

VAT EXPENSE CLAIMS FOR MOTOR VEHICLES

VAT OFFICE POLICY STATEMENT [VP005]

(Issued 15 March 1999)

Introduction

The purpose of this Policy Statement is to clarify the treatment of motor vehicle expense claims for Value Added Tax ("VAT") purposes. In addition, this statement sets out the correct VAT treatment of travel to and from work and provides some guidelines for the keeping of motor vehicle logbooks.

The Value Added Tax Guide currently sets out the policy for the treatment of motor vehicle expenditure, however after discussions with some taxpayers it is clear that further clarification and explanation of this policy is required.

Application Date

The policies set out in this statement replace the policies set out in the Value Added Tax Guide and are effective from 15 March 1999 unless specifically stated otherwise.

VAT Claims on the Purchase of Motor Vehicles

Claims for VAT paid on the purchase of motor vehicles can only be made once approval is granted by the VAT Office.

Approval will only be granted where:

- it can be proven that the motor vehicle is used 100% for business use, or
- if the vehicle is not used 100% for business a logbook is kept for 3 months to establish the business use percentage.

This percentage is then used to calculate the VAT credit on the purchase of the vehicle.

No amendment is required to the VAT credit claimed on purchase if there is a subsequent change to the business use percentage.

Motor Vehicle Running Expenses – Vehicle Used 100% for Business

No prior approval is required to claim motor vehicle running expenses if the vehicle is used 100% for business. However, as with all VAT claims tax invoices must be kept to substantiate the expenditure.

Motor Vehicle Running Expenses – Vehicle Used Less Than 100% for Business

Where the VAT Office has already approved a business percentage in respect of the purchase of the vehicle (i.e. a logbook has been kept for 3 months and written approval has been given) then this approved percentage can be used as the basis for VAT claims for the running costs of the vehicle.

Where no business percentage has been approved a logbook must be kept for 3 months to establish the correct business percentage. However, the VAT component of running costs can be claimed during this 3 month period on the basis of the business percentage established at the end of each of the 3 months. The average percentage established over the 3 months can then be used as the basis of claims for the next 3 years.

Motor Vehicle Logbooks

Logbooks are used to determine the business use percentage of motor vehicles. Once a business percentage has been established (and 'approved' in respect of claims for vehicle purchases) then that percentage can be used for a period of 3 years.

A logbook should record each business trip and should contain the following information:

- odometer reading at the start of the logbook
- odometer reading at the start of each business trip
- odometer reading at the end of each business trip
- date of each business trip
- the destination of each business trip
- odometer reading at the end of the logbook.

Where the logbook or other records kept are unsatisfactory the VAT Office may, as a result of an audit or other check, amend the percentage if the records held do not support the percentage being used.

Business Use Increases after Logbook Business Use Percentage Has Been Established or Approved

In some cases the business use of a vehicle may increase after the business use percentage has been established. If the registered person wishes to alter the established or approved percentage then the logbook must be kept for another 3 months to determine the new percentage.

During this 3 month period the registered person may claim the percentage determined at the end of each of the 3 months.

The new percentage established at the end of the 3 month period can be used for the next 3 years – no approval is required however the VAT Office may amend this if the records held do not substantiate the new percentage.

Travel To and From Work

This policy clarifies the VAT treatment of travel to and from work.

VAT expenditure incurred in travelling to and from work is of a private nature and therefore can not be claimed.

As some taxpayers may have previously been advised incorrectly, this policy has effect from 1 May 1999. This means that motor vehicle running costs incurred to and from work can continue

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to be claimed up to 30 April 1999. (For registered persons on the payments basis this means payments made up to 30 April 1999 and for those on the invoice basis this means invoices dated up to 30 April 1999).

Some difficulty may arise for registered persons who have already established their business use percentage on the basis that travel to and from work is business expenditure. In some cases this will mean that no logbooks have been kept, on the understanding that all travel was classified as business. In other cases, logbooks will have been completed treating travel to and from work as business travel. The following paragraphs address this.

Travel To and From Work – No Logbook Previously Kept

For registered persons who have previously not been required to keep a logbook but do use their business vehicle to travel to and from work the following applies:

- no adjustment is required for running cost claims made prior to 30 April 1999
- a calculation, based on at least a month's travel, is required to establish what percentage travel to and from work represents of total travel. A formal logbook is not required to establish this percentage, however some documentation must be kept. This new percentage should be used for all claims for running costs made from 1 May 1999.
- An example of this calculation could be:

Odometer reading at the beginning of the month = 15,000

Odometer reading at the end of the month = 15,500

Distance from home to work = 2 km

Trips to and from work for the month = 40 (20 workdays × 2 trips per day)

Total mileage = 500 km

Total travel to and from work = 80 km

Percentage of private travel = 16%

Based on the above example the registered person would reduce their total vehicle running costs by 16% before making a claim in their VAT return.

Travel To and From Work – Logbook Previously Kept

Where a registered person has previously kept a logbook and calculated a private percentage an adjustment is required to include the travel to and from work. This adjustment can be calculated in the same way as the example in the preceding paragraph.

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Treatment of Travel To and From Work for Motor Vehicles Purchased after 30 April 1999

All new claims for motor vehicles (in respect of both capital purchase and running costs) made after 30 April 1999 must be made on the basis that travel to and from work is private expenditure.

This means that logbooks must be kept for 3 months before the VAT on the purchase price can be claimed. As stated in the paragraph *Motor Vehicle Running Expenses – Vehicle Used Less Than 100% for Business*, the VAT component of the running costs can be claimed during the 3 months period on the basis of the business percentage established at the end of each of the 3 months.

Registered persons who have started a logbook and have not completed it prior to 30 April 1999 should continue with that logbook, but they must either:

- start to record travel to and from work if there is at least a full month remaining of the required logbook period, or
- Calculate the home to work percentage outside of the logbook if there is less than a month remaining of the required logbook period (an example of this calculation is provided in the paragraph *Travel To and From Work – No Logbook Previously Kept*).

Employee Transport Service

It is quite common for hotels, restaurants, hospitals and some other businesses to provide a transport service for employees where they work outside of normal work hours or in remote areas. Such a service would normally involve the pickup and/or drop off of a number of employees by a designated driver. Generally this travel can be treated as business related travel. However, registered persons should contact the VAT Office to discuss their circumstances if they are unsure whether they are providing a valid employee transport service.