Time and Money

big money *Both are keys to whether you buy now or lease later.*

By Scott Taylor

There's a rule of thumb in accounting that says the best time to acquire a new truck is at the end of your tax year. It's generally true, as long as you're financing the purchase of the vehicle with a loan and not leasing it.

That's because the Canada Revenue Agency (CRA) lets you expense a half-year's depreciation on the vehicle even though you may have had it for only a month or two. Since CRA allows a 20-percent depreciation expense during a truck's first year, that's a good chunk of change on a new vehicle. You could write off far more than you actually paid out during the short time you've owned it.

That's a nice benefit—a "bonus" business expense that many truck owners incorporate into their tax-planning strategies.

Leasing your new vehicle close to year's end doesn't offer the same tax-related benefit. In fact, if you lease your truck, it may actually be better for you to add the vehicle at the beginning of your business year.

CRA considers that big initial lease payment a pre-paid deposit that you expense and write off over time. You divide the downstroke by the number of months in your contract and expense the amount each month in addition to your regular lease payment and sales taxes. If you put down $20,000 in cash and/or trade on a five-year lease, you need to expense an extra $333.34 over the next 60 months on top of your monthly payment.

If you end the lease early for any reason, you need to write off the remaining balance of the down payment at that time. So if you trade in your leased vehicle after 48 months instead of carrying it to the full term of 60 months, you still have 12 months times $333.34 (equaling roughly $4,000 of value) to expense.

Of course, when you compare write-offs on leases and purchases, what you're really talking about is tax deferral, not tax elimination. If you spend $130,000 on a commercial truck, then you have $130,000 to expense. The difference between buying and leasing is just in the timing of the expense.

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That "bonus" expense during the year of purchase is an example. But taking the first-year depreciation amount on the Capital Cost Allowance (CCA) schedule means you'll have less for later years. Heavy CCA claims in the first two years of owning equipment are great for reducing tax bills, but those smaller CCA claims for the remaining years will mean higher taxes. That's why many people run into tax problems in years four and five of their loan and buy replacement equipment to get back to the higher CCA claims again.

Leasing expenses, on the other hand, are evenly distributed throughout the term of the financing. The write-off for your truck payment is predictable year after year.

Your accountant should be able to walk you through the tax implications of trading in your equipment, which may have changed since the last time you went to market for a truck. This is especially important in light of how CRA regards lease-option agreements.

People in trucking tend to use the words "buying" and "leasing" interchangeably. But we can't anymore. If your accountant advises you to "buy" a new truck, don't go out and negotiate a lease. Purchasing and leasing have totally different effects on your accounting and tax planning.

So now, as you contemplate whether to take on a new truck this year or next, the simplest thing to do is contact your accountant before you proceed in purchasing or leasing equipment. You may be ready to drop Ol' Betsy at the used truck lot and ride off in a shiny new model before the sun sets on 2006. In doing so, you don't want any lingering doubts about the tax implications for you and your business.

For more information, check out the CRA website: www.cra-arc.gc.ca/E/pub/tp/itnews-21/itnews-21-e.html.

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