Bluenose Accounting
Chartered Professional Accountants

Name ______________________

AUTOMOBILE EXPENSES

There are several instances where automobile expenses may be claimed on one's personal tax return. These include against self employment (sole proprietor) income, employment expenses as indicated on a T2200 whereby the employer indicates this as a requirement, and against rental income where travel is allowed (see rental checklist). In none of these cases are you able to claim a simply per KM rate. Instead, you track the annual KMs driven for income purposes and the total annual KMs for the year. These figures are used to determine a percentage of the allowable expenses claimed but you must report the full year expenses for the vehicle.

It is important that an automobile logbook be maintained to support the KM records should you be audited. If unable to track this for the entire year, at least track a representative period to establish a reasonable percentage. Please be aware that KMs driven from your home to your principal place of work are not claimable.

You must provide one of these forms for each vehicle used during the year. If one vehicle is switched for another and there is no overlapping use, you may combine operating expenses on one form.

Please provide purchase or lease documents for any vehicles acquired in the year.

Please provide sale documents or, if unavailable, amount of sale proceeds if disposed in the year.

If you commence using a vehicle during the year that was previously owned, please provide the fair market value at time the income use commenced.

Make:	____________	Model:	____________	Year:	____________
When Purchased:	____________	Purchase Price:	____________	Leased:	□ No □ Yes
Model Sold:	____________	When Sold:	____________	Sale Price:	____________
KMs for Income:	____________	KMs total for year:	____________		

Expenses

- Fuel ____
- Repairs and maintenance ____
- Lease payments ____
- Car Washes ____
- Insurance ____
- License and registration ____
- Loan interest ____
- Other (specify) ____
- Parking ____
- Reimbursements (if any) ____

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OTHER AUTO CONSIDERATIONS

Ownership (corporation or personally)

There is a common misconception that a business owner should automatically register (and thus own) the vehicle in the business name. If the business is a sole proprietor, this is irrelevant since there is no separate business entity. If the business is incorporated, the issue becomes more complicated. Essentially, we suggest that the vehicle be owned personally where there is any material (10% or more) personal use of the vehicle. The reason for this is that there exists a CRA calculation for a taxable benefit (income on the individual's personal tax return) for any personal use of business assets of which the vehicle is one. The calculation is fairly punitive and can even exceed the original cost of the vehicle. Remember that travel from the owner's home to primary place of business is considered personal.

We would conclude that where there is a significant personal use of the vehicle or where the claims might be prone to CRA skepticism, the vehicle be owned personally and business KMs tracked via a logbook. Auto claims are one of the most audited areas of business expenses.

Buy or lease?

One of the most common vehicle related questions relates to the decision to buy or lease a vehicle. If you are claiming an auto allowance within a corporation for a personally owned vehicle, there is no difference as the rate is based on KMs driven only and does not differ if leased or owned. If the vehicle is owned by a corporation or if you are a sole proprietor, there are differences in the timing of deductions.

Lease costs, up to a monthly limit of $800, are claimable as a current expenditure. Be aware of lease prepayments as they are included in the annual limit and quite often are not fully deductible. Since the lease is paid monthly, your deductions are spread evenly throughout the term of the lease.

Where a vehicle is purchased, one can claim depreciation (Capital Cost Allowance – CCA) along with any loan interest. However, CCA is calculated at 15% in the year of acquisition and then 30% per year of the remaining balance (declining balance method) each year thereafter. This essentially means that your first-year deduction is similar, years two and three are higher than leasing and then they dip below for years four and onward. Be aware that where the vehicle is a passenger vehicle, the claim for depreciation is limited to a cost threshold of $30,000 plus HST.

In the end, we suggest that the cash flow considerations are more important. Lease payments are lower than finance payments but you do not own the vehicle at the end of the lease. A lease will usually have a residual of around 45% meaning that over the lease term, you will have paid for 55% of the vehicle whereas you have paid for the purchased vehicle in full. To make a fair comparison, you would need to know what you could sell a purchased vehicle for at the end of the term as opposed to the residual (buy-out) price of the leased vehicle. Leases, like loans, have an implied interest rate and you should also compare the lease rate to the purchase rate.

Finally, a lease may not be a good option for those with high mileage requirements. For example, a real estate agent. This is because leases allow for a certain annual KM limit and you pay a penalty when you exceed these.