

## Automobile Costs - Summary of Key Tax Issues

January 2010

### Automobile Costs Overview

**Company Owners** - where a vehicle is used 100% for company purposes and is parked at the company offices overnight, the vehicle should be purchased and owned by the corporation. Otherwise, the company owner should own the automobile personally and receive a per km. reimbursement from the corporation. The owner should use the maximum allowable Canada Revenue Agency (CRA) authorized rates per km. below.

**Employees** - should receive a per km. reimbursement from the employer. The rate per km. paid to employees should not be more than the maximum allowed by CRA and in many cases employees are reimbursed at rates substantially lower than the maximum CRA authorized rates.

**Per Km. Reimbursements** - are not taxable to owners or employees nor do per km. reimbursements need to be reported on T4 slips, however such payments are fully deductible to the corporation. One approach to method is to have both company owners and employees each complete a monthly reimbursement report showing their total km. driven and attach a mileage log to substantiate the km. driven. Please note that 5/105th of the reimbursement qualifies as a GST input tax credit. Note that the employee and owners must personally pay for all other costs of operating the vehicle including gas, insurance, etc. in order to qualify for this special treatment.

### Vehicles Owned by the Employee

Reimbursements by an employer for actual business mileage driven is non-taxable to the employee or owner and fully deductible to the employer if the rates used are not higher than the following CRA authorized rates:

Year	1st 5,000 km/year	Balance
2004	\$0.42	\$0.36
2005	\$0.45	\$0.39
2006-2007	\$0.50	\$0.44
2008-2010	\$0.52	\$0.46

If the rates used are higher than these above amounts they may be required to be reported on the employee's T4 and may not be deductible by the employer. Also, any amounts paid to an employee not based on a per km rate would be (i) fully taxable to the employee, (ii) reported on the employee's T4, and (iii) fully deductible to the employer.

### Vehicles Owned by the Employer

#### Tax Deductions for the Employer

Year	Maximum Capital Cost	Maximum Monthly Lease Cost	Maximum Monthly Interest Cost
2001-2010	\$30,000	\$800	\$300

NB: (i) These amounts are before provincial and federal taxes.  
 (ii) Lease costs may be further restricted where the retail price of the vehicle is greater than the abovenoted maximum capital cost.

#### Taxable Benefits For an Employee

An employer must report taxable benefits for vehicles used by an employee on the employee's T4. A calculation of both the "Standby Charge" and the "Operating Cost Benefit" must be completed and the total of these two amounts would be reported on the employee's T4.

#### Standby Charge - One of the following three will apply:

- Standby Charge - Owned Vehicle: 24% of Original Cost of Vehicle (Including PST and GST) [no maximums apply]
- Standby Charge - Leased Vehicle: 2/3 of total lease payments (Including PST and GST) [no maximums apply]
- Reduced Standby Charge: Amounts in 1 or 2 above can be reduced where BOTH:
  - Vehicle is used > 50% for business,
  - Employee personal use of vehicle is < 20,000 km for the year.

#### Operating Cost Benefit

4. Operating Cost Benefit - Charge flat rate per km for all personal mileage as follows:

Year	Rate
2004	\$0.17
2005	\$0.20
2006-2007	\$0.22
2008-2010	\$0.24

5. Operating Cost - An alternative approach may be used where the automobile is used >50% for business purposes. In this case, the employee can opt to use an operating cost benefit equal to 50% of the standby charge. Also, note that the above rate drops by \$0.03 per km. for taxpayers employed principally in selling or leasing automobiles.

### Personal Mileage

Please note that driving between the office and home is generally considered personal mileage unless the employee makes a business related stopover en route.

Please note that this is a summary only and that the actual tax issues should be investigated on a case by case basis by first contacting Canham Rogers, Chartered Accountants.