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AUTOMOBILES — Company/Employer vs. Individual

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Company/Employer-Owned Vehicles

A company/employer-owned vehicle for an employee's use can be convenient and a great incentive; however, the accounting can be burdensome. An employee using a company/ employer-owned vehicle for personal use is required to report any taxable benefit on their personal income tax return. Employers must ensure that proper source deductions are remitted, and include the benefit in the employee's T4 slip.

The Canada Revenue Agency (CRA) has made the ownership of automobiles an extremely complex tax area. (Vehicles are usually passenger vehicles. There are special rules for service vehicles.)

When a company/employer-owned car is made available to an employee, the resulting benefit (called a "standby charge") must be added to the employee's income on an annual basis. The standby charge is calculated as 2% of the original capital cost of the vehicle per month available for use (24% per year), or 2/3 of the annual lease cost.

If the vehicle is used greater than 50% for business purposes, the standby charge can be reduced by the extent that personal use is less than 1,667 kilometres per month (20,004 kilometres per year). In addition to the standby charge, there is an operating cost benefit calculated at 24 cents per kilometre driven for personal use. If business use is 50% or more, the operating cost benefit can alternatively be calculated as 50% of the standby charge, provided that the employer is notified in writing before the end of the year.

GST must be remitted on the total taxable benefit as follows (for Ontario residents): 4/104 of the standby charge, plus 3% of the operating cost benefit. A new rate for the Harmonized Sales Tax (HST) will be coming into effect on July 1, 2010.

Amounts paid by an employee (within 45 days of the following year) to an employer to cover operating costs will reduce the operating benefit.

For company-owned or leased vehicles, the after-tax cash cost of the employee's automobile taxable benefit should be compared to the employee's after-tax cash cost of personally owning/leasing the automobile and receiving the tax-free auto reimbursement.

CRA's Automobile Benefits Online Calculator is located at http://www.cra-arc.gc.ca/esrvc-srvce/tx/bsnss/bc-eng.html.

Individual-Owned Vehicles

If you personally own your automobile, there are basically two options open to you:

1. Receive a tax-free reimbursement for your business kilometres, or

If your employer reimburses you 52 cents/km for the first 5,000 km, and 46 cents/km thereafter, the reimbursement to you is tax free. This is the simplest method and, for cars with limited repairs, it is generally the most beneficial.

To deduct your business use of your car, you will need to do the following for the calendar year:

1. Obtain a signed CRA form T2200 Declaration of Employment from your employer stating that you use the car for business (http://www.cra-arc.gc.ca/E/pbg/tf/t2200/t2200-09e.pdf).

2. Maintain a record, including keeping the receipts of all car expenses, e.g., gas, repairs, lease payments, licence fees, insurance, and loan interest.

3. Maintain a log book to track daily business kilometres. Mark the odometer reading December 31 each year to track the total kilometres driven.

4. Prepare and file a CRA Form T777 Statement of Employment Expenses with your personal tax return (http://www.cra-arc.gc.ca/E/pbg/tf/t777/t777-09e.pdf) .

There are limits to the various amounts you can claim, which are:

- Lease payment per month is $800 plus taxes
- Interest payment per month is $300
- For a purchased passenger vehicle, the value is restricted to $30,000, plus the net GST and sales tax. (HST rules are effective July 1, 2010.)

In the case of a lease, if the retail value of the car exceeds $30,000, there is a complex formula to reduce the $800 per month lease amount. Basically, the higher the retail value — the lower the $800 becomes.

A Capital Cost Allowance (CCA), representing depreciation, may be deducted annually. The CCA on the purchased vehicle is 15% in the first year of the purchase price maximum of $30,000, and 30% of the remaining balance each year thereafter, i.e., the original amount less 15% claimed in the first year, times 30% for the second year.

The deductible amount is the total of the expenses, times business kilometres, divided by the total kilometres.

Once the deductible amount is calculated, you must deduct any non-taxable automobile reimbursement you received.

For a further explanation, go to the CRA publication T4044—Employment Expenses, http://www.cra-arc.gc.ca/E/pub/tg/t4044/t4044-e.html. It provides greater detail on automobile and other expenses.

Conclusion

In the end, you have to do the math. For vehicles used greater than 50% for business purposes, company-owned or leased vehicles start to make more sense. However, after three years, due to the depreciated value of the vehicle, the benefit goes down drastically. For this reason, we would recommend companies not purchase or lease vehicles, if they plan on keeping them for more than three years.

February 2010

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