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THE VALUE OF A GOOD CAR LOG BOOK

When claiming for work-related car expenses, many taxpayers miss out on maximising their claim due to inadequate record keeping. But also, failing to maintain a valid car log book can cost taxpayers dearly in an ATO audit.

The car log book is an important piece of tax substantiation for those who use their vehicle in the course of performing their duties. Most will be familiar with the two main instances where a car log book is required.

These include:

- where the individual is claiming a deduction in their personal tax return for work-related car expenses using the log book method, or
- where the individual or their associate has been provided with a car by their employer and is required to maintain a log for fringe benefits tax (FBT) purposes.

Why a “good” log book is important

Over the last several years, the ATO had undertaken a motor vehicle registry data matching program to assess the overall taxation compliance of individuals and businesses involved in buying and selling motor vehicles.

The program involved the ATO requesting details from the state and territory motor vehicle registering authorities where a vehicle has been transferred or newly registered and the purchase price or market value is equal to or exceeds \$10,000 (this threshold was determined taking into account car prices have fallen over the past decade and new vehicles can now be purchased around this amount).

The initial appeal to some family businesses in acquiring a car through a company or trust is understandable. These entities are generally entitled to claim input tax credits under the GST regime, with the maximum credit capped at \$5,234 for the GST inclusive cost of cars that exceed the current car limit of \$57,581 (for 2019-20). This will increase to \$59,136 (for 2020-21)

Not

withstanding this immediate cash flow benefit, the sting in the tail is that some businesses may not be fully aware of their FBT obligations and may be liable to FBT. Through its

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data matching process, the ATO identified poor FBT compliance by family businesses that provide newly acquired vehicles to the business owner or their family members.

Changes to car expense claims make log books critical

Some years ago, the government changed the way that individuals claim their work--related car expenses. These changes (from 1 July 2015) included:

- the cents per kilometre method now uses a standard rate of 68 cents per kilometre rather than a rate based on the engine size of the car, and
- the one third of actual expenses method and the 12% of original value method were abolished because the ATO found that only 2% of taxpayers used these methods.

Since the above changes, greater emphasis has been placed on individuals who travel more than 5,000 business kilometres to maintain a valid log book, if they opt for the log book method.

The log book method will therefore benefit an individual if their estimated deduction exceeds \$3,400 for the income year (that is, 68 cents x 5,000 kms under the cents per kilometre method). The log book method does however require receipts and a log book to be kept. For some, this may require some diligence!

There's an app for that

The ATO smartphone app containing the myDeductions tool may solve the record keeping dilemma, as it enables the individual to capture receipts for work---related car expenses as well as to enter information for a log book.

Although the tool is appropriate for individuals wishing to claim work---related car expenses, it may not be appropriate for all FBT purposes. In any case, there are other third party apps that may satisfy the requirements under FBT law. Users should satisfy themselves that such apps fulfill the requirements under the tax law.

What are the requirements for a valid log book?

The purpose of the log book and accompanying odometer records is to determine the business---use percentage of the vehicle. As a general rule, the higher the business---use percentage:

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- under income tax — the greater the deductions that may be claimed for work-related car expenses
- under FBT — the lesser the amount of FBT payable for car benefits.

The requirements for maintaining a log book for income tax and FBT purposes are mostly identical, although there are some small differences. The main one is that an FBT log book applies to the relevant FBT year (that is, ending March 31) while an income tax log book applies naturally to an income year (that is, ending June 30).

Things to be mindful of when using a log book include:

- the log book is valid for five years – after the fifth year, a new log book will need to be kept. A new one can be started at any time (for example, if it no longer reflects the business use)
- the log book must be kept for at least a continuous 12 week period – note that the year in which the log book is first kept is referred to as the “log book year”; otherwise it is referred to as a “non-log book year”
- for two or more cars – for income tax, the log book for each car must cover the same period. For FBT, one log book must be maintained for each car where multiple cars are provided by an employer
- the log book must reflect the business use of the vehicle – this can be tricky where there is home-to-work travel, travel between workplaces, or if the individual’s work is itinerant in nature
- odometer records must also be kept – this is crucial for working out the total distance travelled during the year and also for the relevant period that the log book is kept.

The requirements in keeping a log book can be complex, but the table below is a useful guide to maintaining the relevant records for a log book and non-log book year.

Year by year requirements	Log book year	Non-log book year
Keep a log book recording details of business journey undertaken in the car for a continuous period of at least 12 weeks (the log book period)	✓	✗
Keep odometer records of the total kilometres travelled during that log book period	✓	✗
Keep odometer records of the total kilometres travelled during the FBT year/income year	✓	✓
Estimate the number of business kilometres travelled during the FBT year/income tax year (or part year, if appropriate)	✓	✓
Take into account all relevant matters, including log book, odometer and any other records kept, and a variation in the pattern of business use throughout the year due to things like holidays or seasonal factors	✓	✓

What information must be kept? Each log book kept must contain:

- when the log book period begins and ends
- the car's odometer readings at the start and end of the log book period
- the total number of kilometres the car travelled during the log book period
- the number of kilometres travelled for each journey (if two or more journeys are made in a row on the same day, this can be recorded as a single journey).

The following will need to be recorded:

- o journey start and finishing times
- o odometer readings at the start and end of the journey
- o kilometres travelled
- o reason for the journey
- the percentage of business use for the log book period.

In the ATO's view, when recording the purpose of the journey, an entry stating "business" or "miscellaneous business" will not be enough. The entry should sufficiently describe the purpose of the journey so that it can be classified as a business journey. Private travel is not required to be shown, but it may help to include in the records to help with calculations.

Generally, most odometer records will be kept as part of the log book, showing the starting and closing odometer records for the relevant period.