31 March 2022

Ms Haneeta Rekhi

Australian Taxation Office

By email to: Haneeta.Rekhi@ato.gov.au

Dear Haneeta,

LI 2022/D8 – Explanatory statement

On behalf of the Institute of Public Accountants I submit our comments on the draft determination and accompanying explanatory statement LI 2022/D8 Explanatory Statement.

The Instrument is made under sub-section 28-25(4) of the *Income Tax Assessment Act 1997* and sets the rate at which work-related car expense deductions may be claimed when using the cents per kilometre method for the income year commencing 1 July 2022.

We therefore welcome the opportunity to provide feedback and make the following comments for consideration.

Transparency

As a general observation, given the importance of the cents per kilometre rate, it would be useful if there was more transparency of the methodology used to calculate the rate, including, the index that is used (we understand this is the Private Motoring Index), the make-up of the index, the weightings of the components (for instance, fuel cost) and the comparison periods.

Methodology

In deriving the cents per kilometre rate, general indexation has been used under s. 960-M of the *Income Tax Assessment Act 1997* and the index for the quarter ended December 2021 has been used.

The December 2021 quarter was an unusual quarter, when compared historically to domestic economic conditions that have prevailed. Additionally, for the last two years, due to the health pandemic, CPI has gone backwards. This means that using general indexation and the December 2021 quarter indexation, will not be reflective of current (post COVID) conditions.

Our view is that the methodology for updating the cents per kilometre needs to better reflect the true cost of using one's private vehicle for business purposes. The concern is that not the most up-to-date indexation has been used in deriving the rate and further, that the rate will then be locked in for twelve months. A significant concern is the cost of fuel, and with fuel costs being a key component of the index, using the December 2021 quarter will significantly understate the impact of rising fuel prices. The concern is that the fuel prices component of the index is out-of-date and in the current unstable global political environment which projects fuel prices to increase significantly, this will mean that the rate that will be locked in for the next twelve months will be significantly understated.

Additional consequence

According to the ATO data for 2018-19 the cents per kilometre method is the preferred method for most tax payers and if the rate is not reflective of current conditions (post COVID and International political instability), this will penalise the vast majority of tax payers claiming the work related car expenses.

Also, as the cents per kilometre rate is a widely used benchmark by employers to reimburse employees for work related car expenses, if the rate is significantly understated, this will penalise employees who are using their private vehicle for business purposes.

Recommendation

We appreciate the timeframes required for setting the rate, but given the significance of the current global economic environment and the effect of rapidly rising fuel prices on domestic CPI, our recommendation is a for the March 2022 quarter CPI index to be used.

If you would like to discuss our comments, please do not hesitate to contact me.

Yours sincerely

Tony Greco

General Manager, Technical Policy

Institute of Public Accountants