26 September 2022

3 Things To Know Tax-Wise Before Buying A Car For Your Business

Regardless of whether or not the owner is a company or an employee, a car purchased for business use can provide tax benefits to the owner.

However, there are also tax implications that can impact these supposed benefits. Certain advantages and disadvantages to purchasing a car for a business may not necessarily apply to your business or impact your decision, but they can assist in informing it.

The key question is: should I buy my car under the name of my business?

When you buy a car under a business name, you can deduct depreciation, minimising your earnings tax liability. Furthermore, the purchase will be a fixed asset for the company that was made with earnings.

According to the ATO, as a business owner, you can claim a tax deduction for expenses related to motor vehicles — cars and certain other vehicles – used in the operation of your business.

Depending on your business structure, the way you can claim your deductions and entitlements may change. This may include:

• How you can claim the business-use percentage of each car expense (for some structures, this may be through a logbook or the cents per kilometre method, or by actual receipts).
• How you can claim a deduction on the depreciation of a motor vehicle

Car Expenses

If you drive a car for both business and personal purposes, you must be able to appropriately identify and justify the percentage you claim as business use. The percentage for personal usage is not claimable. This is an area where mistakes are frequently made

Common types of motor vehicle expenses that can be claimed include:

·Fuel and oil
·Repairs & servicing
·Interest on a motor vehicle loan
·Lease payment
·Insurance
·Registrations

Depreciation Of A Motor Vehicle

If you work out your deduction for expenses using the logbook method or actual costs, then you can generally claim a deduction for capital costs, such as the purchase price of a motor vehicle, over a period of time. This is known as depreciation.

If you have an aggregated turnover of less than $10 million, you can use simplified depreciation rules (such as temporary full expensing).

If you are a sole trader or a partnership, there are specific rules about how you can claim depreciation. If you use:

·the cents per kilometre method, you cannot make a separate claim for depreciation of the vehicle as this is already taken into account
·the logbook method, you can only claim depreciation on the business portion of the motor vehicle's cost.

Record-Keeping

Regardless of the method you use, you will need to keep:

- **loan or lease documents**
- **details on how you calculated your claim**
- **tax invoices**
- **registration papers**

If purchasing a car for your business is still on the cards, consult a professional tax adviser (such as us) as they can model different tax positions and work out what's best for you.