduction for assets purchased for your business, including vehicles, up to a certain threshold. Be aware of the current threshold and eligibility criteria.

Seek Professional Advice

Don't go it alone. When purchasing a vehicle for your business always speak to a qualified accountant to make informed decision that will ease the tax burden in the long run.

Business Vehicle Deductions

A Case Study



Grass is Greener Landscaping is a small landscaping business in Melbourne. The owner, John Jenkins has been in business for three years and primarily provides landscaping and gardening services to residential and commercial clients. John owns a ute that he uses for transporting equipment, tools, and materials to job sites. As the end of the financial year approaches, John needs to maximise his vehicle deductions to minimise his tax liability.

Vehicle Details:

Make and Model: Toyota Hilux ute

Purchase Date: January 1, 2022

Total Cost: \$30,000

Usage: Primarily for business purposes, occasionally for personal use

Common Small Business Vehicle Deductions

John can claim a range of vehicle-related deductions to reduce his tax liabilities.

Depreciation

John can claim a portion of the cost of the ute as a depreciation expense over its effective life. The cost is spread out over several years, which helps reduce his tax. The depreciation rate depends on the vehicle's type and usage.

Operating Expenses

John can claim operating expenses related to the ute's business use, such as fuel, maintenance, repairs, insurance, and registration fees. He should keep detailed records of these expenses, including receipts, to substantiate his claims.

Interest on Loan

If John financed the purchase of the ute with a loan, he can claim the interest paid on the loan as a deduction, provided the vehicle is used for business purposes.

Leasing Costs

If John leased the vehicle, he can deduct the lease payments made during the financial year. However, deductions might be limited if the vehicle's value exceeds certain thresholds.

Recommendations

To maximise his deductions, John should take the following steps

Maintain Accurate Records

John should diligently track and document all expenses related to the ute's business use, including fuel receipts, maintenance invoices, and insurance premiums.

Use the Actual Costs Method

Since John uses his ute for both business and personal purposes, he should consider using the actual costs method to establish the percentage of business use. This will allow him to claim a more accurate deduction.

Consult a Tax Professional

Given the complexities of small business taxation and vehicle deductions, John should consult a qualified tax professional who can provide personalised advice tailored to his business situation.

Claim All Eligible Deductions

John should ensure that he claims all eligible deductions, including depreciation, operating expenses, loan interest, and leasing costs, to maximise his tax benefits.

Plan for Future Purchases

John should keep in mind the potential tax implications when considering future vehicle purchases for his business. Choosing vehicles with higher business use percentages can result in greater deductions.



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Business Health Check – we outline any gaps or actions required

Outstanding Lodgements – we get you back up to date with all filings



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Payroll – wages processed along with STP, PAYG and Super*

Tax – BAS, annual company tax returns and any other lodgements



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Analysis – Insights and observations from our accounting team

Collaboration – Monthly call with our accounting team to review and plan ahead



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Guarantee – ATO fines are covered by us

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Jason Lowe
JLX Plumbing

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