Tax Talk
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Talking shop – and taxes

You love working on your truck but you've had it with dropping greasy tools onto a dirty driveway. Changing out filters and adjusting brakes would be a lot easier inside a dry, insulated, well-lit shop.

Lucky for you, your home is on a property big enough to let you extend the driveway and add a building.

So you research types of structures, talk to contractors about square footage and construction costs, and discuss permits with the building code office. You settle on a location that won't block the view from the kitchen window.

It's all fun, exciting stuff.

But there's one more call to make. You should talk to your accountant about how this idea of yours will affect your taxes.

Putting a business-related structure onto personal property isn't as easy as pouring a pad and adding walls and a roof. Here are four things to consider in order to put your garage on a solid financial footing.

Capital cost allowance

Like a truck or trailer, a shop is a business asset and must be expensed over time on your CCA schedule. The problem is that CCA rates for buildings are low. If you spend $30,000 on the structure, your CCA each year may be just $1,500. You'll save maybe $450 in tax.

Is it worth it? Let's head 10 years down the road when you're ready to retire or get out of trucking.

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Conservatively, you can assume the building will still be worth its original value of $30,000. On the CCA schedule, it will have depreciated to a value of $15,000.

When you exit the business, you'll have to remove the building from your assets list at fair market value. It will become your personal property, "sold" to you for $30,000.

What happens to the $15,000 difference on the CCA schedule? You'll get a $15,000 recapture lumped into your personal income all at once.

Ouch! You'd probably end up giving back all the tax savings of the previous 10 years.

Ask your accountant about CCA strategies, even if you already have a shop and have been depreciating it for years.

Shop expenses

You can claim the costs to operate your shop, including interest on loans, insurance, utilities, property taxes, maintenance, minor improvements, and anything else you can justify.

Of course, your shop will need tools, which may be considered "assets" you can expense – some over two years, some over a longer period. As silly as it sounds, buying your tools one at a time may get you a more direct write-off than buying a bunch at a time. Again, talk to your accountant about your specific situation.

GST/HST

Buildings are expensive and the amount of GST/HST you'll incur to build and run your shop is worth claiming.

Canada Revenue Agency has strict rules about claiming business expenses wherever personal property is involved. It's hard to get more than 50% business use on the entire parcel of land when you make your personal home there.

Make sure to establish the right percentage of business use. What if you park your boat in your shop? Or let your neighbor work on his hotrod in there? Expect CRA to question how much your shop is really used for business.

Labour expenses

There's no advantage to paying yourself a "shop rate" for labour and then expensing it. You'll just create personal income for yourself that you'll have to report on your tax return.

However, if you have family members who can work on your truck, you can pay them a reasonable wage or salary, effectively splitting your income and potentially reducing your tax obligation. Your accountant can help you determine what a "reasonable" wage should be.

Building a shop is a great idea if you can do it. A well-equipped garage would mean you're no longer at the mercy of someone else's schedule, skills, and labour rates.

But the tax implications are serious, and you can't bury your head under the hood and hope they'll resolve themselves. You may want to build on a separate lot where it's easier to show that the shop is used for business only. Your accountant can help you sort through the details.

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