



# Automobile Expenses

## Planning, Tracking ... and Maximizing your vehicle expense claim...

If you have ever used your vehicle for work related traveling and incurred additional expenses with regards to these trips, the obvious question which arises is “Can I deduct part of my vehicle expenses with respect to the income that they’re helping generate?”

The Income Tax Act (ITA) has specific laws that guide and restrict the deduction of vehicle expenses from income. It’s main objective is to ensure that only business related expenses are deducted and the expenses are reasonable. To achieve this, the Canada Revenue Agency, which is responsible for verifying compliance with the ITA, require that taxpayers to substantiate their claims from time to time and require they prove the claim is business related.

The important thing to remember is documentation, the best of which is a vehicle log. A vehicle log is a small booklet that helps you track the kilometers you drive for personal and for business purposes on a daily basis. It contains pages where you can track expenses incurred such as gas, repairs and maintenance and others. If your logbook is kept up to date with all the appropriate information, it will substantiate your claim and will make the preparation of your tax return easy since the information will all be located in the same area.

## Can I Deduct Vehicle Expenses?

### Employees

If you are an employee, the ITA permits a deduction of your automobile expenses if the following criteria are met:

- You own or lease your vehicle personally.
- You are ordinarily required to carry on your employment duties away from the employer’s place of business or in different places.
- You are required under your contract of employment to pay motor vehicle expenses incurred in the performance of your employment duties.
- You are not receiving a tax-free vehicle allowance.
- Your employer has signed form T2200 “Declaration of Conditions of Employment” stipulating that you must incur vehicle expenses in the normal course of your employment and are not reimbursed for them.

### Employer Provided Vehicles

If your employer provides the vehicle you drive, and pays for operating costs, you would not have any expenses to deduct since your employer is incurring these costs whether they’ve purchased the vehicle or are leasing it. However, you will still need to track the business and personal kilometres driven if the vehicle is available to you after work hours. This will be required since CRA considers a taxpayer to have received a taxable benefit when a corporate vehicle is made accessible to him during non-business hours. If the vehicle remains at the employer’s location after business hours, this is not an issue.

There are two different aspects to the taxable benefit in cases where the vehicle is available to an employee to use after business hours for personal use: the standby charge and the operating benefit. These will be discussed later in this publication.

#### Ottawa Office

301 Moodie Drive, Suite 400  
Ottawa, Ontario K2H 9C4  
T (613) 820-8010 F (613) 820-0465  
[ottawa@collinsbarrow.com](mailto:ottawa@collinsbarrow.com)

#### Manotick Office

1136 Clapp Lane  
Manotick, Ontario K4M 1A3  
T (613) 692-2553 F (613) 692-2995  
[manotick@collinsbarrow.com](mailto:manotick@collinsbarrow.com)

#### Queensview Office

2725 Queensview Drive, Suite 500  
Ottawa, Ontario K2B 0A1  
T (613) 226-5661 F (613) 226-3141  
[queensview@collinsbarrow.com](mailto:queensview@collinsbarrow.com)

# Automobile Expenses

## Reasonable Allowance

With respect to a tax-free vehicle allowance, CRA permits a reasonable amount to be paid to employees in conjunction with travel expenses incurred from automobile travel. For the year 2009, CRA interprets a reasonable allowance as being:

- For the first 5,000 km of business travel – 52 cents/km
- For business travel over 5,000 km – 46 cents/km
- For travel within the Northwest Territories, Yukon and Nunavut add 4 cents/km to above rates

If the allowance you receive is above these rates, or if the allowance is a set amount not based on actual usage, the CRA will deem it as being unreasonable and therefore the allowance received during the course of the year will need to be included into income. However, you will then be able to deduct the actual vehicle expense incurred against that income.

In certain instances, it may be advantageous for the taxpayer to include the allowance in income since the available deduction is higher than the income inclusion. For this reason, it may be wise to track your vehicle expenses within a vehicle logbook in order to compare the actual deduction available against the allowance provided.

## Self-Employed Individuals

If you are a sole proprietor or a partner within an active partnership, you can claim vehicle expenses related to your business. As is the case with employees, you need to be able to demonstrate to CRA that the expenses you are claiming are business related. Once again, this is where your vehicle logbook comes into play. CRA requires that a record of personal and business kilometres driven be kept.

If the vehicle is used solely for business purposes, then a log of business and personal kilometres driven is not necessary since the expenses are fully

deductible. Normally, in order to substantiate a 100% business use claim, the vehicle must remain at the business premises during non-business hours.

## What Expenses are Eligible?

### Operating Expenses

- Most operating expenses associated with your vehicle can be deducted. Gasoline, repairs and maintenance, parking, insurance, and license and registration fees are all deductible. These should all be tracked in your vehicle logbook as they are incurred.

### Lease Payments

- The lease payments required on your automobile can be deducted as part of your vehicle expenses. There are certain limitations with regards to the maximum deductible amount per month. Among the limitations, is the maximum amount deductible per month at \$800 plus GST and PST. Overall, there is prorating of deductible costs based on the manufacturer's suggested retail price of your vehicle, and how much its value exceeds \$30,000. Other factors surrounding your lease can affect the maximum amount you can deduct as an automobile expense so please consult your Collins Barrow tax advisor to ensure none of the other limitations apply to your particular situation.

### Interest

- If you are required to borrow money in order to purchase your vehicle, you will be able to deduct the interest paid on that loan up to a maximum of \$10 per day.

### Capital Cost Allowance

- Vehicles costing less than \$30,000 plus taxes are class 10 assets. Capital assets are added to specific "pools" which are subject to various amortization rates. Class 10 assets are eligible for a maximum deduction of 30% of the "pool" amount that is added to the other vehicle

#### Ottawa Office

301 Moodie Drive, Suite 400  
Ottawa, Ontario K2H 9C4  
T (613) 820-8010 F (613) 820-0465  
[ottawa@collinsbarrow.com](mailto:ottawa@collinsbarrow.com)

#### Manotick Office

1136 Clapp Lane  
Manotick, Ontario K4M 1A3  
T (613) 692-2553 F (613) 692-2995  
[manotick@collinsbarrow.com](mailto:manotick@collinsbarrow.com)

#### Queensview Office

2725 Queensview Drive, Suite 500  
Ottawa, Ontario K2B 0A1  
T (613) 226-5661 F (613) 226-3141  
[queensview@collinsbarrow.com](mailto:queensview@collinsbarrow.com)

# Automobile Expenses

expenses incurred. Any amortization taken decreases the “pool” from which amortization will be taken in the future. Vehicles costing in excess of \$30,000 are class 10.1 assets. These vehicles are not pooled and, special rules apply which limit the cost that can be amortized. Please see your Collins Barrow tax advisor for additional details.

## Business or Personal

CRA provides the general guideline that driving from your personal residence to your work place or vice-versa is personal travel. However, if on that same trip into or from work, you stop at a client’s place of business, the trip then becomes business travel. Therefore, it is beneficial to plan business meetings on your way into work or on your way home from work in order classify that mileage as business.

This will impact the final deduction permitted as the deduction is limited by the business component of your total miles driven during the year. Obviously, the higher percentage of business miles that constitute the total mileage will result in a higher deduction and the scheduling of client meetings on your way to and from work helps attain this objective.

## Standby Charge and Operating Benefit

As mentioned earlier, your employer may be the one providing the vehicle you drive during work hours and that vehicle is available to you during off hours. CRA considers the availability of the vehicle a taxable benefit and therefore, it may be necessary to track your business and personal mileage.

The standby charge is calculated based on the purchase price or lease cost of the vehicle that is made available to you. There is a possible reduction of the standby charge if certain criteria are met.

Furthermore, if your employer pays all the operating expenses of the vehicle, CRA considers this as being a

taxable benefit for all personal kilometres driven. The current benefit for operating expenses is 24 cents for every personal kilometre, less any reimbursement by the employee to the employer.

## Summary

The rules set out above are just a brief summary of the various rules surrounding the business use of your automobile. If you require assistance or have any questions, contact your Collins Barrow advisor. We cannot overemphasize the need to document all vehicle related expenses. Your Collins Barrow advisor can provide you with an automobile log to help you keep track of all the relevant information needed to file your tax return.

## Our Tax Team Members are:

**Robert Rock, CA, CFP** is a Partner of the firm and brings over 25 years of professional expertise providing income tax, executive compensation planning commodity tax, business reorganization and succession and financial planning advice to a wide range of clients. Contact Rob at: [rock@collinsbarrow.com](mailto:rock@collinsbarrow.com)

**Ken Tammadge, CA, CPA (ILL.)** is a Partner of the firm and brings over 30 years of professional expertise in providing services to entrepreneurial clients on a variety of tax issues in the areas of business succession, estate and retirement planning as well as cross-border tax issues. Contact Ken at: [ktammadge@collinsbarrow.com](mailto:ktammadge@collinsbarrow.com)

**Rosa Maria Iuliano, M.Acc., CA** is a Partner of the firm specializing in providing income tax, commodity tax, and financial planning advice to proprietorships, partnerships and owner-managed corporations and not-for profit organizations. Contact Rosa at: [riuliano@collinsbarrow.com](mailto:riuliano@collinsbarrow.com)

**Sylvain Campeau, CA, CPA (ILL)** is a Senior Tax Manager in the firm and a specialist in income tax, business reorganization, scientific research and development and cross border tax issues. Contact Sylvain at: [scampeau@collinsbarrow.com](mailto:scampeau@collinsbarrow.com)

### Ottawa Office

301 Moodie Drive, Suite 400  
Ottawa, Ontario K2H 9C4  
T (613) 820-8010 F (613) 820-0465  
[ottawa@collinsbarrow.com](mailto:ottawa@collinsbarrow.com)

### Manotick Office

1136 Clapp Lane  
Manotick, Ontario K4M 1A3  
T (613) 692-2553 F (613) 692-2995  
[manotick@collinsbarrow.com](mailto:manotick@collinsbarrow.com)

### Queensview Office

2725 Queensview Drive, Suite 500  
Ottawa, Ontario K2B 0A1  
T (613) 226-5661 F (613) 226-3141  
[queensview@collinsbarrow.com](mailto:queensview@collinsbarrow.com)

# Automobile Expenses

## Why Collins Barrow Ottawa LLP

We are a well rounded **tax, accounting and business advisory firm**. Our extensive experience spans various industry sectors including manufacturing, retail, construction, service, not-for-profit, technology, petroleum, health care, education, and transportation. That means we can quickly and efficiently apply our cross-industry experience – and add significant value to the work we do for you.

With Collins Barrow Ottawa, you are always assured of **partner involvement** – someone that will oversee a dedicated team of professionals and researchers and ensure your requirements are met.

In addition, we are part of Collins Barrow, one of Canada's leading accounting organizations. We are represented globally in 110 countries through **Baker Tilly International**, an alliance of independent accounting firms. For you, this means we can:

- Access specialized resources and performance tools, if needed.
- Seamlessly service you across Canada, in the U.S. and around the world.
- Confidently tackle a wide range of complex financial and operational issues.

For more information on our approach, solutions for specific client groups, and the credentials of our experienced team, please visit:

[www.collinsbarrowottawa.com](http://www.collinsbarrowottawa.com)

*The information in this bulletin is current as of November 2009.*

© 2009 Collins Barrow Ottawa LLP

This office is independently owned and operated by Collins Barrow Ottawa LLP. The Collins Barrow trademarks are used under license.



### Ottawa Office

301 Moodie Drive, Suite 400  
Ottawa, Ontario K2H 9C4  
T (613) 820-8010 F (613) 820-0465  
[ottawa@collinsbarrow.com](mailto:ottawa@collinsbarrow.com)

### Manotick Office

1136 Clapp Lane  
Manotick, Ontario K4M 1A3  
T (613) 692-2553 F (613) 692-2995  
[manotick@collinsbarrow.com](mailto:manotick@collinsbarrow.com)

### Queensview Office

2725 Queensview Drive, Suite 500  
Ottawa, Ontario K2B 0A1  
T (613) 226-5661 F (613) 226-3141  
[queensview@collinsbarrow.com](mailto:queensview@collinsbarrow.com)