

# Maximising your motor vehicle deductions

Claiming a tax deduction for the use of your motor vehicle is not easy. For dentists, it is often difficult to substantiate a claim for business travel in their motor vehicle, as travel between home and the surgery is considered private. To be tax deductible, the travel needs to be from one place of business to another. Even if the dentist has a legitimate home office, it is not considered a place of business. Dentists will then usually only be able to claim on what's known as the 'cent per kilometre method' (\$0.66) to a maximum of 5000km. This will usually be for occasional visits to the lab, possible travel between surgeries or travel to CPD events.

Where a dentist works at more than one location, there is a possibility of not only claiming travel between the two locations but also travel between home and work if there is a requirement to transport 'bulky equipment'. Provided the dentist meets the requirements, they are likely to be able to claim a higher proportion of their motor vehicle expenses.

## WHY A MOTOR VEHICLE LOGBOOK IS ESSENTIAL

Motor vehicle logbooks are essential if you wish to claim a percentage of your motor vehicle expenses – otherwise your only option is the cents per kilometre method mentioned above. A motor vehicle logbook can be hard copy or via an app. It must be kept for 12 weeks but can be used for up to five years – even if there is a change in motor vehicle.

Dental practice owners who operate their business through a corporate structure often believe they can maximise their tax deduction by purchasing the motor vehicle in the company/trust name. Unfortunately, where the motor vehicle is a luxury car, the purchase of the vehicle in a corporate entity may create a worse tax result due to the motor vehicle being subject to fringe benefits tax (FBT). Where a motor vehicle is owned by a corporate entity, all expenses related to the car are 100 per cent tax deductible provided the car is used by an employee, director or associate of the company. But this means the car is subject to FBT.

## CALCULATING FBT

There are two methods for calculating FBT:

1. The operating cost method (OCM) whereby all the costs of operating the motor vehicle are accumulated then multiplied by the private use proportion as evidenced by the motor vehicle logbook.
2. The statutory formula method (SFM) whereby the cost of the motor vehicle is multiplied by a statutory percentage (20%).

Most dental practitioners will probably be unaware of the FBT on their motor vehicle, as a calculation is usually done by their accountant and an adjustment is made on their financial statements/tax return to allow for the FBT by making what is termed 'an employee contribution'. The employee contribution is effectively a reimbursement of the benefit/expense provided.

The following example shows two motor vehicles – a Ford purchased for \$50,000 and BMW for \$120,000 – and the FBT calculation using both methods. Both cars travel 25,000km per

year, are in their third year of ownership and using a higher than normal 60 per cent logbook business use.

## TAX DEDUCTIBLE EXPENSES

	FORD	BMW
Fuel	\$4500	\$4500
Registration	\$800	\$800
Insurance	\$900	\$1400
Repairs, maintenance, service	\$1000	\$2000
Depreciation (25%)	\$7030	
Depreciation (25%) luxury cost limit		\$8095
Interest (5.25%)	\$1475	\$3545
<b>Tax deduction allowed</b>	<b>\$15,705</b>	<b>\$20,340</b>

## STATUTORY FORMULA METHOD

Ford \$50,000 @ 20%	\$10,000	
BMW \$120,000 @ 20%		\$24,000
<b>FBT cost/employee contribution</b>	<b>\$10,000</b>	<b>\$24,000</b>

## OPERATING COST METHOD

Ford 40% x \$15,705	\$6282	
BMW 40% x \$20,340		\$8136
BMW 40% luxury cost limit adjustment		\$8780
<b>FBT cost/employee contribution</b>	<b>\$6282</b>	<b>\$16,916</b>

The Ford results in a tax deduction of \$5705 (\$15,705-\$10,000), or \$9423 (\$15,705-\$6282) under the OCM. If the motor vehicle were in an individual name, the tax deduction would have been \$3300, or \$9423 with a logbook. The BMW results in no tax deduction and a liability for \$3660 (\$20,340-\$24,000), or \$3424 (\$20,340-\$16,916) under the OCM. If the BMW were in an individual name, the owner would have been better off by \$6960 with no logbook, or \$8780 with a logbook.

## SEEK ADVICE

Motor vehicle deductions are a complex area and you should always seek professional advice to maximise your tax deductions. For further information, visit [www.mwpartners.com.au/mw-tv](http://www.mwpartners.com.au/mw-tv) and view episode 4 – Motor Vehicle Deductions.

**MW Partners specialises in providing taxation advice to dental practices throughout Victoria. As a member of the ADAVB, your first consultation is FREE. To book an appointment, call 8825 5400.**



**Albert Gigl - Principal**

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