It's in your interest: Take care, get help when deducting loan expenses

Tax Talk

Scott Taylor

For many owner/operators this past year has meant not only less revenue but more debt – not the kind of load you want to haul around. But if you signed new loan agreements or refinanced existing ones, be sure to account for the interest and finance costs.

Why? If you incur expenses to borrow money, and that money is used to help you earn business income – or to provide working capital for a business – those expenses are deductible. In addition, you can deduct expenses on loans used to acquire depreciable property for the business.

The thing is, loan-related expenses aren't like most business expenses. Interest and other fees may be amortized over the life of the loan and wrapped into monthly payments. Up-front administrative or documentation fees may be buried and easy to miss. The paperwork is notoriously complicated.

Make sure you're taking every opportunity to capture and deduct these expenses. Here's a four-part approach:

Review the paperwork with an accountant

Ask a qualified accountant to help you review your loan documents. Here's what to look for:

Are the payments properly amortized and the interest calculated correctly? Identify the administrative fees and other charges.

Do you have complete copies of your documents? What should you keep in your files?

You want to catch mistakes on the loan agreement before the deal is finalized. But it never ceases to amaze me: we find mathematical errors and other miscalculations; missing pages; and just plain gibberish. An accountant can help cut through the clutter.

Separate your business and personal loan expenses

When you finance a new truck, it's pretty clear that the money is being used to advance your business. But what happens when a line-of-credit or credit card is used for personal and business transactions?

When your credit is mixed together, over time you'll look at it as all business. But trust me, it's not. I can see that and so will an auditor. As the business goes, so goes your life. When you make money, you have it to spend. When you don't make money – which is the business's fault – you spend less but you still have to spend.

In a perfect world you should have separate cards and credit lines for your business and personal use. We always advise our clients to keep dedicated accounts so the expensing of service charges, overdraft charges, interest, and fees is clear to you, to us, and to any auditor who happens to review your return.

When you can't separate, apportion

If money is borrowed partly for business and partly for some other purpose, only the part of the expense that may reasonably be considered applicable to the business is deductible.

So when you're consolidating loans together, Canada Revenue Agency (CRA) expects you to only expense the business-related percentage of interest and charges from a loan or debt. So if your debt load is a mixed bag, you must get out your calculator to determine the proper business percentage each year.

Again, ask your accountant to clarify what is business and what is personal. For instance, you might think your tax accounts (including personal tax, corporate tax, payroll source deductions, and GST account) are business-related. But CRA says you cannot deduct the interest charged to these accounts or any loans you may get from financial institutions to pay these amounts. Also any loans to buy RRSPs or fees charged within your RRSPs are not deductible.

Make your loan expense part of your tax strategy

Once your 2009 income statement is done, if your income is very low or not taxable and you want to show a little higher income, here's a little trick you can use.

If you borrow money for the purpose of acquiring depreciable property (for example, your truck), and incur deductible expenses in the course of borrowing that money, you can capitalize these expenses along with the interest paid or payable on the borrowing.

When these costs are capitalized, they form part of the capital cost of the asset subject to capital cost allowance (CCA).

By doing this, your income will be a little higher to keep the bank happy and you are not giving up the expense.

By adding it to the CCA, you're just expensing it over time. By doing this one year does not mean you must do it in future years. Look at it each year to decide. This is the type of advice that a truck specialist accountant can give you.

As the year comes to a close, I want to thank you for reading. It's been a tough 2009 for the trucking industry, and I hope you've been able to use this column for ideas to help you prosper. Here's to your success and to 2010 – both can't come soon enough. □

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