

Tax Talk

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Where the rubber hits the road

I've written about service vehicle expenses for the past two columns and discussed the rules for claiming this expense. But let's put this all together with some real numbers so you can see what this really means to you.

The big auto makers use 25,000 kilometres a year as their standard allowance in their lease agreements so that's what we'll use as a baseline. We'll also assume the following annual expenses: insurance, \$2,000; fuel, \$2,400; licence, \$120; and maintenance, \$1,000.

Let's also assume that what you paid for your vehicle equals at least the maximum value on your capital cost allowance (CCA) schedule – say, \$30,000. Without getting hung up on specific CCA rules, this means you have CCA claims of \$9,000, \$6,300, and \$4,410 over three years.

You also have a loan on this vehicle and the interest charges on the loan balance for these years are \$1,500, \$1,300, and \$1,000 respectively.

Now it's time to calculate the business use of the vehicle. But before I do, this warrants repeating: commuting from your home to your truck – regardless of whether it's parked at the terminal, the mall, your buddy's farm, or a customer's yard – is considered personal use, not business.

So thanks to your trusty service vehicle journal you determine that 10% of the distance you log is for business use. That means you can claim expenses of \$1,602, \$1,312, and \$1,093 each of these years. If your log shows 25% business use, your claims are \$4,005, \$3,280 and \$2,732.

Multiply these numbers by 30% to determine your tax savings and – well, it's not much. Any tax reduction is good, of course, but it's not really significant unless you can show 50% or more.

Should you lease?

With a lease, the CCA and interest disappear and your lease payment is claimed instead. The max lease deduction is \$800 per month and your yearly expenses are \$9,600 in lease payments and \$5,520 annual expenses. Therefore a claim of 10% business use gets you \$1,512 in expenses for the year while 25% gets you \$3,780.

Inside the numbers

So let's go inside the numbers on this and analyze a 25% expense claim.

If you drive your vehicle 25,000 kilometres per year, that means 6,250 kilometres are for your business. Each month, you need to show that you travel 520 kilometres on trips to the bank, your carrier, accountant, repair shops, chasing after employees, or other valid business trips.

But 520 kilometres a month is a lot of travel, even if you get "creative" with your service vehicle log. Heck, at 60 km/h, that's 8.5 hours of driving each month.

Travel reimbursement

CRA allows another way to calculate a service vehicle claim.

If you're an incorporated owner/operator and an employee of your business, CRA allows a reimbursement al-

lowance of 55 cents per kilometre for the first 5,000 kms and then 49 cents after that.

We do have some sole proprietor owner/operators using this method as well, assuming that this is a reasonable approach and CRA will allow it. It can be less work as you do not need to keep all of the receipts for your expenses; however, the business use log is still an absolute. The business can still even claim GST/HST from this monthly payment to you.

The concept is simple as each month you would show a detailed use of your vehicle and then the business would write you a cheque for your mileage. This allowance or reimbursement is tax-free to you while the

business claims the whole expense. If you pay a higher per-kilometre rate than what CRA allows, or you just pay

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yourself a set per month allowance, the amount becomes taxable to you.

Let's go back to our 6,250 kilometres per year of business travel using these per-kilometre reimbursement rates. The business would write you cheques totaling \$3,362.50 during the year. Wow! That's right in the same ballpark, isn't it?

Every situation is different. An owner/operator living in Toronto and working with a local carrier will log completely different distances of business travel compared to someone out in the country on RR 2.

The important thing is that you properly document and claim your travel expense. It's one of the most misunderstood (and abused) deductions that CRA sees – and one of the first an auditor will look for. ●

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