TAX TALK

Wait 'til next year?

If you're buying a truck, it could be a flawed strategy

Tax Talk

Scott Taylor

A lot truck owners are holding out for 2009 to buy new iron.

They want to beat the 2010 deadline for tougher restrictions on diesel exhaust emissions because those engines will be more expensive to acquire and maybe even to operate.

If you're serious about savings, and you're in a position to buy, think about making your purchase this year instead of waiting for 2009.

Never mind that dealers are eager to make a sale now, or that truck manufacturers are raising prices in 2009.

Purchasing equipment close to the end of your fiscal year may help reduce your tax bill.

That's because the Canada Revenue Agency (CRA) lets you expense a half-year's depreciation on the vehicle even though you may have had it for only a month or two.

When you purchase a new truck, CRA allows a 20% depreciation expense during the first year.

That's a good chunk of change on a new vehicle.

You could write off far more than you actually paid out during the short time you've owned it. It's a nice benefit, a "bonus" business expense you can incorporate into your tax-planning strategies.

However, this strategy only works as long as you're financing the purchase of the vehicle with a loan and not leasing it.

People in the trucking industry have used the terms "buying" and "leasing" interchangeably. But we can't anymore.

If your accountant advises you to go buy a new truck, you'd better not lease it.

Leasing your new vehicle close to year's end doesn't offer the same tax-related benefit.

In fact, if you lease your truck, it may be better to add the vehicle at the beginning of your business year, not the end of it.

CRA considers that big initial lease payment a pre-paid deposit that you expense and write off over time.

You divide that downstroke by the number of months in your contract and expense the amount each month in addition to your regular lease payment and sales taxes.

If you put down $20,000 in cash and/or trade on a five-year lease, you need to expense an extra $333.34 over the next 60 months on top of your monthly payment.

If you end the lease early for any reason, you need to write off the remaining balance of the down payment at that time.

So if you trade in your leased vehicle after 48 months instead of carrying it to the full term of 60 months, you still have 12 months times $333.34 (equaling roughly $4,000 of value) to expense.

Of course, when you compare write-offs on leases and purchases, what you're really talking about is tax deferral, not tax elimination.

If you spend $130,000 on a commercial truck, then you have $130,000 to expense. The difference between buying and leasing is just in the timing of the expense.

That "bonus" expense during the year of purchase is an example. But taking the first-year depreciation amount on the Capital Cost Allowance schedule means you'll have less for later years. Heavy CCA claims in the first two years of owning equipment are great for reducing tax bills, but those smaller CCA claims for the remaining years will mean higher taxes.

That's why many people run into tax problems in years four and five of their loan and buy replacement equipment to get back to the higher CCA claims again. Leasing expenses, on the other hand, are evenly distributed throughout the term of the financing.

The write-off for your truck payment is predictable year after year.

Your accountant should be able to walk you through the tax implications of trading in your equipment.

So now, as you contemplate whether to take on a new truck this year or next, the simple rule of thumb is to contact your accountant before you proceed in purchasing or leasing equipment.

You may be ready to drop Ol' Betsy at the used truck lot and ride off in a shiny new model before the sun sets on 2008.

In doing so, you don't want any lingering doubts about the tax implications for you and your business. □

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