**How can Exercise Physiologists claim their cars?**

Exercise Physiologist’s frequently inquire about the most tax-efficient methods for purchasing and deducting the car they utilise for work.

The frequency of these questions stems from the significant impact of car-related expenses on tax deductions and the prevalent misinformation and misconceptions surrounding the associated rules.

We have gathered the most commonly posed questions, each of which we address numerous times throughout the year.

**Should I buy my car in cash or on finance? I’ve heard I can claim the interest costs, so this is probably the best option?**

If you have sufficient cash reserves, while ensuring you maintain a suitable safety buffer for unforeseen events, it is best to purchase the car outright.

However, if you lack the necessary cash or have more strategic uses for your funds, such as saving for a home deposit, opting for financing becomes a viable alternative.

Essentially, it is always advantageous to avoid incurring additional costs, with interest on a loan being a prime example. For instance, on a $40,000 car loan, you could end up paying $7,000+ in interest. While it is possible to claim this interest as a deduction in your tax returns, the actual tax savings may only amount to $2,400-$2,500.

In this scenario, you would have paid $7,000 and saved $2,400-$2,500, resulting in a net out-of-pocket expense of $4,600-$4,700. Hence, paying interest is only something you would do if it’s the only option available.

**If I decide to buy my car on finance, what tips do you have?**

* It’s going to be easier to obtain finance approval if you are currently employed and have been in your job for more than 3 months. Therefore, be careful if you are changing jobs.
* Opting for finance from a car dealership is often the most convenient route, largely due to their motivation to sell you the vehicle. However, you should inform them about your intention to obtain a second finance quote. This tactic increases the likelihood of receiving a fair deal. Subsequently, follow through on your plan and request a second quote from either another finance dealer or a bank
* It can be difficult to easily compare two different finance quotes. This is because each lender will have their own way of charging an interest rate, establishment fees, on-going fees and so on.

The easiest way to do a comparison between two finance options is:

* To firstly ensure that both options have the same terms (ie: both loans are for the same length of time and both have either no balloon payment or the same balloon payment)
* Then you can simply compare the regular repayment amounts, to determine the cheaper one.
* When dealing with the car salesperson, you’ll notice that they often try to talk about finance repayments, rather than negotiate about the sticker price of the car. For example, if the car is $30,000 and you want to negotiate a $27,000 price, the salesperson will usually try to take your focus off this, and instead talk monthly repayments that would apply to any finance.

From our perspective, discussions about finance should only commence after agreeing on the car price. This approach prevents the salesperson from blending the two elements, reducing the potential for confusion and allowing for clearer decision-making.

**What is a logbook and how do I complete one?**

A 12-week logbook is required for each car used for work, and if there's a change in vehicles, a new logbook must be completed. This logbook remains valid for 5 years, unless there is a significant change in use, such as transitioning from a mobile role to working more in a fixed location, or engaging in extensive interstate personal drives.

While creating a new logbook every year isn’t required, it is advisable to note the odometer readings at the beginning and end of each financial year. This practice aids your accountant in understanding the extent of your travel.

The logbook calculates the percentage of time the car is utilized for work versus personal purposes. For instance, if you cover a total of 8,000km over 12 weeks, with 6,000km attributed to work-related travel, your logbook percentage would be 75%. Consequently, you can claim 75% of your car expenses.

Logbooks can be electronic (using an app), or a pre-printed version from a newsagent or office supply store.

Each logbook entry for the 12-week period, encompassing both work and personal journeys, must include:

* Date of travel
* Reason for travel (work or personal, with a description for work-related trips)
* Odometer readings at the trip's commencement and conclusion
* Kilometres traveled

Work travel is defined as driving to changing work locations, such as the home of a patient.

Conversely, commuting from home to a regular place of work, like a specific clinic or gym on a weekly basis, is considered private travel.

**What is a novated lease? And should I use one?**

Novated leases are often seen as a great way to save tax – but it’s worth understanding them and comparing a novated lease to other options that are avaliable. In reality, the potential tax advantages associated with a novated lease are often overstated (which some may say is misleading), especially for exercise physiologists who will use their car a lot for work.

*What is a novated lease?*

A novated lease, in many ways, is similar to buying a car on finance. In this case though, your employer is the one that makes the repayments and those repayments will also include your car’s running costs (fuel, rego, insurance etc).

Your employer then recovers this cost by making deductions from your payroll. For example, if you would normally receive $2,000 after-tax in your pay, you might now receive $1,600. This is why a novated lease is often referred to as ‘salary packaging’.

Some of these payroll deductions will reduce your tax – and this is the reason novated leases are often promoted as a tax saving mechanism. You’ll receive this tax saving within your payroll rather than at the end of the year when you lodge your tax return. In fact, you won’t claim any car costs in your tax return at all.

Just like having a car on any other type of finance, you get to drive the car for both work and private purposes. You may still need to prepare a 12-week logbook.

To make record keeping easier, the novated leasing company will usually provide you with a particular debit card from which you’ll make any car-related running cost purchases

Generally speaking, if you change jobs you can take your novated lease to your new employer.

*How much tax will I save using a novated lease?*

There are a number of tax rules that impact the benefits that you may gain from a novated lease – mostly relating to a concept known as fringe benefits tax.

It’s the complicated workings of fringe benefits tax that can make a novated lease a less attractive option for a mobile therapist.

Whilst it’s certainly true that you will reduce your tax when using a novated lease, whenever you are using your car a lot for work, you’ll often save a lot more tax if you simply bought the car yourself and claimed your costs in your tax return, based on your 12-week logbook.

The reason for this is that the novated leasing company is usually going to use the easiest methods to account for the fringe benefits tax outcomes. These ‘easy’ methods usually don’t save you the most tax.

All novated leasing companies generally advertise significant tax savings – but the piece missing from their advertising is the amount of tax savings you could have made yourself if you simply bought the car and claimed the costs in your own tax return. Their advertising always seems to compare a novated lease’s tax outcomes to never even claiming a tax deduction for your car at all; rather than to claiming a car using the logbook method

*When does a novated lease make sense from a tax perspective?*

Whilst it might not be a suitable option for a exercise physiologist, a novated lease can be a good tax-saving strategy when:

* You are a high-income earner (especially if you earn more than $180,000).
* You (or your spouse) need a car that’s relatively inexpensive (the cheaper the car, the greater the tax benefits). Once the car costs $60,000 or more, these tax benefits largely evaporate.
* You hardly ever use your car for work purposes (or it’s a car that your spouse drives and they hardly use it for their own work purposes) and hence wouldn’t have normally been able to get any tax benefit if you owned it personally.

If you meet those three conditions then it’s certainly worth considering a novated lease.

**What does it mean if my employer pays a travel allowance? Am I taxed on this?**

When employers provide a travel or motor vehicle allowance, they are essentially acknowledging that you, as an individual, incur certain costs while working, and this allowance is their way of assisting in covering those expenses.

For instance, if an employer issues a $8,000 annual travel allowance, they are essentially saying, "Here's $8,000 to help offset your vehicle running and acquisition expenses."

While the $8,000 is considered taxable income, you can offset it by claiming your actual vehicle costs against it. This could include expenditures like fuel, rego, insurance, repairs, and depreciation, totaling between $7,000 and $8,000.

Receiving such an allowance from your employer can be advantageous in minimizing attention from the Australian Taxation Office (ATO). Typically, the ATO may not anticipate substantial motor vehicle deductions from professionals like exercise physiologists, as historical data shows few individuals in these fields making such claims.

As a mobile therapist, you have the right to claim your motor vehicle costs, but it may attract attention from the ATO compared to peers in the same profession. However, when your employer specifically provides a travel or motor vehicle allowance, the ATO can incorporate this information into their assessment, recognizing it as an appropriate deduction.

**What costs should I track? And do you have any tips about how to do this?**

You should track the following running costs for the entire financial year, whether you incur them whilst driving for work or personal purposes:

* Fuel
* Insurance
* Repairs and maintenance, including car washes
* Modifications to the vehicle
* Registration

There are two other costs that you will also need to track:

* Tolls: This can be difficult if you also incur tolls for your own private travel. You’ll need to identify exactly how much is paid just for work purposes.
* Parking: If you’ve paid for parking whilst driving for work (note: this doesn’t include parking at a regular workplace, such as a clinic) then you should also keep track of these costs.

Tips on how to make this easy:

There’s no better way than just opening a standalone bank account that you use only for vehicle costs.

Simply transfer enough funds into a new account, label your associated debit card “Car” and then use this for all such costs.

This way, at the end of the tax year, you can simply provide your accountant with a download of your transactions in that account for the full year – making the tax return much easier.

**What are the pros/cons of having a company vehicle versus my own?**

This can be a tricky question as there are almost always a number of different factors to consider.

But one of the key differences between being provided a vehicle by your employer versus owning your own, is the degree of control you have over your finances. For this answer, we’ll focus solely on this specific difference.

When your employer provides the car:

* **The car isn’t free:** It’s worth remembering that you are still bearing a cost. For example, because your employer is providing you with a car, they’ll likely be offering you a lower salary. Additionally, there will usually be some form of post-tax deduction from your pay, representing your personal use of the car.
* **Mandatory replacement:**Your employer will often replace their fleet every 3-5 years. On the surface it seems attractive to always be driving a reasonably new car. But you are still bearing a portion of this cost. (eg: your lowered salary and post-tax deductions will no doubt take into account the fact you are always driving a pretty new car) If you would have been happy to keep your 5 year old car, then a mandatory replacement isn’t such a financially attractive outcome.
* **No car when you leave:**You’ll have been receiving a lowered salary and post-tax deductions for every year that you were employed – but when you leave you’ll have no car of your own.

When you buy your own car:

* **You’re responsible for the record keeping:**You need to keep good records in order to prepare a tax return and claim all the costs you’re entitled to.
* **You have control:**Even if you buy your car on finance, after the 3-5 years repayment term, the car is yours. You can continue to use it or choose to sell it but you’re not forced to upgrade to the latest model if you don’t want to.
* **You can spend as much as you want:**Whilst you’ll no doubt need a reliable and presentable car, you have the ability to be more prudent (or more lavish if you wish). For example, you might be able to get a good car for $20k, whereas your employer might have had you driving a $40k car – and your salary would have borne the cost of that.

For the reasons above, on the subject of control alone, it is generally advised to buy your own car as opposed to using a company vehicle.

There are some unique circumstances though, such as when you work for a charity or not-for-profit who receive special tax exemptions. In those cases there can be tax outcomes that make company vehicles a more compelling option. (An employer in that space would be able to explain this to you)

**My finance has been paid out/My car is fully depreciated. Should I upgrade my car?**

If your primary concern is your financial benefits and tax implications, there is no reason to upgrade your car unless it genuinely aligns with your personal and professional needs.

The decision to upgrade your car should be driven by practical considerations, such as whether your current vehicle no longer meets your requirements, has become unreliable, or if you simply have a genuine desire to invest in a new car. Tax considerations should not be the decisive factor in this decision-making process.

Opting for a new car will invariably increase your overall expenses. At the very least, you’ll have needed to invest more money in the actual purchase of the vehicle. While you may save $350-$390 in tax for every $1,000 spent on the new car, the net result is still an out-of-pocket expense.

Therefore, tax deductions alone is certainly not reason enough to upgrade your car.

**Are there any tax thresholds I should be aware of?**

If you’re considering spending more than $60,000 on your car then you should be aware there are limitations to the amount you can claim in your tax return.

The ATO’s Car Limit means that you can only claim up to $68,108 (in the 2023-24 tax return year) – so anything you spend beyond this won’t be claimed in your tax return. This amount is indexed each year, in line with inflation.

**What is depreciation?**

If you were to purchase a new vehicle for $30,000, then you’re likely to get a good 8 years out of the car.

The ATO are happy for you to claim the $30,000 cost (subject to your logbook), but the catch is that it must be spread over the 8 years. The spreading of this cost is known as depreciation.

This means you might claim $3,750 of depreciation each year – which is simply $30,000 divided by 8 years. (There are other ways to calculate depreciation, but this is a simple way to understand it)

If you claim $3,750 of depreciation each year, you might save $1,200-$1,500 of tax each year.

The ATO are ok with this as they accept that your car is declining in value each year. Whilst it’s hard to work out the exact drop in value, they are happy with such a calculation.

**Am I taxed when I sell/trade-in my car?**

In some cases, yes.

It depends upon the amount of depreciation you have claimed and the sale or trade-in price of your car.

For example, let’s say you bought a car for $30,000 and then claimed $12,000 of depreciation over the next 3 years.

From the ATO’s perspective, the car is now worth $18,000. ie: You have been able to claim tax deductions suggesting the car has devalued to now be worth $18,000.

However, if you then sell the car for $20,000, it means you have claimed too much depreciation. More specifically, you have claimed $2,000 too much in depreciation. And this is the amount upon which you will be taxed. (This is not a bad thing though. You should always seek the highest possible sales price, even if it means some tax as you get to keep the difference.)

On the other hand, if you sold the car for $14,000 then rather than having claimed too much in depreciation, you won’t have claimed enough. In this case, you’ll be able to claim an extra $4,000 in depreciation. (Extra depreciation is not a good thing though. It would have been better if you could have sold the car for $20,000)

All that being said, oftentimes the exact tax outcome from the sale of a car isn’t directly felt. This is because it’s usually replaced in the same year with a new car, also used for work. Therefore, even if you have some tax to pay on the sale of the first vehicle, the deductions on the new car tend to balance that out.

**We’re here to help**

Mobile health professionals across a range of fields have quite specific requirements when it comes to tax.

Knowing what you can and can’t claim is important for ensuring you maximise your income, and a big part of this is clear record keeping. If you have any questions at all, [please get in contact](https://eaglefinancial.com.au/contact/). We enjoy assisting many medical professionals with their tax requirements.