

TAX TALK

Deducting the use of a car, van or pick-up for business

Know the rules or pay the price

Last month I got a call from a client with questions about a vehicle he planned to lease for his business. We've been his accountant for a long time and know each other well.

When he mentioned something about a pick-up truck, I envisioned a Ford or a Chevy – he's a pretty austere guy.

But my client, an owner/operator whose hard work and smart planning over the years certainly has paid off, had something else in mind: a Cadillac Escalade EXT.

He rattled off more features than an ordinary dealer sticker should have room for. The only thing missing was a big red flag to wave at the tax auditor.

One of the great myths of being self-employed is that if you lease a service vehicle you can write off 100% of the payment and related expenses as business.

Others will tell you that the type of vehicle – ie. pick-up truck vs. car – affects the amount or percentage of expenses you can claim. Neither is true.

In fact, a tax auditor doesn't care what type of vehicle you have or how you finance it. He only wants to see that your vehicle-related expenses were incurred to earn business income and that you have documents to support your claims.

Allowable expenses

CRA is clear about the type of vehicle expenses you can deduct. These include licence and registration fees; fuel costs; insurance; interest on money borrowed to buy the vehicle; maintenance and repair cost; and your lease payment or capital cost allowance (CCA or depreciation).

To support your claim, you must keep a record of the total amount of kilometres you drive in a year (ie. your odometer readings on January 1 and December 31). Then, each time you use the vehicle for business, list the date, destination, purpose, and the number of kilometres you drive.

Now you can determine the percentage of business use to be applied against your expenses. Divide your business-use kilometres by your total kilometres for the year, giving you anywhere from 1% to 100%.

If you can't produce a journal or log detailing the business use of the vehicle, validating that percentage figure, CRA can deny or reduce your claim.

If you use more than one vehicle for your business, keep a separate record that shows the total and business kilometres you drive in each. Calculate and deduct the cost to run and maintain each ve-



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hicle separately based on its own business use.

Valid trips

There are all kinds of business reasons to use your vehicle, from a revenue-producing courier delivery to a trip that involves banking, a run to the parts store, or a meeting with your carrier.

What's not valid is the drive from home to your truck. This is considered commuting – a personal trip. I've argued this with CRA numerous times, using the logic that since the business office is in the home, then driving from the "office" to a work site is business travel. I don't think I'm wrong, but I haven't found an auditor yet who has bought the argument.

Financing

If your vehicle is categorized as a "passenger vehicle," your claim for your financing expense (ie. lease payments or CCA and interest costs) has limits. Lease payments can't exceed \$800 per month.

If you purchased the vehicle, the cost can't be more than \$30,000.

If the vehicle cost more, you can only add \$30,000 plus the appropriate taxes (PST, GST or HST) onto your CCA schedule. The other cost of purchasing – interest on your loan – is limited to \$10 per day. So if you own the vehicle for the entire year, \$3,650 is the maximum claim. If you own it for less, you must prorate the interest expense claim for the appropriate number of days.

Resources

CRA's guide, *T4002 Business and Professional Income*, is a great reference on motor vehicle expenses (look for it online at www.cra-arc.gc.ca). Note how many times it mentions supporting claims with a detailed record.

My client knows it. When he picked up his sweet new ride, one of the first things he did was record the date, mileage, and reason for the trip in a fresh notebook and tuck it into the driver's side door pocket. □

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