MOTOR VEHICLE DEPRECIATION GUIDE

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WHAT IS DEPRECIATION?

Simply put, Depreciation is an expense deduction that the Australian Taxation Office (ATO) allows to drivers for the “loss in value” of their motor vehicle(s) resulting from their rideshare work each year.

The rules around depreciation can be a little (or a lot) daunting at first reading but they are well worth understanding and can save you a lot of tax over time.

Our suggestion is to do these three things:

- Read this guide all the way through - it’s a great first step to understanding depreciation.
- Speak to your accountant (or to DRIVR) to answer any questions you may have; and / or
- Download the DRIVR App - it automatically calculates depreciation for you - based on your vehicle purchase date and price.

WHO SHOULD CARE - AND WHY SHOULD I CARE?

If you rideshare your fully owned or financed motor vehicle - and you want to reduce your tax payable to the ATO - then you should care about depreciation.

If you drive a petrol or diesel powered vehicle then depreciation could be your second largest tax deductible expense each year (behind fuel).

If you’re driving an EV or Hybrid vehicle then depreciation could potentially be your largest tax deductible expense each year!

Depreciation is different to other deductible expenses in that it is a “non-cash” expense.

You can continue to claim for up to 8 years after purchasing your motor vehicle.

DEPRECIATION METHODS

There are two methods allowed by the ATO for calculation of motor vehicle depreciation expense - the Diminishing Value (DV) method and Prime Cost (PC) method.

Don't forget - depreciation is a motor vehicle expense - and like your other motor vehicle expenses it is subject to your private vs business use calculation.

To claim depreciation expense you have to be able to show the Tax Office what percentage of your car's use relates to your rideshare driving business - and the evidence the Tax Office wants to see is your logbook.

SIMPLE EXAMPLE

Let's say Joe buys a car for $40,000 on July 1st and uses it 100% for rideshare work.

Let's also say by June 30 Joe's taxable income from that rideshare work (after deducting driving expenses) is $70,000.

Joe's tax payable to the ATO on his income is $14,217.

The ATO will however allow Joe to claim an expense for depreciation to reduce his tax payable.

DIMINISHING VALUE

In a nutshell, the DV method allows you to claim (as an expense) 25% of the (diminishing) value of the vehicle each tax year for a maximum of 8 years - so using the Joe example - year 1 depreciation expense would be $10,000 ($40,000 x 25%).

DV Depreciation expense reduces Joe's taxable income to $60,000 ($70,000 - $10,000) and reduces Joe's tax payable from $14,617 to $11,104.

Joe makes a saving of $3,513.

PRIME COST

Under the PC method - and again using the Joe example - the vehicle value of $40,000 is depreciated equally over the same 8 year period at 12.5% per annum - as such each year's depreciation expense would be $5,000.

PC Depreciation expense reduces Joe's taxable income to $65,000 ($70,000 - $5,000) and reduces Joe's tax payable from $14,617 to $12,892.

Joe makes a saving of $1,725!

Sample depreciation schedules - under both DV and PC scenarios follow.

DIMINISHING VALUE

Year	MV Value	Depreciation
1	$40,000	$10,000
2	$30,000	$7,500
3	$22,500	$5,625
4	$16,875	$4,219
5	$12,656	$3,164
6	$9,492	$2,373
7	$7,119	$1,780
8	$5,339	$1,335

PRIME COST

Year	MV Value	Depreciation
1	$40,000	$5,000
2	$35,000	$5,000
3	$30,000	$5,000
4	$25,000	$5,000
5	$20,000	$5,000
6	$15,000	$5,000
7	$10,000	$5,000
8	$5,000	$5,000

In order to maximize the depreciation expense for our customers in years 1 to 3 of their rideshare driving lives, the DRIVR App uses the Diminishing Value method for calculating depreciation.

THE TECHNICAL BITS

- One point to note from the table on Page 4 - once you select a depreciation method for your vehicle - you can't change it for that vehicle.
- Depreciation is a non-cash expense - which therefore has no GST attached - and as such depreciation does not factor into calculation of GST payments under your quarterly BAS Statement - as you've seen from the example, it can however have a big impact in lowering your tax payable in your annual return to the ATO.
- To make matters a little more complicated, both Diminishing Value and Prime Cost depreciation methods need to account for the ATO Car Limit (which gets updated each year by the ATO - this year the limit is $68,108 incl. GST) - which prescribes the maximum car value that can be depreciated each year - regardless of how much more you may have paid for your car.
- One final twist you need to be aware of - depreciation ownership years vs financial years.
- The financial year runs from 1 July to June 30 - simple enough.
- Your depreciation ownership year runs from the first day of ownership (your vehicle purchase date) - let's say 1 August for example - to 31 July of the following year (12 months later). Under this scenario in your first yar of ownership you can only claim 11months of depreciation expense.
- In subsequent years you calculate nine months of depreciation expense from one financial year plus three months from the next.
- Examples of the two types of depreciation expenses - Diminishing Value and Prime Cost - are provided on Page 4 - if in doubt, it's always a good idea to check with your accountant or the ATO website www.ato.gov.au.
- The DRIVR team has hard coded these various calculation formulae and conditions into the DRIVR App - so that's a simple alternative to managing depreciation - input your vehicle date of purchase and purchase price and DRIVR automatically calculates 8 years of depreciation expense for you!

5. TOP FIVE DEPRECIATION TIPS

Do these five simple things and you'll be all over depreciation - you'll be reducing your tax bill each year and keeping more of your hard earned dollars where they belong - in your pocket!

DON'T IGNORE DEPRECIATION

It's the simplest way to lower your tax bill - so talk to your accountant, check the ATO guides if you'd rather do it yourself, or download DRIVR and have the App calculate it for you!

KEEP YOUR LOGBOOK UP TO DATE

Like any other motor vehicle expense, you need an up to date logbook to keep track of the private vs business (rideshare) use of your car in order to claim the correct amount.

NEW AND USED CARS

Depreciation applies whether you've bought a new or used car - the calculation starts from your date of purchase.

PRIME COST VS DIMINISHING VALUE

Think about how long you've owned your car - if you've owned it for more than 3 years then prime cost method is the way to go - any questions - just ask us at DRIVR.

USE DRIVR

DRIVR has been designed specifically to take the pain out of BAS and Tax admin - it will save you time, money and make your driving life a whole lot easier! There's a free one-month trial available right now.

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