



Viewfinder

Guidance at every turn



Automobiles and Canadian Taxes (updated to January 1, 2010)

Following is a brief summary of the rules relating to automobiles and Canadian taxes. Further information can be obtained from your Stern Cohen contact or by referencing the Canada Revenue Agency guide on taxable benefits. *(Note: There has been no change in the monetary amounts from those in effect for 2009).*

There is a distinction between an automobile versus a pick-up truck or van (depending on the configuration and the use to which it is put). For purposes of this summary, we refer to all vehicles that don't meet the "Automobile" definition as "Other vehicles".

For the Employer

Employer owned vehicles

Automobiles - for tax depreciation purposes (30% declining balance basis) the cost is limited to \$30,000 plus taxes. Interest or finance charges related to the purchase of the automobile are limited to a maximum of \$300 per month.

Other vehicles - no restriction on cost or interest.

Employer leased vehicles

Automobiles - deductible lease costs limited to a maximum of \$800 plus taxes per month.

Other vehicles - no restriction on lease costs.

Allowances to employees for use of personal vehicle

Any allowance paid to an employee for use of his/her own vehicle on employer business must be included in the employees income **except** a reasonable allowance paid on a per kilometre basis only. Any allowance paid to an employee and included in the employee's income is deductible by the employer. A non-taxable (to the employee) per kilometre allowance is deductible to the employer to the following maximum limits – 52 cents on the first 5,000 kilometres and 46 cents on additional kilometres.

For the Employee

Employer owned vehicles

Automobiles - there are two elements to the benefit. First is a standby charge for availability equal to 2% per month of the original cost of the automobile. Second, is an operating cost benefit equal to 24 cents per personal kilometre. (See "Reducing the taxable benefit" below).

FOR THE EMPLOYEE (con't)

Employer owned vehicles (cont'd)

Other vehicles - the taxable benefit is "a reasonable estimate of the fair market value of the benefit". In the absence of another amount CRA will accept 52 cents on the first 5,000 kilometres and 46 cents on excess kilometres as being the taxable benefit. *In situations where the employee is required to take the motor vehicle (but not an automobile) home for bona fide business reasons it may be possible to reduce the benefit to the operating benefit rate only (currently 24 cents per kilometre). Examples of bona fide business reasons could include security of company tools or other equipment which cannot be left on a job site or the employee is on call to respond to emergencies. The employee should be prohibited, in writing, from using the vehicle for any other personal use. Consult your Stern Cohen contact if you have a situation to which you feel this reduced benefit may apply.*

Employer leased vehicles

Automobiles – again, there are two elements to the benefit. First is the standby charge for availability equal to 2/3rds of the lease cost. Second, is the operating cost benefit equal to 24 cents per personal kilometre. (See "Reducing the taxable benefit", below).

Other vehicles - the taxable benefit is "a reasonable estimate of the fair market value of the benefit". In the absence of another amount CRA will accept 52 cents on the first 5,000 kilometres and 46 cents on excess kilometres as being the taxable benefit.

Reducing the taxable benefit!

If the vehicle is used more than 50% for business **and** personal kilometres do not exceed 20,000, then the standby charge is determined as outlined above multiplied by the fraction of personal kilometres over 20,000. Example: assume a vehicle with a cost of \$30,000 available for the entire year with total kilometres of 40,000 and personal kilometres of 10,000. The standby charge would be \$3,600 ($\$30,000 \times 2\% \times 12 \text{ months} \times 10,000/20,000 \text{ kilometres}$).

Allowances to employees for use of personal vehicle

Any reasonable allowance paid to an employee strictly and exclusively on a per kilometre basis is not taxable, even if it exceeds the deductible limits for the Employer. Any other type of allowance, no matter how it is paid, must be included in the employee's income.

Employee tax deduction claims

Employees who are not in receipt of a reasonable per kilometre allowance or who receive any additional payment (e.g. a flat amount to cover insurance), and use a personal vehicle for business may claim the business portion of their vehicle expenses as a deduction from employment income on their personal income tax return. The employer must certify the need for the employees to use their personal vehicle for business. It is the employee's responsibility to keep track of their costs and to maintain a detailed log for purposes of determining business use.

GST issues

The employer can only recover GST applicable to employer purchased or leased vehicles to the maximum purchase or lease limits outlined above (e.g. if a \$40,000 car is purchased the employer can only recover 5% of \$30,000).

Where a per kilometre allowance is paid, the employer may claim a GST input credit of 5/105ths of the allowance, up to the maximum deductible per kilometre allowances outlined above.

The taxable benefit for use of a employer car is deemed to have GST included, therefore, the employer must remit GST on the benefit calculated at 4/104ths of the standby portion and 3% of the operating cost portion.

Most employees claiming car expenses on their tax returns are entitled to a GST refund of 5/105ths of the allowable portion of the business expenses.

At your request, your professional advisor at Stern Cohen LLP will be pleased to provide more details or assistance in the calculation of the automobile taxable benefits for the employer or employee.