The clear-cut case for mileage logs

One of the myths of being self-employed is that you can write off 100% of the lease payment and related expenses on a service vehicle for your business. Another is that the type of vehicle – ie. pickup truck vs. car – affects the amount or percentage you can deduct.

Neither is true.

In fact, a tax auditor doesn't care what type of vehicle you have or how you finance it. He only wants to see that your vehicle-related expenses were incurred to earn business income and that you have documents to support your claims.

Keep a record

Canada Revenue Agency (CRA) is clear about the type of vehicle expenses you can deduct. They include licence and registration fees; fuel costs; insurance; interest on money borrowed to buy the vehicle; maintenance and repairs; and your lease payment or, if you buy, capital cost allowance (CCA or depreciation).

To support your claim, you must record the total number of personal and business kilometers you drove in a year (the odometer readings on Jan. 1 and Dec.31); and, each time you use the vehicle for business, you need to list the date, destination, purpose, and distance of your trip.

Five thousand kilometers, properly accounted for, would get you reimbursed $2,900 from your corporation

From there you can determine the percentage of business use to be applied against your expenses. Divide your business-use kilometers by your total kilometers for the year, giving you anywhere from 1% to 100%.

Without a journal or log detailing the business use of the vehicle, and validating that percentage figure, CRA can deny or reduce your claim.

What's a commute?

There are all kinds of business reasons to use your service vehicle, from a revenue-producing courier delivery to a quick run to the parts store. What's not valid is the drive from home to your truck. This is considered commuting, a personal trip.

I've argued this with CRA numerous times, using the logic that since the business office is in the home, driving from the "office" to a work site is business travel. I don't think I'm wrong, but no auditor yet has bought the argument.

Much at stake

Of course, it's not just the deduction or expense denial for your income tax calculation that is at risk if you don't have a travel log. You can also lose the GST/HST refund tax credits on those expenses.

If you're a sole proprietor buying a new service vehicle, you have to be able to show over 90% business use if you want to claim the GST/HST back all at once on your next filing. And you can bet that the increased refund will have CRA calling for an explanation.

If the business use is less than 90%, you have to calculate the GST/HST included in the depreciation expense of the vehicle each year and claim it back over time.

If you are incorporated and your company owns or leases the vehicle, you may be required to calculate a taxable benefit and apply it to your personal income. CRA has a "standby charge" and an "operating expense benefit" just for you.

The standby charge represents the benefit of the employee (that's you) enjoys when the automobile is available for their personal use. Generally, either two-thirds of the lease payment or 2% of the vehicle's cost is considered extra monthly income for you. Ouch!

I have always maintained that corporate clients should buy or lease their personal vehicles and reimburse themselves for any company driving they do. For 2019, CRA's reasonable allowance rates are 58 cents per kilometer for the first 5,000 kms and 52 cents for all kilometers after that.

If you think the deduction isn't worth the hassle, think again. Five thousand kilometers, properly accounted for, would get you reimbursed $2,900 from your corporation. I'm pretty sure you can create travel logs to show that. **TN**

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