

Behind the Counter

Automobiles

Automobile expenses, depending on if they qualify with the conditions listed in the Income tax act, may be deducted from various types of income. In some cases it can be advantageous, in others it can end up costing you more. Here is a summary of some of the more common automobile expense deductions and pitfalls.

There are three kinds of motor vehicles for income tax purposes - a passenger vehicle, an automobile and a motor vehicle and all can be subject to special restrictions so check with your tax preparer to determine if any restrictions apply to your situation.

The kinds of automobile expenses that you can deduct are fuel and oil; maintenance and repairs; insurance; license and registration fees; capital cost allowance; interest on a loan for an automobile; and leasing costs. In all cases you are required to keep a record of the kilometers driven to earn income and also the total kilometers driven in the year. This simple calculation will give you a percentage that you can apply to your total automobile expenses to deduct the portion used to earn income. The Canada Revenue Agency considers driving back and forth to work to be a personal expense which would not be deductible however there are exceptions.

Canada Revenue Agency separates employees into Commission Employees and Regular Employees. The conditions that commissioned employees need to meet to be able to deduct automobile expenses are: 1) under your contract, you had to pay your own expenses, 2) you are normally required to work away from your employer's place of business, 3) you were paid whole or in part by commissions (not salary) and 4) you did not receive a non-taxable allowance for travelling expenses. The commissioned employee must meet all these conditions.

For regular employees, the conditions are 1) that you were regularly required to work away from your employer's place of business or in different locations of the business, 2) under your contract of employment, you are required to pay your own motor vehicle expenses, 3) you did not receive a non-taxable allowance for motor vehicle expenses and 4) your employer has signed a T2200 – Declaration of Conditions of Employment.

An allowance for motor vehicle expenses is usually non-taxable as long as it is based on a reasonable amount, such as a per-kilometer rate.

If you own rental income, but only one property, you are limited to the amount of motor vehicle expenses that you can deduct. The conditions that you need to meet are 1) that the income you receive is from the one property which is located in the general area of where you live, 2) you personally do part or all of the repairs to the property and 3) you have to transport tools and materials to the rental property. But if you own two or more properties, you can deduct motor vehicle expenses for collecting rents, supervising repairs and managing the properties as well.

Most proprietorships can deduct automobile expenses including capital cost allowance that was incurred to earn income. If you use more than one vehicle in your business, you need to keep a record for each vehicle showing the total and business kilometers that you drove in the year. There are additional complicated rules to determine whether leasing costs or interest on a loan to purchase a vehicle is deductible.

If you are converting a proprietorship into a corporation you will need to sell your automobile and any other assets to your corporation at fair market value. In most cases this can be done using a rollover so that you will not need to pay income tax on the transfer. One benefit of this transfer is that if your vehicle has depreciated in value quite substantially since you originally purchased it, you may create an artificial loss in your personal income tax that you can carry forward against other income. Where the problem arises is with Provincial Sales Tax. When the vehicle is transferred into the company name, you will be required to pay provincial sales tax on the value of the vehicle.

An automobile in a corporation must be used at least 90% for business use to avoid paying high taxes on the personal use portion. The personal amount that the vehicle is used is deemed to be a benefit to the shareholder or officer/employee of the corporation. This benefit calculation is complex and includes such things as a standby charge as well as an operating charge. The result will far outweigh the benefit of having the use of a company car. This amount will be included on your T4 as a taxable benefit. In many situations with a small business, it is more cost effective to own the car personally and have the company reimburse you for travel expenses based on a reasonable per kilometer rate. The rate that the Canada Revenue Agency considers reasonable for 2008 is 52 cents per kilometer for the first 5,000 kilometers driven and 46 cents for each additional kilometer.

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