TAX TALK

Make strategic use of your CCA

My column last month about how to tax-plan when you buy or lease a truck triggered some great phone calls from owner/operators.

A few had to do with Capital Cost Allowance, or CCA. That's where you're allowed to deduct a calculated portion of the truck's expense over a period of years as the vehicle depreciates.

Canada Revenue Agency (CRA) recognizes various categories of depreciable property in your business and has assigned rates for each class. There are rules about prorating CCA, recapturing CCA when you dispose of property, how much you can claim in the year you acquire the asset, etc. The information is pretty easy to find and your accountant can help you with the details.

One owner/operator who does his own books called me to confirm that trucks can be depreciated at 20% for the first year and 40% after that. I darned near fell outta my chair. Yes, those are the CCA rates and have been since 1991.

This guy's been using 20-year-old information to calculate his depreciation. And I bet he thinks he's saving money by not having an accountant review his books and file his tax return.

Flexible claim amounts

Another guy who recently got back into the owner/operator game told me he was advised to lease his truck rather than buy it because it's better for tax purposes. The rationale is that lease payments are expensed as you pay them and are consistent over the term of the lease.

Now, I agree that purchases can cause fluctuations among your actual payments and what you're able to expense. But there's a fix for this.

CCA rates are maximums. You don't have to claim the full amount in any given year. You can claim any amount of CCA from zero to the maximum allowed for the year.

If those rates create a CCA claim amount that, when added to your interest expense each year, produce a total expense that's greater than your payments, all you have to do is roll back the CCA amount to make them equal. Any CCA delayed in one year just helps create a larger amount in the next year. You'll avoid those swings in your income as you can basically match your expense deduction to your payments.

This strategy gives you the best of both worlds: a consistent expense write-off during the life of your financing, and the flexibility to claim more or less expense than your payments. The calculations aren't perfect but they're pretty close.

If you have a really bad year and are showing a loss, you can't reduce your lease payment expense but you can reduce your CCA claim to make your net income look better.

Also, if you have extra income on your tax return (say, from an RRSP withdrawal), you can increase your CCA claim to lower your business income to put you into a lower tax bracket.

There's no one-size-fits-all answer. In my almost 25 years in this business, time and time again purchase financing typically gives an owner/operator more flexibility in good times and bad. Finance companies that are more willing to renegotiate loan payments and early payout penalties seem to be less so when it comes to leases.

Shop for credit life and disability

One thing you'll confront when you negotiate a purchase or lease is the push for credit life and credit disability insurance.

This type of insurance can help protect your family and heirs from your loan obligation in case you die or get sick or hurt. The amount of the premium is based on the size of the loan or lease, and the lender will bundle the premiums with your payment.

Sounds convenient, but getting insurance through the dealer can cost thousands more compared to what another insurer may have offered.

The dealership makes a commission on selling you the insurance. It also charges the entire premium cost of the coverage to the front end of the finance contract, elevating the amount of interest you'll pay. It's a nice arrangement for the dealer, since he's paid based on your interest charges.

We've been able to help clients shop around for this type of insurance. One owner/operator in particular saved $126.40 a month on his overall payment – more than $6,000 on the term of his 48-month financing. That's the total savings on the premium itself plus the savings on the interest charged in the financing.

It's a great reminder that the price of the truck is just part of its overall cost. Whether you're reviewing your payment or your depreciation, talk to your accountant about how to make sure that cost is one you can manage. ☐

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