Australian Government
Australian Taxation Office

Explanatory Statement

Income Tax Assessment (Cents per Kilometre Deduction Rate for Car Expenses) Determination 2026

General outline of instrument

1. This instrument is made under subsection 28-25(4) of the *Income Tax Assessment Act 1997* (the Act).

2. The instrument sets the rate at which work-related car expense deductions may be claimed in an income year when using the cents per kilometre method. The Commissioner of Taxation has determined the rate to be 91 cents per kilometre for the 2026–27 income year. This figure is the base cents per kilometre rate of 89 cents with a temporary one-off uplift of 2 cents per kilometre for the 2026-27 income year. For future income years, the calculated annual indexation rate will be applied to the 2026–27 base cents per kilometre rate of 89 cents.

3. The instrument is a legislative instrument for the purposes of the *Legislation Act 2003*.

4. Under subsection 33(3) of the *Acts Interpretation Act 1901*, where an Act confers a power to make, grant or issue any instrument of a legislative or administrative character (including rules, regulations or by-laws) the power shall be construed as including a power exercisable in the like manner and subject to the like conditions (if any) to repeal, rescind, revoke, amend, or vary any such instrument.

Date of effect

5. This instrument commences on 1 July 2026.

Background

6. An individual or partnership (where at least one partner is an individual) that owned or leased a car during an income year can deduct an amount for work-related car expenses using one of two methods – the ‘cents per kilometre’ method or the ‘log book method’ (Division 28 of the Act).

7. They can choose to use either method for a car for an income year but must use the chosen method for that car for the entire income year (see subsection 28-20(1) of the Act). They can choose the method that best suits their situation or needs (for example, while the log book method may involve more record keeping and administration than the cents per kilometre method, it may also support larger deductions).

8. Under the log book method, a deduction for car expenses is calculated by multiplying each car expense incurred during the income year by the business use percentage for the car. These amounts reflect the actual work-related expenses incurred in relation to the car. Substantiation of these expenses with written evidence (such as receipts) is required to use this method. A log book (which has been kept in accordance with Subdivision 28-G of the Act) and odometer records (to estimate the extent the car was used for business purposes) must also be kept to use the log book method.

9. In contrast, the cents per kilometre method is a simplified way to work out the amount of the deduction available for work-related car expenses incurred for an income year. This amount is

worked out by multiplying the business kilometres (that is, kilometres travelled in the course of producing assessable income) travelled by the car in the income year by a rate determined by the Commissioner under subsection 28-25(4) of the Act (that is, the cents per kilometre rate) that applies to that year. This method can only be used for up to a maximum of 5,000 business kilometres. If this method is used, car expenses don't have to be substantiated with written evidence but a record of how the business kilometres were calculated should be kept (see section 28-35 of the Act).

10. Subsection 28-25(5) of the Act requires the Commissioner, when determining the cents per kilometre rate, to have regard to the average operating costs of cars that will be covered by the rate (such as registration, fuel, servicing, and maintenance costs). To ensure the changes in the average operating costs of cars are taken into account, the Commissioner updates the rate in accordance with the annual movement of the Private Motoring Subgroup, within the Transport Group, of the consumer price index (CPI).

11. In the *Income Tax Assessment (Cents per Kilometre Deduction Rate for Car Expenses) Determination 2024* (2024 instrument), the Commissioner determined the cents per kilometre rate to be 88 cents per kilometre. The rate applied to income years commencing from 1 July 2024 (until the 2024 instrument's repeal).

12. This instrument repeals and replaces the 2024 instrument.

Effect of this instrument

13. This instrument sets the cents per kilometre deduction rate for car expenses for the income year commencing from 1 July 2026 as 91 cents per kilometre. For subsequent income years, the rate of 89 cents per kilometre or above will be set at the Commissioner's discretion based on available CPI data at the time of review.

14. This instrument ensures that taxpayers and tax practitioners have certainty about the rate at which work-related car expense deductions may be claimed using the cents per kilometre method.

Methodology

15. This instrument has been developed to ensure that the rate for claiming work-related car expense deductions using the cents per kilometre method is updated to reflect annual average operating costs for cars. The rate has been updated based on:

- (a) the annual movement of the Private Motoring Subgroup, within the Transport Group, of the CPI, and
- (b) a one-off uplift to account for expected higher than average operating costs in the 2026–27 income year, relating to global conditions affecting fuel prices during the March quarter for 2026 and price uncertainty in the period ahead.

16. The one-off uplift is calculated using the movement in the March quarter of the Private Motoring Subgroup, within the Transport Group, of the CPI, as the increases in costs are reflected in this data (the latest CPI data).

17. The one-off uplift factor is applied at the Commissioner's discretion this year to take into account the increases in operating costs that have occurred, and that are not fully accounted for in the base rate due to the timing of events and lags in the data being captured.

18. As the standard calculation adjusts for variations across all 4 quarters, significant increases or decreases in only one of those quarters will not have a marked impact on the average index for the year. The impact on operating costs did not occur until late into the fourth quarter.

19. The Commissioner’s discretion has been exercised on the basis of both the sharp nature and the timing (late in the fourth quarter) of the fuel price shock, which combined means the base rate does not reflect current operating costs for cars.

20. The latest Private Motoring Subgroup of the CPI numbers can be obtained from the Australian Bureau of Statistics website for the latest CPI release, by downloading Table 18 and looking for the series Index Numbers; Private motoring; Australia (series ID A2326656J).

Calculating the (a) base indexation factor

21. To take into account variation within the year, the average index of the 4 most recent quarters for which data is available is used:

$$Ind_{av} = \frac{Ind_{jun} + Ind_{sep} + Ind_{mar}}{4}$$

A formula to calculate the average index by adding the indices for the June, September, December and March quarters together and then dividing by four

22. The indexation factor is the ratio of the average index of the 4 most recent quarters (June 2025 to March 2026) with the average index of the previous 4 quarters (June 2024 to March 2025). The indexation factor is rounded to three decimal places:

$$\textit{Indexation Factor} = \frac{Ind_{jun25\ to\ mar26}}{Ind_{jun24\ to\ mar25}}$$

23. After applying the indexation factor (1.009) to the published cents per kilometre rate for the 2025–26 income year of 88 cents per kilometre, the result is a base rate of 89 cents per kilometre.

Calculating the (b) one-off uplift indexation factor

24. The one-off uplift indexation factor has been calculated using the Private Motoring Subgroup CPI index number for the most recent quarter for which data is available (March 2026), compared to the index for the corresponding quarter in the previous year (March 2025). The indexation factor is rounded to three decimal places:

$$\textit{One-off Uplift Indexation Factor} = \frac{Ind_{mar26}}{Ind_{mar25}}$$

25. After applying the updated indexation factor (1.033) to the published cents per kilometre rate for the 2025–26 income year of 88 cents per kilometre, the Commissioner has determined a rate of 91 cents per kilometre for the income year commencing from 1 July 2026. The rate of 91 cents per kilometre will be in effect for the 2026–27 income year only.

26. The cents per kilometre rate incorporates:

(a) a base rate of 89 cents, plus

(b) a one-off uplift of 2 cents.

27. At the Commissioner’s discretion, for future years the calculated annual indexation rate will be applied to the 2026–27 base cents per kilometre rate of 89 cents.

28. This updated methodology is consistent with section 28-25(5) of the Act, as the Commissioner has had regard to the average operating costs for the cars to be covered by that rate using the standard methodology and has determined that the uplifted rate (91 cents per kilometre) calculated using the updated methodology is more appropriate in light of global conditions and inflation expectations in Australia.

Compliance cost assessment

29. Compliance cost impact: Minor – There will be no additional regulatory impacts as the instrument is minor and machinery in nature - *OIA26-11848.*

Consultation

30. For this instrument, broad public consultation was undertaken for a period of 2 weeks from 27 May 2026 to 12 June 2026.

31. The draft instrument and draft explanatory statement were published to the ATO Legal database. Publication was advertised via the 'What's new' page on that website, and via the 'Open Consultation' page on ato.gov.au. Major tax and superannuation publishers and associations monitor these pages and include the details in the daily and weekly alerts and newsletters to their subscribers and members. This ensures advice about the draft is disseminated widely across the tax professional community, and that they are in an informed position to provide comments and feedback.

32. No comments were received as a result of consultation.

Statement of compatibility with human rights

Prepared in accordance with Part 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*

Income Tax Assessment (Cents per Kilometre Deduction Rate for Car Expenses) Determination 2026

This legislative instrument is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011.*

Overview of the legislative instrument

This instrument sets the rate at which work-related car expense deductions may be claimed in an income year when using the cents per kilometre method in section 28-25(4) of the *Income Tax Assessment Act 1997*.

Human rights implications

This legislative instrument does not engage any of the applicable rights or freedoms as it simply sets the rate at which work-related car expense deductions may be claimed in an income year when using the cents per kilometre method.

Conclusion

This legislative instrument is compatible with human rights as it does not raise any human rights issues.