TAX TALK

How to find tax deductions in your financial documents

You can't fuel a trucking business with enthusiasm and good intentions. You need money. And if you've ever taken out a line of credit or financed a truck – or refinanced an existing loan – you know that borrowing can be expensive.

No matter how you are structured, it's important to track interest and finance costs. That's because any time you incur expenses to borrow money, and that money is used to help you earn business income or to provide working capital for your business, those expenses are tax-deductible. This includes interest you pay on the loan, the cost for the loan to be set up and managed, and fees for legal, accounting, and bookkeeping services.

Loan-related expenses aren't like most business expenses. Interest and other fees may be amortized over the life of the loan and wrapped into monthly payments. Up-front administrative or documentation fees may be buried in the fine print. The paperwork can be onerous and complicated. It's easy to miss potential deductions.

Strictly business

As your business seeks to expand, add equipment, or just pay the monthly bills, take every opportunity to identify loan-related expenses. At the same time, you want to avoid the common pitfalls that can get these deductions disqualified.

One of the biggest issues I see is the mixing of business and personal credit. When you finance a new truck, it's pretty clear that the money is being used to advance your business. But when a line of credit or credit card is used for both personal and business transactions, it makes deductible expenses harder to track.

We always advise our clients to keep dedicated accounts so the expensing of service charges, overdraft charges, interest, and fees is clear to you, to us, and to any auditor who happens to review your return. In a perfect world you would have separate credit cards and credit lines for business and personal use.

When money is borrowed partly for business and partly for some other purpose, only the part of the expense that may reasonably be considered applicable to the business is deductible. Canada Revenue Agency (CRA) expects you to apportion a business-related percentage of related interest and charges.

If you mix business and personal debt, you'll have to calculate the proper business percentage each year.

Besides, you will lose track of how much money you have loaned to the company and how much you have taken from it. Over time you will look at your entire line of credit and credit card balances as business when in fact they are not. A CRA auditor will want you to prove that the percentage of interest you are expensing is valid. That may mean going back over years of statements to prove the business portion.

Your accountant can help you clarify precisely what borrowing expenses are business and which are personal. For instance, you might think your tax accounts (including

personal tax, corporate tax, payroll source deductions, and GST account) are business-related. But CRA says you cannot deduct the interest charged to these accounts or any loans you may get from financial institutions to pay these amounts. Also, any loans to buy RRSPs or fees charged within your RRSPs are not deductible.

Depreciation and loan expenses

If you borrow money for the purpose of acquiring depreciable property (for example, your truck), and incur deductible expenses in the course of borrowing that money, you can capitalize these expenses along with the interest paid. When these costs are capitalized, they form part of the capital cost of the asset subject to capital cost allowance (CCA).

Your income will be a little higher, but that's okay if it means keeping the bank manager happy. And you're not giving up the deduction, you're just expensing it over time. If you think this approach is right for you, talk to your accountant to make sure.

Review the documents

Sit down with your accountant and review your loan documents (preferably before you sign). While you're identifying administrative fees and other charges, make sure the payments are properly amortized and the interest calculated correctly. We do this with clients on a routine basis.

We find mathematical errors, incorrect interest rates, confusing guarantee terms, missing pages, illegible type – astonishing mistakes. No matter how eager you are to seal the deal, spec' the money with as much care as you do the truck.

Finally, as another year comes draws to a close, I want to thank you for reading this column. I hope it has helped you along the way and will continue to do so in the New Year. All the best for the holidays, and here's to a prosperous 2013. ☐

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