TD 97/D4 - Income tax: substantiation: car expenses: how do you calculate the cost of fuel and oil when using the 'one-third of actual expenses' method or the 'log book' method, if you have not kept written evidence of the expense?

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Australian Taxation Office

Taxation Determination TD 97/D4

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Draft Taxation Determination

Income tax: substantiation: car expenses: how do you calculate the cost of fuel and oil when using the 'one-third of actual expenses' method or the 'log book' method, if you have not kept written evidence of the expense?

1. When using the 'one-third of actual expenses' method or the 'log book' method, you can use either of two ways to work out fuel and oil costs. These are by using fuel and oil receipts if they have been kept, or by making a reasonable estimate based on odometer records (subsection 2-3(4) and section 3-2 of Schedule 2B to the *Income Tax Assessment Act 1936* ('the old Act') or subsection 900-15(2) and section 900-70 of the *Income Tax Assessment Act 1997* ('the new Act')).

2. Odometer records are used as a basis for calculating the kilometres the car has travelled. You need odometer readings of the car at the start and end of the period you owned or leased the car in the income year. They should also show the car's engine capacity, make, model and registration number. Section 8-2 of Schedule 2A to the old Act (section 28-140 of the new Act) sets out the requirements for keeping odometer records.

3. If you are using the 'log book method', section 6-4 of Schedule 2A to the old Act (section 28-100 of the new Act) requires you to keep odometer records for the period you held the car during the income year.

4. The Commissioner accepts a reasonable estimate of average fuel costs and average fuel consumption. This combined with kilometres travelled will allow you to calculate the fuel expense: see ***Example*** below.

5. Average fuel costs in most cases can be determined by reference to the Australian Bureau of Statistics' figures on the average retail price of petrol in Australian capital cities, which are released quarterly. For taxpayers in remote/country areas, a different average fuel price would be appropriate. One acceptable method would be obtaining documentation from the area petrol distributor stating the average retail price of petrol for the relevant period.

6. The Department of Primary Industry and Energy's '*Australian Fuel Consumption Guide*' is issued annually for new cars and can provide a basis for calculating average fuel consumption.

7. In the case of oil expenses a reasonable estimate of costs can be made that is based on a knowledge of oil usage of the car (the number of oil changes or average oil top-ups) in relation to

kilometres travelled. This calculation gives the total litres of oil used and can be multiplied by the average cost per litre of oil.

8. Provisions of Schedules 2A or 2B to the old Act mentioned in this Determination apply for the 1994-95, 1995-96 or 1996-97 income year; provisions of the new Act that are mentioned apply for the 1997-98 or a later income year.

Cross reference table of provisions

New Act	Old Act
1997-98 and later income years	**1994-95, 1995-96 and 1996-97 income years**
section 28-100	section 6-4 of Schedule 2A
section 28-140	section 8-2 of Schedule 2A
subsection 900-15(2)	subsection 2-3(4) of Schedule 2B
section 900-70	section 3-2 of Schedule 2B

Example

9. Jonathan, who drives a 1995 Ford Fairmont Automatic, claims car expenses for the 1995-96 income year. No written evidence of fuel expenses was kept. Jonathan kept odometer records for the period which showed, of a total of 20,000 kilometres travelled, 8,500 were business kilometres. Jonathan's travel was primarily for journeys within the city limits of Melbourne.

(i) Reference to the 1995-96 'Australian Fuel Consumption Guide' for a Ford Fairmont Automatic discloses 12.5 litres per 100 km City Cycle. Average retail petrol price for Melbourne for the year 1995-96 from the Australian Bureau of Statistics is 71.5 cents per litre.

(ii) Under the 'log book method' a deduction for fuel of $760 is considered reasonable.

Estimated cost of fuel is calculated as follows:

20000/100 x 0.425 x 12.5 x 0.715 = $759.69

[Business use percentage assume 42.5 (8500/20000)].

(iii) Under the 'one third of actual car expenses' a deduction for fuel of $596 is considered reasonable.

Estimated cost of fuel is calculated as follows:

20000/100 x 1/3 x 12.5 x 0.715 = $595.83.

Note

10. The Tax Law Improvement Project is restructuring, renumbering and rewriting the income tax law in plain language. The Parliament is amending the income tax law progressively to reflect these aims. As new laws come into effect, Taxation Rulings (including Taxation Determinations) about old laws are being brought into line with them.

Your comments

11. If you wish to comment on this draft Ruling, please send your comments by **11 July 1997** to:

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Commissioner of Taxation
18 June 1997

FOI INDEX DETAIL: Reference No. Previously issued as TD 93/104

Related Determinations:

Related Rulings:

Subject Ref: car expenses; substantiation

Legislative Ref: ITAA36 Sch 2A, 6-4; Sch 2A, 8-2; Sch 2B, 2-3(4); Sch 2B, 3-2
ITAA97 28-100; 28-140; 900-15(2); 900-70

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