TAX RULES FOR AUTOMOBILES USED IN BUSINESS

EMPLOYER-OWNED OR LEASED AUTOMOBILES

TAXABLE BENEFITS

Employees are required to report and pay tax on prescribed benefits if an automobile[1] is made available by an employer for personal use. The taxable benefit consists of two separate components - a standby charge and an operating cost benefit. An employer is required to compute these benefits and report the applicable amounts to the income tax authorities and the employee.

(a) Standby Charge

The standby charge is calculated as follows:

company-owned automobile:

2% x number of months available[2] x original cost of the vehicle[3]

company-leased automobile:

2/3 x total lease cost[3] including maintenance but excluding insurance

Special Notes:

(i) Under new legislation, for 2003 and later tax years, the standby charge can be reduced if the automobile is used more than 50% for business purposes and the kilometres for personal use do not exceed 1,667 per 30-day period for a total of 20,004 kilometres per year.

(ii) A special calculation for automobile salesmen permits the calculation of a modified standby charge based on 1.5% (instead of the 2% discussed above) of the greater of the average cost of all automobiles or all **new** automobiles acquired by the employer to sell or lease in the year.

(b) Operating Cost Benefit

Operating expenses for personal use, which are paid by an employer and not reimbursed by the employee, give rise to a taxable benefit to the employee. Automobile operating expenses include gasoline and oil, repair and maintenance costs and licenses and insurance.

If an employee notifies his employer in writing before the end of the particular taxation year, he may calculate the operating cost benefit as 50% of the standby charge minus any reimbursement to the employer made by the employee within 45 days after the end of the year. This option is only available, however, where the automobile is used more than 50% for business purposes.

An alternative method for calculating the operating cost benefit is available to those employees who do not qualify for the calculation based on 50% of the standby charge (because their use is not primarily for business purposes) or for those employees who choose not to elect the 50% calculation method even though the automobile is used primarily for business.

Under this alternative method, the operating cost benefit is calculated at 24 cents per personal-use kilometre driven for 2011. The amount calculated using this method can also be reduced by any reimbursement paid within 45 days after the end of the year by the employee to the employer in respect of these operating costs.

Also, under both methods, the income inclusion is considered to include a G.S.T. component and no further income inclusion is required.

Special Note: Operating cost benefit is calculated at 21 cents per kilometre for employees whose main source of employment is selling or leasing automobiles.

To calculate your automobile benefits for 2011, please visit
http://www.cra-arc.gc.ca/autobenefits-calculator/

(c) Goods and Services Tax/Harmonized Sales Tax Benefit

Employee benefits may be subject to G.S.T/H.S.T. Where an employee receives a taxable benefit from his employer, the employer is liable for and must remit the relevant tax where applicable.

DEDUCTIONS

When a motor vehicle is purchased or leased by an employer for use by an employee, the employer can claim either capital cost allowance (CCA) and related interest expense or lease payments. These deductions may be limited, however, for passenger vehicles if certain conditions are met. These limits do not apply to a motor vehicle acquired to sell, rent, or lease in a motor vehicle sales, rental, or leasing business.

In order to determine whether the vehicle purchased or leased is considered a motor vehicle or a passenger vehicle, it is recommended that the employer consult the "Vehicle Definitions Chart" produced by the Canada Revenue Agency (CRA) in its "Employment Expenses" publication (p.17).

For a passenger vehicle purchased after 2003, the maximum cost for capital cost allowance is $30,000 plus P.S.T. and G.S.T. or H.S.T., while the maximum deduction for interest on money borrowed to buy a passenger vehicle is $300 per month. Annual capital cost allowance is 30% on a declining balance basis (15% in the year of acquisition).

For passenger vehicles costing over $30,000 plus P.S.T. and G.S.T, or H.S.T. no recapture of capital cost allowance or terminal loss will apply and CCA of 15% is allowed in the year of disposition.

For a passenger vehicle leased after 2002, the deduction will not be limited if:

(i) the manufacturer's list price is less than $35,294 plus P.S.T. and G.S.T. or H.S.T.;

(ii) the leasing payments are less than $800 per month plus P.S.T. and G.S.T. or H.S.T.; and

(iii) no special deposits or prepayments have been made on the lease.

EMPLOYEE-OWNED OR LEASED AUTOMOBILES

OPERATING EXPENSE BENEFIT

Where an automobile is provided by the employee but the employer pays for automobile operating costs (including costs for personal use of the automobile) the employee is required to include in income the value of any benefit received by the employer for automobile operating expenses attributable to personal use.

The value of this benefit is calculated as total costs paid by the employer and prorated by the ratio of personal kilometres to total kilometres driven by the employee. Amounts paid by the employee to the employer can be deducted from the benefit. Under this method, the employee is required to record employment and personal kilometres in a log.

ALLOWANCES

Automobile allowances for employees (other than those who are salespersons or who negotiate contracts) are not taxable to the employee as long as the allowance is a reasonable per-kilometer allowance.

Allowances will be taxable unless based solely on the number of business kilometres. They are taxable if the employee receives both a flat-rate allowance and a reimbursement for car expenses incurred, other than toll or ferry charges or supplementary business insurance.

Where an employee receives a set periodic amount (ie. monthly, weekly, etc.) the amount will be considered a prepaid reimbursement as opposed to a taxable allowance if:

(i) there is a beginning-of-the-year agreement between the employee and employer that the employee will receive a stated amount per kilometre for business-related travel;

(ii) there is a year-end accounting for any difference between the advances and the actual business-related kilometres; and

(iii) the amounts above are reasonable.

As a general rule, CRA considers 52 cents on the first 5,000 kilometres and 46 cents on the remaining kilometres as reasonable allowances.

These are also the rates that CRA permits as deductions for employers.

If an employer pays an allowance in excess of the above amounts, the excess over the prescribed rates will not be deductible to the employer unless the employee pays tax on the excess.

DEDUCTIONS

An employee who:

(i) is normally required to work away from his employer's place of business or in different places,

(ii) is required by his employer to pay his own motor vehicle expenses,

(iii) does not receive a non-taxable allowance for motor vehicle expenses from his employer, and

(iv) keeps with his records a completed copy of Form T2200, "Declaration of Conditions of Employment"

may deduct motor vehicle expenses incurred.

If an employee's automobile is used partially to earn employment income and partially for personal purposes, the deductible amount is prorated. The deduction would be in proportion to the business kilometres compared with the total kilometres driven. The employee is, therefore, required to keep a record of total kilometres travelled during the year divided between business mileage and personal mileage.

Deductible motor vehicle expenses include operating expenses such as license and registration fees, insurance, maintenance and repairs, and fuel and oil. To be deductible, the expenses must be reasonable in the circumstances and should be supported by receipts. The supporting documents are not required to be filed with the employee's income tax return, but must be retained for examination on request.

Deductible motor vehicle expenses also include "capital" expenses such as leasing costs, capital cost allowance and interest on money borrowed to buy the motor vehicle. These "capital" expenses are subject to the same restrictions that apply to employers (as outlined previously).

HELPFUL HINTS

Individuals can minimize the after-tax cost of a vehicle by making adjustments to usage:

- By visiting clients or customers to discuss business on the way to and from work, kilometres are converted from personal to business;
- Two-car families should ensure that one vehicle is used primarily for personal use so that the business percentage use on the other vehicle is maximized; or
- Consider leaving a company vehicle on company premises during weekends, out of town business trips and vacations. This will reduce the availability of the vehicle and hence reduce the standby charge.

Further information on automobile benefits and allowances and employment expenses can be obtained from the CRA publications entitled "Employers' Guide to Taxable Benefits" and "Employment Expenses".

---

1. *an automobile does not include a van, pick-up truck, or similar vehicle that:*

   (i) has a seating capacity of not more than the driver and two passengers, and in the year acquired or leased is used mainly to transport goods or equipment in the course of business; or

   (ii) in the year acquired or leased is used 90% or more to transport goods, equipment, or passengers in the course of business.

   (iii) Under new legislation for taxation years that begin after 2002, an automobile does not include pick-up trucks that are acquired or leased in the taxation year that are used primarily to transport goods, equipment, or passengers in the course of earning or producing income and are used at a remote work location or at a special work site that is at least 30 kilometres away from any community having a population of at least 40,000.

2. divide the number of available days by 30 and round to the nearest whole number if it is more than one

3. Includes P.S.T. and G.S.T.