

# Baby, you can drive your car (just log the miles)

One of the most misunderstood deductible business expenses I see involves the so-called 'service vehicle' – the business-related use of a car, truck, or van, especially if it's also your personal vehicle. Canada Revenue Agency has pretty clear guidelines about how to document the use of the vehicle for business purposes, yet this type of claim remains one of the biggest red flags for auditors. Why? There are specific requirements for documenting these expenses and it takes discipline to get them right every time.

You're not only collecting a receipt for fuel, service, or some other expense, you have to record mileage as well. As a truck driver you may be accustomed to that sort of thing, but what about your spouse or kid who's running a business errand while you're away?

Before the year ends, talk to your accountant about how to make a valid service vehicle claim. Here are some questions to help get the conversation rolling:

## What's a "business" trip?

There are all kinds of reasons to use your car, truck, or van for business: a trip to the parts store, a meeting with your carrier, and so on. What's important is that you're using the vehicle for a task that helps you earn business income.

Note that CRA considers driving back and forth between home and work – commuting – as personal use, so you can't deduct expenses related to your drive from home to your truck. I've argued that if your business office is in your home, then driving from the "office" to where your truck is parked should count as business travel. But I haven't found an auditor yet who agrees with me.

## What expenses are deductible?

Only the business portion of your motor vehicle expenses are tax deductible. So as a rule, you can deduct any reasonable motor vehicle expense you paid or will have to pay to earn business income. This includes licence and registration fees; fuel and maintenance; repair expenses; insurance; interest on money borrowed to buy the vehicle; and your lease payment or capital cost allowance (CCA or depreciation). CRA's guide, *T4002 Business and Professional Income*, is the official reference on motor vehicle expenses (it's available online at [www.cra-arc.gc.ca](http://www.cra-arc.gc.ca)).

## How do I separate personal and business travel?

To support the amount you can deduct, you'll need to keep a record of both the total kilometres you drove and the kilometres you drove for business. Divide your business-use kilometres by your total kilometres for the year, giving you anywhere from 1% to 100%.

The percentage is important. CRA uses "90% or more" as its guideline to interpret the words "all or substantially all" in the *Income Tax Act* and *Excise Tax Act*. If your business miles are 90% or more of the vehicle's annual total,

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special rules may apply. For example, if you're buying a new service vehicle, you can claim 100% of the GST/HST immediately on your next return if you can show that it's used for business 90% of the time. If the business use is less than 90%, you have to calculate the GST/HST included in the depreciation of the vehicle each year and claim it back over time.

## What do I need to know about recording mileage?

You need a logbook for the vehi-

cle that contains the total number of kilometres you drive in a year as well as the date, destination, purpose, and the distance in kilometres for each business-related trip.

Without a log, you can't prove that the vehicle was used for business. Your kilometres will be deemed to be personal and your expense claims will be denied. Since CRA can audit three years at a time, you may lose three years of claims as well as the GST/HST input tax credits on those expenses. This includes the GST/HST in your lease payments, purchase price, gas, repairs, etc., which can be refunded to you at the percentage of business use. You may have to pay back part of your GST/HST refunds.

If you use more than one motor vehicle for business, keep a separate log and calculate each vehi-

cle's expenses separately. If you change vehicles during the year, record the odometer reading and dates of each vehicle at the time you buy, sell, or trade it.

And if more than one driver is using the vehicle to support the business, remind them to maintain the log as well.

Make sure there's a working pen inside the vehicle and an envelope to organize receipts. Like any other record-keeping exercise, keep it as simple as can be. □

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