Tax Talk
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Service vehicles: Log it or lose it

I want to build on last month's column because I get so many questions about how to deduct expenses for the business use of your personal car, pickup, or van.

This is one of the most misunderstood types of claims I see, and it's an immediate red flag for an auditor. The issue isn't abuse (although it happens). It's documentation: The No. 1 reason "service vehicle" claims are denied is for failure to properly log business-related travel.

Whether you buy or lease, whether the car or truck belongs to your company or to you personally, CRA needs an accurate record of the total number of kilometres you drive in a year as well as the date, destination, purpose, and the distance in kilometres for each business-related trip.

Without it, every improperly documented kilometre will be calculated as personal travel and your service vehicle expense claims will be denied. Since CRA can audit three years at a time, you may lose three years of claims.

High stakes

You also risk losing GST/HST input tax credits on those expenses. This includes the GST/HST in your lease payments, purchase price, gas, repairs, etc., which can be refunded to you at the percentage of business use. You may have to pay back part of your GST/HST refunds.

If you're a sole proprietor buying a new service vehicle, you can claim 100% of the GST/HST immediately on your next return if you can show that the vehicle is used for business 90% of the time. If the business use is less than 90%, you have to calculate the GST/HST included in the depreciation of the vehicle each year and claim it back over time.

> **Without a log to validate the business use of the vehicle, your corporation won't be able to deduct expenses, and you personally will pay more tax.**

Don't count on that GST/HST being refunded on your service vehicle purchase unless you are prepared to prove 90% or more business use.

If you're an incorporated owner/operator whose company buys or leases the service vehicle, then a travel log is even more crucial. Like a sole proprietor, you too can lose the business expense claim and have to pay more tax (in your case, corporate tax). You also can lose the right to claim GST/HST and have to pay it back.

Taxable benefit

If your company leases or owns the vehicle, there's the added risk of having a taxable benefit applied to your personal income.

CRA uses two factors to calculate the taxable value of the company car: a "stand by" charge plus an "operating expense benefit."

The standby charge represents the benefit the employee (that's you) enjoys when the automobile is available for his personal use.

If your company leases the vehicle, the standby charge is two-thirds of the cost of the lease.

If it owns the vehicle, the standby charge is 2% of the vehicle's cost to the company. If the cost of the vehicle is $40,000, including taxes, the standby benefit is $800 per month.

When an employer pays operating expenses incurred for personal use (including gas and oil; maintenance and repairs; insurance; and licences), this also constitutes a taxable benefit to the employee.

Corporation owners can be hit with double taxation.

Without a log to validate the business use of the vehicle, your corporation won't be able to deduct expenses, and you personally will pay more tax because the taxable benefit of using the company car will be added as income on your T4.

Ask for help

The best evidence to support the business use of a personal vehicle is an accurate logbook.

Ask your accountant for a travel log template you can use to record the information CRA needs. This includes the date, the destination, the reason for the trip, and the distance covered for each trip.

After a full year of keeping a logbook, a three-month sample logbook can be used to extrapolate business use for the following years, provided the usage is within the same range (up to 10%) of the results of the base year.

Ask your accountant to help make sure you've hit that target.

It takes discipline, but the simple act of writing down your business trips is vital to making valid expense claims.

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