VEHICLE CONSIDERATIONS

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Avoid Potholes when Purchasing or Leasing your New Vehicle

When purchasing or leasing a vehicle the number of choices that have to be made can be overwhelming – do you choose the sporty roadster or the practical family vehicle, foreign or domestic, blue or black, 3.0 litre or 2.4 litre, leather or fabric seating, upgraded sound system, navigation… the list goes on and you haven't even spoken to the warranty and service plan provider yet.

As the salesperson starts adding up the cost of the upgrades, warranties, delivery fees, and sales tax you come to the realization that the cost is now significantly higher than you were expecting and perhaps there are tax savings to be had if structured appropriately. Is there a difference if my company buys the car? Should the car be leased, or bought? There are a number of different factors that influence these decisions. In this article we will discuss some of these variables, however you should always seek professional advice on your particular situation prior to making any decisions.

Personally owned or leased vehicle

When you own or lease the vehicle personally, all vehicle expenses are paid personally. Kilometres driven for business are tracked and you are reimbursed by the corporation at the Canada Revenue Agency "CRA" prescribed rate of $0.54 per kilometre for the first 5,000 kilometres and $0.48 for kilometres driven after that. This option is straight forward, requires little administration and has low compliance costs. A slight variation would be to receive a taxable automobile allowance from the corporation and then deduct your actual vehicle expenses on your personal tax return. This option requires you to track your expenditures and keep your receipts, however it can be beneficial if your total kilometres are not high.

Our goal is to provide updates on topical accounting and tax issues. Information contained in this newsletter is not meant to be a comprehensive summary of the issues raised. Rather, we wish to bring what we believe to be important issues to the attention of our valued clients and readers. We would be pleased to discuss any questions that you, the reader, might have in greater detail.

Corporation owned or leased vehicle

When your corporation owns or leases the vehicle, the company pays 100% of the costs and all of those operating expenses are deductible by the corporation. If the vehicle is leased, the monthly lease costs are generally deductible to a maximum of $800 per month plus sales tax. It should be noted there is a secondary formula that takes into account expensive vehicles that are leased over a long period of time to try to avoid the maximum lease cost. When the vehicle is owned by the corporation, the cost is deductible at 30% per year (15% in the first year to take into account that you haven't owned it for the entire year) on a declining balance basis. It is important to note that if the automobile is a passenger vehicle, the maximum deductible cost is $30,000 plus sales tax less input tax credits claimed.

When the corporation owns or leases the vehicle, you must track the personal use kilometres versus business kilometres of the vehicle. The personal use results in an annual taxable benefit that is reported on your T4 slip at the end of the year.

Factors to consider when choosing whether to buy or lease personally versus in a corporation:

Cost – if the vehicle cost exceeds the maximum deductible purchase price of $30,000 or $800 monthly for a lease, consider owning or leasing personally as the annual auto benefit will be calculated on the actual cost as opposed to the deductible cost.

Business versus personal kilometres – if business-related driving is more than 50%, you will qualify for a reduced automobile standby charge which favours owning or leasing the vehicle in a corporation. This is particularly true if the total number of kilometres is not high.

Total business kilometres driven – if you drive a lot of kilometres, it may be advantageous to own or lease the vehicle personally and charge the per kilometre rate as the fixed cost of vehicle ownership is spread over many kilometres so that your reimbursement is higher than your actual costs.

Length of ownership – if you plan on purchasing the vehicle and owning it for a long period of time, it might be advantageous to own personally to avoid the annual auto benefit which is based on the original cost and continues as long as the vehicle is owned.

Source of funds to buy vehicle – if the corporation has cash on hand to make the purchase it may be advantageous to have the corporation own the vehicle to avoid paying personal tax on a large dividend or bonus to yourself in order finance the purchase personally, relative to the personal tax paid on the annual benefit.

Other automobile pitfalls:

HST Input Tax Credits – for HST registrants, you are only able to claim an input tax credit (“ITC”) up to the $30,000 maximum on passenger vehicles and this is only if the vehicle will be used primarily (more than 50%) in the commercial activities of the business, otherwise no ITCs can be claimed.

Automobile log – regardless of whether you own the vehicle personally or through the corporation, a vehicle log is required to support the deductible mileage. This will be the first item that the CRA will ask for in the event of an audit of your vehicle expenses. It should include the destination, reason for trip and number of kilometres. The CRA will accept a log book for a sample period (three months) if a number of criteria are met: a log book for a previous 12 month period was completed (“the base year”), the distance travelled and business use are within 10 percentage points of the corresponding period in the base year, and the annual business use of the vehicle does not fluctuate by more than 10 percentage points from the base year.

- Travel from home to the office – these kilometres are considered personal kilometres and should not be included in the business portion of your mileage.
- Reimbursements to owners or employees for vehicle usage that are not supported by kilometres driven are considered taxable to the recipient.

Buying a new car can be a spur of the moment decision, don’t let the tax implications be as well. To get a better understanding of how this decision impacts you, or to obtain more information, please contact our office.

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