

EXAMPLE: Using the logbook method, ignoring any GST impact

Louise acquired a car on 1 July 2019. During both 2019–20 and 2020–21, Louise used the logbook method to work out her deductions for car expenses. She sold her car for \$24,500 on 30 June 2021. At that time, the adjustable value of the car was \$18,200.

If Louise's logbook showed that the level of her business use was 40%, her balancing adjustment amount would be \$2,520. This is 40% of the difference between the termination value and the adjustable value of the car ($\$6,300 \times 40\% = \$2,520$). Louise must include the amount of \$2,520 in her assessable income.

If you have only used the cents per kilometre method of claiming car expenses, no balancing adjustment amount arises. This is because the decline in value of the car is already taken into account as part of the calculation of the car expenses.

However, you may need to include a balancing adjustment amount in your assessable income or claim a deduction in relation to that amount for a balancing adjustment event, which occurs at or after the start of 2020–21 if:

- you switch between the cents per kilometre method and the logbook method of claiming car expenses before 1 July 2020
- you acquired a car before 1 July 2015 and you used the 12% of original value method for claiming car expense deductions for one or more earlier income years.

The above circumstances are only expected to occur in a limited number of cases. If you are affected and you are unsure of how to work out your balancing adjustment amount, contact us or your recognised tax adviser.

For a car subject to the car limit (see **Car limit** on page 17) you need to reduce the termination value. You multiply the termination value by the following fraction:

$$\frac{\text{car limit} + \text{amounts included in the car's second element of cost}}{\text{total cost of the car}}$$

where the total cost of the car is the sum of the first and second elements of cost, ignoring the car limit and after any adjustments for input tax credits; see **GST input tax credits** on page 16. You use the reduced termination value to work out your balancing adjustment amount for the car.

If a car was acquired at a discount and the cost of the car was increased by a discount portion, the termination value of the car must also be increased by that discount portion; see **Car acquired at a discount** on page 17.

If you are a lessee under a luxury car lease or a hirer under a hire purchase agreement and you do not acquire the car when the lease or agreement terminates or ends, you are treated as if you had sold the asset to the lessor or financier, respectively. You will need to work out any assessable or deductible balancing adjustment amount.

Balancing adjustment rules for cars

If a balancing adjustment event occurs for your car, you need to work out any balancing adjustment amount. Special rules apply to the calculation of balancing adjustment amounts for cars.

If a balancing adjustment event occurs for a car you used for a non-taxable purpose, you disregard any capital gain or capital loss.

From 1 July 2015, there are only two methods of calculating work-related car expenses. You may choose the method which in your view, best captures the running costs of your vehicle. The methods are:

- the cents per kilometre method
- the logbook method.

For 2020–21, the cents per kilometre method:

- applies for up to 5,000 business kilometres travelled
- has a rate of 72 cents per kilometre for cars. (We update the rate at the start of each income year.)

If you use the logbook method of claiming car expenses, your balancing adjustment amount needs to be reduced by the amount that is attributable to the use of the car for a non-taxable purpose.