# Motor vehicle deductions and GST

## GST claims for sole traders, partnerships, and trusts

If you know the proportion of time a vehicle is used to help earn business income, you can calculate what to claim for business costs and depreciation loss for your motor vehicle, for GST and income tax purposes.

If you operate a GST-registered business, you can also claim back the GST charged on goods and services used in your taxable activity. You can claim the GST input tax on purchases of motor vehicles used for the business and you may be able to claim GST when you sell the vehicle.

## Claiming GST input tax on purchase

When a motor vehicle is purchased, the amount of GST you can claim for it depends upon the intended percentage of use of the vehicle to make taxable supplies. When claiming GST on the initial acquisition of a vehicle, you need to estimate the percentage of use that the vehicle will be used:

- To make taxable supplies,
- To make GST exempt supplies*, and
- For personal use

The GST input tax on the vehicle will then be apportioned based on those percentages, and an input tax deduction will be available for the percentage applicable to making taxable supplies.

*A de minimus threshold applies so GST exempt supplies can be disregarded in calculating the percentages if the value of exempt supplies will not be more than the lesser of:

- $90,000, or
- 5% of the total consideration for all their taxable and exempt supplies for the period

## Working out the GST claimable on the Initial cost

- **Step 1:** Identify the amount of input tax on the supply
- **Step 2:** Identify the percentage of intended use to make taxable supplies
- **Step 3:** Multiply input tax amount at Step 1 by percentage in Step 2
- **Step 4:** Amount to claim is the result from Step 3

Note that normal requirements for claiming input tax still need to be satisfied, e.g. holding a tax invoice, payment has been made in the case of a person registered on the payments basis, or for purchases of second-hand goods from a non-associated person who is not registered for GST. Talk to us if you'd like to know more about these requirements.

## Changes in use: adjustments required

Although you have estimated intended use for business purposes on purchasing the vehicle, sometimes the actual use for making taxable supplies can be different from your estimate. When this happens, adjustments may be needed at the end of an adjustment period.

No further adjustments are required:

- For a vehicle that cost less than $5,000, no adjustment is needed in subsequent periods, or
- Where the intended use on acquisition versus actual use differs by less than 10% (unless the adjustment is more than $1,000), or
- Where the actual use in the relevant adjustment period and the actual use in the previous adjustment period differs by less than 10% (unless the adjustment is more than $1,000), or
- The value of exempt supplies will not be more than the lesser of:
  - $90,000, or
  - 5% of the total consideration for all their taxable and exempt supplies for the period

There are limits on the number of periods where you can make an adjustment. Once the limit is reached, no further adjustments are made. The limits are based on the GST exclusive cost of the vehicle:

- Cost $5,001 − $10,000 − 2 adjustment periods
- Cost $10,001 − $500,000 − 5 adjustment periods
- Cost $500,001 or more − 10 adjustments

Where an adjustment is required, you make it at the end of each adjustment period.

## Adjustment periods

The first adjustment period starts when the asset is acquired, and you can choose whether it either ends at the:

- First balance date that falls after acquisition; or
- The balance date that falls at least 12 months after acquisition

Subsequent adjustment periods start after the end of the previous adjustment period and end 12 months later.

## Calculating the adjustment

Adjustments are not simply an input/output adjustment based on the actual change in use between adjustment periods. They look at the average taxable vs. non-taxable use over the entire period of ownership since acquisition. You'll find an example of how to calculate the adjustments below.

## Claiming GST on sale

When the vehicle is eventually sold, GST is payable on the full sale price, but a further input tax deduction is allowed for the lesser of:

1. The total input tax charged on purchase of the vehicle, or
2. An amount calculated under the following formula:

Tax fraction x consideration x (1 – actual deduction/full input tax deduction)

It can be tricky calculating how much GST to claim and to keep track of the adjustment periods. We can help.

## Example of calculations for adjustment and claim on sale

A business purchased a car at the start of the year for $23,000 (including GST of $3,000). The cost is more than $10,000, so there will be a total of 5 adjustment periods (if the vehicle is kept that long).

The estimated intended use is 70% business and 30% private. The initial input tax claim is 70% of $3,000 = $2,100

**Subsequent adjustments**

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|---|---|
| 1. First adjustment period | At the end of the first adjustment period 12 months later at balance date, actual business use is 55%<br>(55% x 12/12) = 55%<br>Percentage difference is 15%<br>Output tax adjustment is 15% of $3,000 = $450 |
| 2. Second adjustment period | At the end of the second adjustment period 12 months later, when the vehicle has been owned for 24 months, the actual business use for that period is 65%.<br><br>The calculation is:<br><br>(55% x 12/24) + (65% x 12/24)<br><br>= 27.5 + 32.5 = 60%<br><br>The percentage difference to previous adjustment is 5%<br><br>The output tax adjustment would be $150 … BUT no adjustment is required for this adjustment period as the percentage difference is less than 10% and the amount is not more than $1,000 |
| 3. Third adjustment period | The vehicle is sold in the following year for $10,000 including GST of $1,304.34, so there is no adjustment for this period.<br><br>Instead, GST is payable on the full sale price, but because the full input tax deduction wasn't claimed, a further input tax adjustment on disposal is allowed. |

**Claim on sale**

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| On sale | The total input tax on purchase was $3,000, but only $1,650 in total has been claimed (the initial claim of $2,100 less the $450 output tax adjustment in the first adjustment period and the nil adjustment in the second adjustment period).<br><br>The consideration for the sale is $10,000.<br><br>If calculating based on total input tax, the amount for the first option above (under Claiming GST on sale) is $3,000, but the amount from applying the formula in 2 is:<br><br>$\text{Tax fraction} \times \text{consideration} \times \left(1 - \frac{\text{actual deduction}}{\text{full input tax deduction}}\right)$<br><br>3/23 x 10,000 x (1 – 1650/3000)<br><br>= $1,304.34 x (1 – 0.55)<br><br>= 1,304.34 x 0.45<br><br>= $586.95<br><br>Therefore, an amount of $586.95 is claimable as a further input tax adjustment against the GST payable on the sale of the vehicle. |