


IT 2549 - Income tax : car expenses: taxpayer retention of car records

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TAXATION RULING NO. IT 2549

INCOME TAX CAR EXPENSES: TAXPAYER RETENTION OF CAR RECORDS

F.O.I. EMBARGO: May be released

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I 1011423	INCOME TAX CAR EXPENSES SUBSTANTIATION	82KT, 82KTBA, 82KTC

OTHER RULINGS ON TOPIC MT 2041

PREAMBLE Under the substantiation provisions of the income tax law, taxpayers choosing to substantiate car expenses using the actual business expenses method (that is, using log books to establish the extent of business use of a car) are required to specify certain matters in car records held by that taxpayer.

2. For the year of income commencing 1 July 1988 or earlier, section 82KT of the Income Tax Assessment Act 1936 (the Act) requires the car records to be kept in a form that is readily accessible and convertible into English. For a later year of income, i.e., a year of income commencing 1 July 1989 or later, the car records must be maintained in a form approved by the Commissioner.

3. The matters required to be included in a taxpayer's car records will depend on whether the year of income is a log book year. In a log book year, the car records will need to include the following information:

- the business percentage;
- the period during which log book and odometer records were maintained; and
- the make, model and registration number of any replacement car and of the car it replaced during the year of income, and the date of replacement.

4. In a year of income in which a log book is not kept, the following must be provided:

- the business percentage; and
- the make, model and registration number of any replacement car and of the car it replaced during

the year of income, and the date of replacement.

5. Previously, a taxpayer was required to specify this information in his or her income tax return. However, the Act was amended by the Taxation Laws Amendment Act (No.4) 1988 (the Amending Act) to provide that taxpayers were no longer required to specify, in income tax returns, those matters relating to claims for income tax deductions for car expenses. Instead, it will suffice if those matters are specified in "car records" retained by the taxpayer. The amendment applies from 1 July 1986. However, those employers who have already specified relevant matters in their returns will not be disadvantaged.

6. New section 82KTC of the Act, inserted by the Amending Act, will benefit taxpayers who, by oversight, fail to comply with certain provisions of the income tax law that are required to be complied with for the actual business expenses method to apply. The section allows the Commissioner to treat a relevant period, nomination, particular or percentage specified by the taxpayer as if it had been specified in the taxpayer's car records.

7. "Car records", a term inserted by the Amending Act, are defined in Section 82KT of the Act as those records maintained by a taxpayer for the purposes of those provisions of the Act that use the term. Essentially, the provisions referred to are those that require a taxpayer to record the information referred to in paragraph 3 and 4 of this ruling.

RULING

8. For the year of income commencing on 1 July 1989 and for subsequent years of income, car records must be kept in a form approved by the Commissioner. The purpose of this ruling is to outline the Commissioner's requirements. The Commissioner will not be publishing an Australian Taxation Office car records form; taxpayers will be able to keep records of their own design provided that the necessary information, as explained and illustrated in this ruling, is clearly set out.

9. This ruling consists of two schedules and a number of notes (see attachment) to assist in the completion of the schedules. Car records containing sufficient information to complete Car Schedule A should be kept in a log book year. In a non-log book year car records containing sufficient information to complete Car Schedule B should be kept.

COMMISSIONER OF TAXATION
3 August 1989

APPENDIX APPENDIX

CAR SCHEDULE A.

For details see hard copy.

CAR SCHEDULE B.

For details see hard copy.

CAR EXPENSES - ACTUAL BUSINESS EXPENSES METHOD

INFORMATION SHEET AND INSTRUCTIONS FOR COMPLETING CAR SCHEDULE A
AND CAR SCHEDULE B

NOTES

1. The income tax law enables taxpayers to claim a tax deduction for car expenses on the basis of the actual business proportion the car is used to gain assessable income (i.e., the proportion of the total distance travelled by the car that is for 'business'). That business percentage is calculated from log book records kept for a continuous period of 12 weeks. Provided the actual percentage of business use does not vary substantially (i.e., by more than 10 percentage points) from that established by reference to the log book records, that established percentage continues to be the basis for calculating the income tax deduction for car expenses relating to the car or a car that replaces it, without the keeping of further log books.
2. If you are including in your income tax return any deductions for car expenses calculated under the actual business expenses method, you will need to keep records containing sufficient information to complete Car Schedule A or Car Schedule B.
3. You must include in Car Schedule A details about cars for which a particular year of income was a log book year, and include in Car Schedule B details about cars for which the year was not a log book year. It is important, therefore, to know whether or not the year was a log book year for each car.

WHEN IS A YEAR A LOG BOOK YEAR?

4. The year will be a log book year for a car if:
 - . the actual business expenses method was not used for the car last year (e.g., the car is new, an arbitrary method of calculating car expenses, such as the 'rate per kilometre method was used last year, or the car was not used for business last year); or
 - . you wish to treat the year as a log book year for the car (e.g., to increase the business percentage)

If you kept log books in, for example, 1987/88, the 1988/89 year of income will not generally be a log book year - see Note 16.)

WHAT HAPPENS IF A YEAR IS A LOG BOOK YEAR?

5. If the year of income is a log book year for the car, you are not entitled to claim an income tax deduction for car expenses using this method unless log book records and

odometer records for the car were maintained for a continuous period of not less than 12 weeks during the year. If the car was used to gain assessable income for less than 12 weeks during the year, log book records and odometer records would need to have been kept for the whole of that period (except in the circumstances explained in Note 7 below). You must specify in Car Schedule A the period during which the log book records and odometer records were maintained.

6. You must also specify in Car Schedule A the nominated business percentage for the car, i.e., an estimate by you of the percentage represented by the number of business kilometres divided by the number of total kilometres for the year or, if the car was not used to gain assessable income for the whole year, for the period when it was so used. This percentage must not exceed the business percentage established during the 12 weeks log book period.
7. It is not necessary to have kept log book records and odometer records if the car was first used for business in the last 12 weeks of a particular year of income or if the Commissioner has waived the requirement to do so, even in a log book year. In that case, though, you must still specify in Car Schedule A the nominated business percentage, as explained in Note 6 above, and the following year of income would be a log book year for the car.

WHAT ARE LOG BOOK RECORDS AND ODOMETER RECORDS?

8. "Log book records" are a daily log book or similar document which includes, for business trips taken in the period for which a log book is kept, the following entries:
 - . the date the trip began and ended;
 - . odometer readings at the start and end of the trip;
 - . the number of kilometres travelled;
 - . the purpose of the journey;
 - . the name of the driver;
 - . the date of entry; and
 - . the name of the person making the entry.
9. The log book information must be in English and entries must be made at the time of the trip or as soon as possible afterwards. They must be signed when they are made.
10. "Odometer records" are a record of the car's total kilometres for the year or, if the car was not used for business for the whole year, for the period when it was so used. In a log book year, however, odometer records need only be kept for the period the log book records were kept.

To make odometer records, it is necessary to make a signed and dated record of:

- . the odometer reading at the beginning of the period for which the record is being kept or at the time of the first business trip in the period; and
 - . the odometer reading at the end of the period for which the record is being kept or at the end of the last business trip in the period.
11. Like the log book records, the information must be in English and the entries made and signed at the time of the readings or as soon as possible afterwards.
 12. If the car is replaced during the year, the odometer records must also include an entry showing odometer readings of the replaced car and the replacement car as at the nominated replacement dates. (See Note 15 regarding replacement cars).
 13. If odometer records were not been kept for the 1987/88 year of income, you may make a signed record that sets out reasonable estimates of the required readings as at the appropriate dates and times. If you declare in the record that, to the best of your knowledge and belief the estimates are reasonable, the record will be treated as the relevant odometer records.

WHAT HAPPENS IF I REPLACE A CAR IN A LOG BOOK YEAR?

14. If you have replaced a car during the year, you may treat the replacement as though it were the replaced car for the purposes of the car log book rules. That is, if log book records were kept during the year for the replaced car to establish a business percentage, you may transfer that percentage to the new car if it remains appropriate to that new car. Alternatively, if you had not kept log book records before the changeover, you may establish a business percentage for the new car by log books and apply that percentage, if appropriate, to both the new car and the replaced car.
15. To transfer the business percentage in this way, you must specify in Car Schedule A the make, model and registration number of both cars and the date on which the replacement was made. You should also make sure that odometer records kept during the year while the log book records were being kept show details of the odometer readings of both the replaced car and the new car at the specified replacement date.

IS A PARTICULAR YEAR OF INCOME A NON-LOG BOOK YEAR?

16. A year of income will be a non-log book year for the car if it is not a log book year as explained in Note 4 above. For example, if you properly kept log book records for the car for a minimum continuous period of 12 weeks in 1986/87 and

calculated the income tax deduction for car expenses for that car from a business percentage based on those records, 1987/88 would not be a log book year for the car.

WHAT HAPPENS IN A NON-LOG BOOK YEAR?

17. If the year is not a log book year for the car, you are not entitled to claim an income tax deduction for car expenses for that car using the business percentage unless odometer records for the car (as explained in Notes 10 to 13 above) have been maintained and you specify the business percentage in Car Schedule B.
18. The percentage you should specify is the business percentage on which you based the calculation of the income tax deduction for car expenses in the log book year, unless there has been a reduction of more than 10 percentage points in the business use of the car from that year. If there has been a reduction of more than 10 percentage points, specify in Car Schedule B the nominated business percentage for the car which, as explained in Note 6 above, is your estimate of the actual business percentage.
19. You must also specify in Car Schedule B your estimate of the actual business percentage (the estimate is called 'the nominated business percentage') if the car is one with a business usage at the rate of 5000 or fewer kilometres per annum and there has been any reduction in the percentage of business use from the percentage established from log books and odometer records kept in an earlier year. There is no 10 per cent tolerance for such low business kilometre cars.

WHAT HAPPENS IF I REPLACE A CAR IN A NON-LOG BOOK YEAR?

20. If you have replaced a car during the year, you may treat the replacement as though it were the replaced car for the purposes of the car log book rules. That is, if you had established a business percentage for the existing car by keeping log book records for a minimum continuous period of 12 weeks in a year of income, you may transfer that percentage to the new car if it remains appropriate to the new car.
21. To transfer the business percentage in this way, you must specify in Car Schedule B the make, model and registration number of both cars and the date on which the replacement was made. You should also make sure that odometer records kept during the year for the cars (as explained in Notes 10 to 13 above) show details of the odometer readings of both the replaced car and the new car at the specified replacement date.