

# *Car expenses and benefits*

## A tax guide

*Our road map  
guides drivers and  
business managers  
through the maze of  
Canadian tax rules  
for car expenses  
and benefits.*

2012



**pwc**

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Rates and information may change as a result of legislation or regulations issued after January 31, 2011.

## About this booklet

When employers provide automobiles to employees to help them perform their employment duties, or instead give allowances or expense reimbursements, the tax implications can be remarkably complex.

To help, this booklet provides a general outline and analysis of the relevant tax rules as they stood on January 31, 2012. It also addresses the tax consequences that arise when an automobile is supplied to a shareholder or partner or when a self-employed person uses an automobile for business.

Company automobiles, expense allowances and reimbursements may increase productivity, provide job satisfaction and improve the benefit package—things that both employees and employers care about.

Tax authorities have something else in mind: ensuring that employees do not receive personal benefits tax-free, when salary, bonus and other forms of compensation would give rise to income tax. The result is an intricate set of rules that levy tax on any personal use of an employer-supplied automobile and on some car allowances. The rules also permit employees to claim certain deductions if they use their own vehicles in performing their employment duties.

Tax law in Canada is complicated and ever-changing, affected by frequent legislative changes, court decisions and the administrative practices of the tax authorities. This booklet is not a substitute for professional advice, which you should seek when you are considering important actions. Nevertheless, it will answer many questions and help you understand the tax implications of employer- and employee-provided automobiles.

## Employee log

An employee log (paper and electronic) is available at [www.pwc.com/ca/carexpenses](http://www.pwc.com/ca/carexpenses) to record information that supports motor vehicle expenses and taxable benefit calculations.

## For help

For assistance with this complex subject, contact your PwC adviser or any of the individuals listed on [page 25](#).

## Recent developments

### 2012 prescribed rates for automobiles

The Department of Finance has announced that the 2012 prescribed rates:

- will remain at their 2011 levels for purposes of determining capital cost allowance, interest and leasing deductions; and
- for purposes of determining:
  - automobile allowance deductions and tax-exempt allowances are 1¢ per kilometre higher; and
  - taxable benefits are 2¢ per kilometre higher, than for 2011.

The 2012 prescribed rates follow, along with references to the pages that provide more information about those rates.

			2012 Prescribed rates	Pages
<b>Deduction limits</b>	Owned cars	Maximum monthly interest deduction	\$300	2, 17
		Maximum capital cost on which capital cost allowance (CCA) may be claimed	\$30,000 + GST/HST & PST on \$30,000	
	Leased cars	Thresholds used to determine the maximum deduction for lease payments	Lease cost limit	2, 16, 17
			Monthly lease limit	
			Manufacturer's list price limit	
<b>Taxable benefits</b>	Automobile allowances	Per-kilometre allowance	Same limits as tax exempt allowances, below	11
	Tax-exempt allowances	Kilometres driven in the Yukon, NWT or Nunavut	First 5,000	
			Each additional	
		Kilometres driven in all other locations	First 5,000	
			Each additional	
	Operating cost benefit	Persons employed principally in selling or leasing automobiles	23¢	5, 18
		All other employees	26¢	

### British Columbia – PST and GST/HST changes

Although British Columbia's provincial sales tax (PST) was harmonized with the federal goods and services tax (GST) on July 1, 2010, a referendum in 2011 determined that the harmonized sales tax (HST) will be cancelled and replaced with the former PST and GST regime. The change is targeted to be effective April 1, 2013.

### Quebec QST changes

An increase in the Quebec sales tax (QST) rate from 8.5% to 9.5% on January 1, 2012, increases:

- the automobile deduction limits for passenger vehicles purchased or leased in Quebec after December 31, 2011; and
- the QST and input tax refund (ITR) rate factors.

[Appendices G](#) and [H](#) discuss how the QST and ITR rate factors affect Quebec's tax rules for employer-supplied automobiles and automobiles of self-employed individuals.

In addition, Quebec has agreed in principle to harmonize the QST with the 5% GST on January 1, 2013 (the target implementation date), at which time the harmonized rate will be 14.975%.

To go to a topic, click on a title.

## Contents

1.	Should employees get company cars? .....	1
2.	Employer-supplied automobiles.....	1
	Employer implications .....	1
	Employee implications.....	3
	Planning techniques for employers .....	6
	Planning techniques for employees .....	7
	Withholdings .....	7
	Record keeping .....	7
	Important dates .....	8
3.	Employee-supplied automobiles .....	9
	Employee deductions.....	9
	Reimbursements and allowances.....	10
	Employer deductions .....	12
	Planning techniques for employers .....	13
	Planning techniques for employees .....	13
	Record keeping .....	14
4.	Shareholders and partners .....	14
5.	Self-employed individuals .....	15
	Appendices .....	15
A	Motor vehicle, automobile and passenger vehicle .....	15
B	Deduction for lease costs.....	16
C	Automobile deduction limits.....	17
D	Taxable benefit from an employer-supplied automobile .....	17
E	Personal use—What counts?.....	18
F	Employer-supplied automobiles—GST/HST .....	19
G	Employer-supplied automobiles—QST .....	23
H	Self-employed individuals—GST/HST and QST .....	24
	PwC contacts.....	25
	Employee log—Paper and electronic <a href="#">Attached as separate files</a>	

## 1. Should employees get company cars?

Should an employer provide company cars to employees, or instead pay them car allowances or expense reimbursements for using their own cars? Or neither? These decisions can be difficult, in part because the tax aspects are surprisingly intricate.

Making the best choice requires consideration of the objectives of both the employer and the employee. These may coincide, in that the smallest possible taxable benefit, coupled with the least amount of record keeping, is a common goal. However, some objectives tend to conflict, such as maximizing the actual benefit to the employee and minimizing the employer's cost. A compromise may be required.

Factors that affect the tax outcome include:

- the purchase price or lease cost of the car;
- the tax classification of the vehicle (e.g., as an “automobile” or otherwise);
- expected proportions of business and personal use;
- expected operating costs;
- the portion of operating costs to be paid by the employer;
- the corporate income tax rate; and
- the employee's marginal income tax rate.

Non-tax factors must also be considered, some of which may be specific to a particular business or industry. For example:

- Do competitors get a hiring advantage by providing company cars?
- Does displaying logos on company vehicles have promotional value?
- Are the cost and administrative demands of acquiring, maintaining and keeping records for a fleet of company cars worthwhile?

Because analyzing the alternatives is complex, professional advice is required.

## 2. Employer-supplied automobiles

### Employer implications

For many businesses, automobiles are a necessity. As a result, costs of supplying and operating automobiles are legitimate business expenses. However, a car is almost always used personally, even if just for transportation to and from the workplace.

For tax purposes, having appropriate ways to distinguish legitimate business expense from personal benefit is important. To this end, the federal government has established a set of rules, which are discussed in this booklet.

### Operating expenses

Employers can deduct reasonable costs of operating vehicles supplied to employees (whether the vehicles are leased or owned). Operating expenses must be distinguished from capital costs. Examples of both are in **Table 1**.

**Table 1 Operating expenses vs. capital costs**

Operating expenses	Capital costs
<ul style="list-style-type: none"> <li>• Gas<sup>1</sup></li> <li>• Oil</li> <li>• Maintenance</li> <li>• Minor repairs (net of insurance recoveries)</li> <li>• Licence and registration fees</li> <li>• Insurance</li> </ul>	<ul style="list-style-type: none"> <li>• Capital cost allowance (CCA)</li> <li>• Interest</li> <li>• Leasing costs</li> </ul>

1. Only the portion not refunded as a gasoline tax rebate may be deducted.

### Capital costs

An employer that purchases or leases automobiles for use by employees can claim tax deductions related to the capital costs of the vehicles. Deductions are limited for “passenger vehicles” (see [Appendix A](#)). These limitations are intended to restrict deductions for so-called luxury vehicles. Capital costs are discussed below, first for cars the company owns, then for cars the company leases.

#### Company-owned cars

If a company has purchased the vehicle, it is eligible to claim capital cost allowance (CCA) and related interest expense or other borrowing charges, subject to the following special rules and limitations.

### – Capital cost allowance (CCA)

Each “passenger vehicle” that costs more than a prescribed amount must be included in its own CCA class 10.1. For vehicles purchased in 2012, the prescribed amount is \$30,000 plus federal goods and services tax (GST) and provincial sales tax (PST), or harmonized sales tax (HST) on \$30,000.

The amount added to each class 10.1 is limited to the prescribed amount. Vehicles not included in class 10.1 are included in class 10. Classes 10.1 and 10 are both depreciable for tax purposes at the CCA rate of 30%, on a declining balance basis. In the year a vehicle is acquired, only half of the normal CCA (i.e., 15%) may be claimed.

For passenger vehicles included in class 10.1, no recapture of CCA or terminal loss will arise when the car is sold. However, in the year a class 10.1 automobile is sold, the employer may claim CCA at a 15% rate, provided the employer owned the vehicle at the end of the previous year.

### – Interest deduction

The deduction for interest on money borrowed to purchase a passenger vehicle is limited. For vehicles purchased in 2012, the maximum deduction is \$300 per 30-day period during which the interest was paid or payable.

The rules for company-owned passenger vehicles are summarized in **Table 2**, below.

**Table 2 CCA rules for company-owned cars**

	Passenger vehicles that cost more than prescribed amount	Other passenger vehicles
CCA class	Class 10.1	Class 10
Maximum cost added to CCA class	Prescribed amount: for vehicles purchased in 2012, \$30,000 + GST/HST & PST on \$30,000 <sup>1</sup>	Purchase price + GST/HST & PST + improvements <sup>1</sup>
Maximum CCA rate	15% in year acquired; otherwise 30%	
	15% in year of disposal	N/A
Recapture or terminal loss?	None	Possible
Maximum interest deduction	Interest limit: for vehicles purchased in 2012, \$300 per 30-day period (\$3,600 for a full year) <sup>2</sup>	

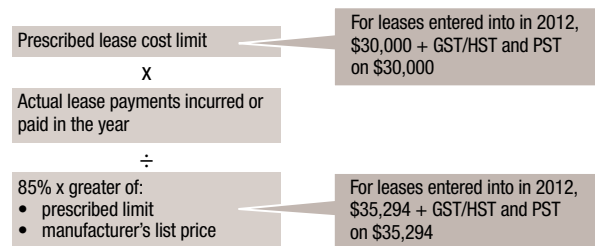
1. Less input tax credits or rebates received.

2. In practice, CRA Form T2125, Statement of Business or Professional Activities, determines the interest limit as \$10 per day (i.e., in 2012, \$3,660 for the full year).

### Company-leased cars

For leased automobiles, the deduction of the lease payments is generally limited to the least of:

- actual lease payments incurred or paid in the year (with insurance, maintenance and taxes considered part of the actual lease payments only if they are included in the lease);
- prescribed monthly based lease limit (for leases entered into in 2012, \$800 plus GST/HST and PST) multiplied by 12 (when the car is available to the employee for a full year); and
- annual lease limit, calculated as:



The actual formula limitations are highly complex, taking into account the implications of refundable deposits, reimbursements receivable by the taxpayer, and the fact that the prescribed monthly lease limit is cumulative (i.e., when the deduction is less than this limit, the shortfall may be claimed in a subsequent year). Further complications involve the issue of whether payments constitute “actual lease charges.” [Appendix B](#) provides additional details of the calculations.

The limitations for company-owned and company-leased cars have changed over the years. [Appendix C](#) provides an historical summary. To optimize the deduction for lease payments, get professional advice.

### GST/HST and QST

Employers who purchase or lease cars for their employees may be eligible to claim:

- input tax credits in respect of GST/HST paid; and
- input tax refunds in respect of QST (Quebec sales tax) paid.

See [Appendices F](#) and [G](#), respectively, for details.

## Employee implications

When an automobile is provided to an employee or a person related to the employee, the employee usually will be considered to have received two benefits:

- **standby charge benefit** (which applies when the employee has access to the car for personal use); and
- **operating cost benefit** (which applies when the employer pays operating costs that relate to personal use).

The employer is required to compute both, and to report the aggregate to the employee and to the income tax authorities. In most cases, the employer must also remit GST/HST in respect of these benefits (see [Appendix F](#)). As discussed in [Appendix G](#), Quebec employers may also be required to remit QST.

The worksheets in [Appendix D](#) illustrate how the taxable benefit for employer-supplied automobiles is calculated. A more extensive discussion follows.

### Standby charge benefit

The standby charge must be computed whenever, by virtue of an employee's employment, an automobile is made available for the personal use of:

- the employee; or
- a person related to the employee.

In general, when an employee has access to an employer-provided automobile for a full calendar year, the standby charge is computed as follows:

Company-owned automobile	Company-leased automobile
24%	2/3
x	x
Original cost	Annual lease cost

The computation is more complicated if the employee:

- does not have access to the car for the full calendar year;
- can reduce the standby charge because of low personal use of the vehicle; or
- reimburses the employer for use of the car.

The computation of the standby charge in these circumstances is illustrated in the following diagram.

**Table 3 The standby charge calculation**

Company-owned automobile	Company-leased automobile
2%	2/3
x	x
Original cost	Monthly lease cost
x	x
Number of months in the year the car was available <sup>1</sup>	
	x
Reduction for low personal use	
=	
Standby charge before reimbursements	
–	
Reimbursements to employer <sup>2</sup>	
=	
Standby charge	

1. To determine the number of months of availability for the standby charge calculation, divide the number of days the car was made available to the employee by 30 and round to the nearest whole number (with 0.5 rounded down).

2. The payment must be made by December 31.

### People employed in selling or leasing automobiles

If the employee is employed principally in selling or leasing automobiles, the employer has the option of basing the standby charge benefit on 1.5% multiplied by the greater of:

- the average cost of new automobiles; and
- the average cost of all automobiles, acquired during the year for sale or lease by the employer.

### Original cost

The standby charge is based on the full capital cost of the automobile, and is not affected by the maximum for CCA purposes (discussed above). The capital cost includes the original cost of the car plus the cost of capital improvements made to the car after it was purchased. However, for this purpose, the cost of radio receiving or transmission equipment required for business use is not considered part of the automobile's cost.



### Lease cost

The standby charge is based on the full lease cost of the automobile, and is not affected by the limit on deductible lease payments (discussed above). The entire amount of the lease payment (except for the portion stated to be for insurance against loss, damage or liability) is used to calculate the amount of the benefit. For purposes of the standby charge calculation it is irrelevant that some charges (such as for maintenance, excessive distance driven and terminal charges) could more properly be regarded as operating costs.

According to *Employers' Guide—Taxable Benefits and Allowances* (T4130(E) Rev. 11), lump-sum amounts paid to the lessor at the beginning or end of a lease that are not payments to buy the automobile will affect the standby charge. Lump-sum payments made at the beginning of a lease must be pro-rated over the life of the lease for purposes of calculating the standby charge.

If lump-sum payments made at the end of the lease cannot be determined until the final year of the lease, the standby charge in that year may be higher than expected. These payments are considered terminal charges and must be either added to the lease costs in the final year of the lease or pro-rated over the term of the lease. If terminal charges are pro-rated, the employer must amend the employee's T4 slips for previous years. Consequently, this option is available only if the employee can still request an income tax adjustment for the years in question. Furthermore, the employee must agree to it.

Lump-sum payments received from the lessor at the end of a lease are considered terminal credits. The rules discussed above for terminal charges also apply to terminal credits, except that terminal credits must be deducted from the lease costs either in full at the end of the lease or pro rata over the lease term.

### GST/HST and PST

For the purposes of calculating the standby charge, the original cost or lease cost of an automobile includes GST/HST and PST, even if the employer is exempt from paying these taxes.

### What does "available" mean?

The standby charge applies when an automobile is made "available" for an employee's personal use. "Available" has common dictionary meanings, such as "capable of being used; at one's disposal; within one's reach." Therefore, most employer-supplied automobiles clearly give rise to a standby charge. An automobile is generally considered available for personal use, except when the employee is forbidden to use the car personally and returns it to the employer's premises at the end of the day or trip.<sup>1</sup>

Footnote 1 in [Table 3](#) on page 3 shows how to determine the number of months of availability, for the standby charge calculation.

### No personal use

The Canada Revenue Agency (CRA) provides relief to employees who do not actually use the automobile for personal driving. According to *Employers' Guide—Taxable Benefits and Allowances* (T4130(E) Rev. 11), in this situation a standby charge will not arise, even if the vehicle was available to the employee for the entire year. This applies as long as the employer requires the employee to use the automobile in the course of employment.

[Appendix E](#) explains how to determine personal use.

### Low personal use

The standby charge can be reduced if:

- the employer requires the employee to use the car to carry out employment duties;
- the car is driven "primarily" (generally, more than 50%) for business purposes (based on distance driven); and
- personal-use kilometres average less than 1,667 per month.

When the above tests are met, the reduction factor is:

Personal kilometres/1,667
÷
Number of months in the year the car was available <sup>1</sup>

1. Divide the number of days the car was made available to the employee in the year by 30, and round to the nearest whole number (with 0.5 rounded down).

For example, in the case of a car that was available for 10 months and was driven for 4,000 personal kilometres, the standby charge will be reduced to 24% of the full amount if the reduction for low personal use applies.

An employee who is eligible for the reduction must notify the employer before T4s (Relevé 1 for Quebec tax purposes) are prepared. The employee should keep records that verify business and personal driving. A [log](#) is provided in a separate attachment for that purpose (also see [page 8](#)). Employers should satisfy themselves that the conditions for the reduction are met.

1. CRA Views 2011-0409221E5, "Automobile standby charge," July 12, 2011, confirms the CRA's view that an employer-supplied automobile that is used substantially for personal use remains available to the employee when the employee voluntarily surrenders the automobile and the keys to the employer on weekends, holidays or annual vacation. The automobile ceases to be available to an employee only if the employee is required by the employer to return both the automobile and its keys.

### Reimbursements to employer

An employee's standby charge is reduced by amounts paid in the year to the employer for the use of the automobile. The employee cannot deduct these amounts for tax purposes. Payments for operating costs (see the following commentary) do not reduce the standby charge.

### Operating cost benefit

#### Basic calculation

An operating cost benefit is included in the employee's income when the employer pays operating costs that relate to personal use of an employer-provided automobile. The calculation of the operating cost benefit is illustrated below.

**Table 4 Operating cost benefit: basic calculation**

	Personal kilometres driven in the year <sup>1</sup>
x	Prescribed amount (26¢ <sup>2</sup> for 2012)
=	Operating cost benefit before reimbursements
–	Reimbursements to employer (made before February 15 of the following year)
=	Operating cost benefit

1. See [Appendix E](#) to determine personal kilometres driven.
2. 23¢ for persons employed principally in selling or leasing automobiles.

### Reimbursements to employer

An employee's operating cost benefit is reduced for payments made to the employer, in respect of operating costs, before February 15 of the following year.

The CRA commented that it will consider payments made by employees to third parties in respect of operating costs to be reimbursements made to the employer. As a result, these payments will reduce the employee's operating cost benefit. The employee should:

- retain receipts for operating costs paid to third parties; and
- provide a summary to his or her employer before February 15 of the following year.

### Avoiding a benefit

An operating cost benefit will not arise if the employee reimburses the employer for 100% of the personal-use portion of actual operating costs.

### Example

An employee uses an employer-provided automobile, with the following facts for 2012:

Personal-use kilometres	10,000 km
Total kilometres	30,000 km
Employer-paid operating costs (including GST/HST & PST)	\$1,000
Reimbursements to employer	Nil

#### Results:

The operating cost benefit to the employee is:  
 $10,000 \text{ km} \times 26\text{¢ per km} = \$2,600.$

#### Analysis:

The portion of operating costs that relate to the employee's personal use of the automobile is:  
 $10,000 \text{ km} / 30,000 \text{ km} \times \$1,000 = \$333.$

#### Observations:

The employee could eliminate a \$2,600 operating cost benefit by reimbursing the employer \$333 before February 15 of the following year. Therefore, assuming the employee's marginal tax rate is 46%, the employee can save:  
 $\$2,600 \times 46\% - \$333 = \$863$

#### – Operating expenses

The tax authorities consider all costs directly associated with the operation of an automobile to be operating costs, as opposed to capital costs. [Table 1](#) on page 1 shows examples of operating expenses and capital costs.

#### – Parking costs

Legislation specifies that, for the purposes of the employee benefit rules, automobile operating expenses do not include parking costs. Generally, parking costs are an employee benefit in addition to the operating cost benefit unless:

- the parking is provided for business purposes; and
- the employee regularly has to use the automobile for employment purposes.

In addition, the CRA *Employers' Guide—Taxable Benefits and Allowances* (T4130(E) Rev. 11) states that a benefit may not arise if:

- a business operates from a shopping centre or industrial park, where parking is available to both employees and non-employees; or
- an employer provides "scramble parking" (i.e., there is a shortage of parking spaces, which are taken on a first-come, first-served basis).

The CRA has commented that the taxable benefit for an employer-provided parking space should not be reduced for days when an employee is unavailable to use the spot (e.g., because the employee is on vacation or travelling out of town by plane).

#### **Alternative computation**

An employee who uses an automobile primarily (i.e., more than 50%) for business purposes may elect to calculate the operating cost benefit as follows:

**Table 5 Operating cost benefit: alternative computation**

	1/2 x Standby charge before reimbursements (from <a href="#">Table 3</a> )
–	Reimbursements to employer (made before February 15 of the following year)
=	Operating cost benefit

When the election is made, an employee is taxed on a maximum benefit of 36% of original cost (or 100% of the lease cost), instead of the total of the standby charge plus 26¢ (23¢ for a car salesperson) for each personal kilometre driven.

To make the election, the employee must give the employer written notification before December 31. The employee is required to maintain a record of kilometres to support the election.

### **Planning techniques for employers**

#### **Reduce availability**

To reduce the number of days that cars are available, the employer can require company cars to be left on company premises during weekends and/or when employees are away on business trips and vacations. Employees must be required to return car keys to the employer at these times. The result: a reduction in the standby charge.

#### **Buy or lease less expensive vehicles**

Choosing less expensive vehicles (e.g., used cars) reduces the capital cost or the lease cost in the standby charge calculation.

#### **Consider whether to buy or lease**

The standby charge is based on original cost (plus capitalized repairs) or lease payments (excluding insurance). The relative costs for the entire period of ownership should be compared, bearing in mind both the cost to the employer and the taxable benefit to the employee.

#### **Finance automobile purchases with cash**

Borrowing money to finance a luxury automobile purchase is less attractive than it once was, due to the interest expense limitations. Consider financing automobile purchases out of cash reserves and borrowing to fund working capital or to purchase other assets for which the interest deduction is not restricted.

#### **Consider a sale-leaseback arrangement**

It may be worthwhile for the employer to sell the automobile and lease it back. In the standby charge calculation, this replaces the original cost by lease payments.

#### **Provide interest-free loan to employees to purchase cars**

Sometimes it makes sense for employers to lend funds interest-free to help employees purchase their own cars. Instead of the standby charge of 24% (i.e., 2% per month), the employees will include in employment income a deemed interest benefit based on the prescribed rate of interest on the loan (e.g., 1% for the first quarter of 2012). In addition, for employees who are eligible to deduct automobile expenses, the business portion of the deemed interest benefit is deductible, up to the monthly interest limit (see [page 2](#)). However, any forgiveness of the loan (or increased salary to cover loan repayments) will constitute an additional taxable benefit.

#### **Reduce monthly lease payments**

Monthly lease payments will be reduced if the term of the lease is extended. Consider the long-term tax consequences of this strategy to both the employer and employee.

#### **Consider purchasing a leased vehicle**

If the employee plans to drive the same luxury vehicle for more than three or four years, consider a three- to four-year lease with payments at or below the monthly maximum lease deduction (i.e., \$800 plus GST/HST and PST on \$800). When the lease buy-out price is near the maximum capital cost on which CCA may be claimed (i.e., \$30,000 plus GST/HST and PST on \$30,000), the employer should purchase the vehicle. This maximizes both lease deductions and CCA claims on luxury vehicles.

Planning techniques for employees

Minimize personal driving

If personal kilometres:

- are less than 50% of total kilometres driven; and
- average under 1,667 a month,

an employee can reduce the standby charge by using the reduction for low personal use (see [page 4](#)).

In addition, if personal kilometres are less than 50% of total kilometres driven, the employee’s operating cost benefit can be determined using the alternative computation (see [page 6](#)).

Employees can minimize personal driving by making simple adjustments to their car use. For example:

- make business visits on the way to or from work to convert personal kilometres to business kilometres; and
- in two-car families, use the employee-owned car exclusively for personal purposes to maximize the percentage of business use of the employer-provided vehicle.

Consider acquiring an older automobile from the employer

By purchasing an older automobile from the employer, an employee will:

- eliminate the standby charge; and
- cease to have a benefit based upon the original cost.

Using this approach, a benefit will arise in respect of employer-paid operating costs attributable to the personal use of the employee-provided car (see [page 12, Payment for personal expenses](#)). However, the benefit will not be based on the prescribed amount times the number of personal kilometres driven. Furthermore, the employee may be able to deduct expenses related to business use of the automobile (see [page 9, Motor vehicle expenses](#)).

Consider a salary increase instead of an employer-provided vehicle

If an employee’s bonuses, incentive compensation and/or contributions to retirement plans are based on his or her base salary, excluding taxable benefits, the employee may prefer a salary increase instead of an employer-provided vehicle.

Withholdings

Generally, employers are required to make withholdings in respect of the standby charge and the operating cost benefit (and other non-monetary benefits) from cash remuneration paid to employees. The amounts of these benefits will not be known during the year, so withholdings should be based on estimates.

Withholdings are required in respect of income tax and Canada Pension Plan (CPP)/Quebec Pension Plan (QPP). However, the CPP/QPP withholding requirement will not result in additional withholdings if the employee’s earnings, before the standby charge, exceed the CPP/QPP maximum pensionable earnings (\$50,100 in 2012).

According to the CRA *Employers’ Guide—Taxable Benefits and Allowances* (T4130(E) Rev. 11), the standby charge and the operating cost benefits are not subject to Employment Insurance (EI) premiums.

Record keeping

Employer’s records

Employers should maintain records that substantiate deductions related to vehicles, and keep track of the following:

Original cost and lease cost in respect of each vehicle provided to employees	This information is necessary to compute each employee’s standby charge.
Availability of automobile	Records regarding the number of days each employee had an automobile available are required to determine the standby charge.
Payments from employees	Reimbursements received from the employee for use and/or operating costs must be recorded to compute the employee’s standby charge and operating cost benefit, respectively.
Operating expenses	<p>It is important for employers to maintain records of operating expenses borne in respect of each employee. This information is required to determine the amount of such costs attributable to personal use when employee reimbursements are a factor.</p> <p>The employer should also maintain records supporting reductions to each employee’s operating cost benefit in respect of operating costs paid by the employee to third parties.</p>
Government reporting	Each employer must prepare and file a T4 (Relevé 1 for Quebec tax purposes) for each employee, indicating the total taxable benefit, by the last day of February of the following year.

## Record keeping

### Employee's records

Logs of kilometres driven	<p>A <a href="#">log</a> is provided in a separate attachment.</p> <p>Employees must maintain travel logs to record total kilometres traveled and to segregate personal from business travel. These are required to determine eligibility for the reduced standby charge, the operating cost benefit alternative computation and the calculation of the basic 26¢ per kilometre operating benefit (23¢ for a car salesperson).</p> <p>Quebec employees with employer-provided automobiles must provide their employers with logbooks (see <b>Important dates</b> below for deadlines) that record:</p> <ul style="list-style-type: none"> <li>the number of days in the year, the automobile was available to the employee, or a person related to the employee;</li> <li>on a daily, weekly or monthly basis, the total kilometres driven on the days the automobile was available during the year;</li> <li>on a daily basis, for each trip made by the automobile in connection with or in the course of the individual's office or employment: <ul style="list-style-type: none"> <li>the place of departure and the place of destination;</li> <li>the number of kilometres travelled between the two places; and</li> <li>whether the trip was made in connection with or in the course of the individual's office or employment.</li> </ul> </li> </ul>
	<p>Employees who pay operating costs to third parties should:</p> <ul style="list-style-type: none"> <li>retain receipts; and</li> <li>provide a summary to their employers before February 15 of the following year.</li> </ul>
	<p>An employee intending to use the alternative method to compute the operating cost benefit must provide written notification to his or her employer before December 31 of the year.</p>

### Important dates<sup>1</sup>

December 31 (earlier for practical purposes)	<p>To determine if the employee is eligible for the alternative computation of the operating cost benefit and whether this alternative is beneficial, the following information must be available before the end of December:</p> <ul style="list-style-type: none"> <li>total kilometres driven in the year;</li> <li>breakdown of business and personal kilometres;</li> <li>the employee's operating cost benefit based on the prescribed amount; and</li> <li>the employee's standby charge (before reimbursements).</li> </ul>
December 31	<p>An employee electing to compute the operating cost benefit using the alternative method must provide written notification to the employer by December 31.</p> <p>To reduce the standby charge, payments by the employee to the employer in respect of use of the automobile must be made by December 31.</p>
January 10 of the following year <sup>2</sup>	<p>For Quebec income tax purposes, Quebec employees with employer-provided automobiles must provide their employers with logbooks that record the number of days the automobile was available during the year and other specified information (see <b>Record keeping</b>, above).</p>
February 14 of the following year	<p>To reduce the operating cost benefit:</p> <ul style="list-style-type: none"> <li>payments by the employee to the employer in respect of operating costs must be made; and</li> <li>a summary of operating costs paid by the employee to third parties must be provided to the employer, by February 14 of the following year.</li> </ul>
February 28 of the following year (February 29 for leap years)	<p>The employer must file the T4 (Relevé 1 for Quebec) reporting the total of the standby charge and operating cost benefit (as well as other employment income) by the last day of February of the following year.</p> <p>An employee who is eligible to use the reduction for low personal use to determine the standby charge must notify the employer before the T4 (Relevé 1 for Quebec) is prepared.</p>

1. Deadlines falling on Saturdays, Sundays or statutory holidays may be extended to the next business day.
2. The January 10 deadline applies if the automobile was available to the employee on December 31. In other cases, the deadline is 10 days after the automobile was last available to the employee. Employees who do not comply face a \$200 penalty.

### 3. Employee-supplied automobiles

#### Employee deductions

If the conditions summarized in the table below are met:

- employees may deduct reasonable travel expenses, including motor vehicle expenses; and
- employees who are salespersons or contract negotiators may deduct a wider variety of expenses.

**Table 6 Employee deductions**

	Employees in general	Salespersons and contract negotiators
<b>Conditions</b> (all must be met to deduct the expenses noted below)	Did not claim any deductions as a salesperson	At least partially remunerated by commissions or similar amounts based on sales volume
	Ordinarily required to carry on the duties of employment away from:	
	the employer's place of business, or in different places	the employer's place of business
	Did not receive a tax-free allowance with respect to the expenses (see comments under Allowances, <a href="#">page 11</a> )	
	Not reimbursed for expenses	
	Required under the employment contract to pay the expenses	
	A prescribed form (Form T2200) certified by the employer, reporting the conditions of employment, is completed <sup>1</sup>	
<b>Expenses that may be deducted</b>	Travel	All expenses incurred to earn employment income
<b>Maximum deduction</b>	<b>Interest and CCA on auto</b>	Not limited by income
	<b>Other expenses</b>	Commission income for the year

1. Quebec employees must file Form TP-64.3-V with their Quebec tax returns, in addition to completing Form T2200.

#### Motor vehicle expenses

If an automobile is used for both employment and personal purposes, to determine the deductible amount, most motor vehicle expenses are pro-rated, based on the proportion that the distance driven in the course of employment is of the total distance. When a vehicle is used frequently during working

hours for business purposes, but the distance driven is small, capital costs may be apportioned based on a combination of distance and time used to earn employment income. A [log](#) for recording business and personal driving expenses is provided in a separate attachment.

Deductible motor vehicle expenses include automobile operating expenses and capital costs shown in **Table 7**. These are pro-rated as discussed above.

**Table 7 Operating expenses vs. capital costs**

Operating expenses	Capital costs <sup>2</sup>
<ul style="list-style-type: none"> <li>Gas<sup>1</sup></li> <li>Oil</li> <li>Maintenance</li> <li>Minor repairs (net of insurance recoveries)</li> <li>Licence and registration fees</li> <li>Insurance</li> </ul>	<ul style="list-style-type: none"> <li>Capital cost allowance (CCA)</li> <li>Interest</li> <li>Leasing costs</li> </ul>

- Only the portion not refunded as a gasoline tax rebate may be deducted.
- Subject to the same restrictions discussed previously ([page 1](#)) with respect to employers who own passenger vehicles.

Deductible travel expenses are reported on Form T777, along with other deductible employment expenses. The Quebec equivalent is Form TP-59-V.

#### Capital cost allowance

An employee who is entitled to claim CCA in computing travel expenses may calculate the deductible amount as follows:

	Add to CCA class	CCA deductible
<b>Expected % of business use from year to year</b>	Varies	The full cost of the vehicle, up to the prescribed amount ( <a href="#">page 2</a> )
	Constant	The full cost of the vehicle, up to the prescribed amount ( <a href="#">page 2</a> ) multiplied by the percentage of business use <sup>1</sup> of the vehicle. <sup>2</sup>
		Based on the proportion of business use <sup>1</sup> of the vehicle <sup>3</sup>
		Full CCA

- If the vehicle is used frequently during work hours for business purposes, but the distance driven is small, base on a combination of distance and time used to earn employment income.
- An adjustment is required to reflect any change in regular use.
- In computing undepreciated capital cost (UCC), the full CCA must be deducted.



**Example**

An employee uses an employee-provided automobile, with the following facts for 2012:

Business-use kilometres	30,000 km
Total kilometres	40,000 km
Operating expenses paid by employee	\$1,800
Capital cost allowance on vehicle <sup>1</sup>	\$3,000
Interest on vehicle	\$2,000
Reimbursements from employer	\$2,600

1. The employee's use of the automobile varies from year to year.

**Results:**

The amount of travel expenses deductible to the employee is:  
 $(\$1,800 + \$3,000 + \$2,000) \times 30,000 \text{ km} / 40,000 \text{ km}$   
 $= \$5,100 - \$2,600 = \$2,500.$

**Expenses that are not pro-rated***– Accident repair expenses*

If the automobile was being used in the course of employment at the time of an accident, accident repair expenses (including those for property damage to others, net of insurance recoveries) are fully deductible. Otherwise, no portion of those expenses is deductible.

*– Parking expenses*

Parking expenses incurred to earn employment income are fully deductible. Generally, the cost of parking at the employer's office, such as monthly or daily parking, is considered a personal cost and cannot be deducted.

**Salespersons and contract negotiators**

Individuals who qualify for the deduction for salespersons or contract negotiators (see [page 9](#)) have the option of deducting:

- travel expenses, including motor vehicle expenses, under the rules that apply to employees in general; or
- all reasonable expenses incurred to earn the employment income, (e.g., travel expenses, including motor vehicle expenses, entertainment expenses, and supplies) except non-deductible expenses (e.g., club dues).

In the latter case, total deductions (before interest and CCA on an automobile) are limited to the salesperson's or contract negotiator's commission income for the year. Because of this restriction, a salesperson or contract negotiator may prefer to claim travel expenses in accordance with the provisions for other employees.

**GST/HST and QST rebates**

Employees may be able to claim (on an annual basis) a rebate for the GST/HST or QST paid on automobile expenses deductible in computing their employment income for tax purposes. [Page 9](#) discusses some of the expenses that are deductible by employees. No rebate is payable if the employee received a tax-free allowance in respect of the expense. As illustrated in **Table 8**, the rebate may not be available, depending on the employer's status.

**Table 8 Eligibility for GST/HST and QST rebate**

The employer	A bank, trust company or other "listed" financial institution Not a GST/HST or QST registrant	For GST/HST purposes	For QST purposes
		Rebate not available	Rebate available

In the year in which a GST/HST or QST rebate is received, it must be:

- included in the recipient's income; or
- if it was granted in respect of an automobile, deducted from the balance of the CCA class.

**Reimbursements and allowances**

For tax purposes, a reimbursement is an amount that:

- the employer gives to an employee as repayment for amounts spent on the employer's business; and
- is substantiated by vouchers or receipts the employee provides.

An allowance is different: a periodic or other payment by the employer to an employee, in addition to the employee's salary and wages. (Typical examples are a flat monthly allowance and a per-kilometre allowance.) Unlike a reimbursement, employees are not required to account for the use of an allowance.

Payment of a reimbursement for automobile expenses or an automobile allowance may have GST/HST and QST implications to the employer. See [Appendices F](#) and [G](#), respectively, for details.

**Reimbursements**

Reimbursements are simpler than allowances, for tax purposes. Employers can deduct reimbursements of business-related automobile operating expenses. Employees are:

- not required to report reimbursements on their income tax returns; and
- not entitled to deduct automobile expenses that were reimbursed.

## Allowances

The general rule on allowances for travel and/or motor vehicle expenses is simple: to be tax-free to the employee, the allowances must be reasonable.

If an allowance for travel expenses is tax-free, the employee may not deduct travel expenses. Similarly, if an allowance for motor vehicle expenses is tax-free, the employee may not deduct expenses in respect of the motor vehicle.

A motor vehicle allowance will be considered reasonable only if it is:

- based solely on the number of kilometres driven in the course of employment; and
- computed using a reasonable per-kilometre rate.

Consequently, a flat monthly automobile allowance is not considered reasonable for tax purposes, and must be included in income. Even an allowance that meets the above criteria for reasonableness will be taxable in its entirety if the employee is reimbursed for some of the automobile expenses. However, reimbursements for supplementary business insurance, parking, or toll or ferry charges will not cause the allowance to be taxable, if the allowance was determined without reference to these reimbursed expenses.

According to the CRA *Employers' Guide—Taxable Benefits and Allowances* (T4130(E) Rev. 11), if an employee receives a combination of flat-rate and reasonable per-kilometre allowances, or any other personal reimbursement such as a fuel card, that cover the same use for the vehicle, the total combined allowance is taxable.

### Example

An employer pays an employee both:

- a flat per diem rate to offset the employee's fixed expenses; and
- a reasonable per-kilometre rate for each kilometre driven.

Result:

The total combined allowance is taxable because the flat-rate amount compensates the employee for some of the "same use" as the per-kilometre allowance.

### Example

An employer pays an employee both:

- a reasonable per-kilometre amount for employment-related travel outside the employment district; and
- a flat-rate allowance per month for travel inside the employment district.

Results:

The flat-rate allowance does not compensate the employee for any of the "same use" of the vehicle as the per-kilometre allowance. Therefore, the per-kilometre allowance is not included in income, but the flat-rate allowance is taxable.

Technically, if the per-kilometre allowance is excluded from income, the employee cannot deduct automobile expenses. However, the CRA will permit a deduction for automobile expenses if the employee can show that the expenses exceed both allowances and the employee includes both allowances in income.

As a general rule, for allowances paid in 2012, the CRA will accept as reasonable an allowance calculated in accordance with the following prescribed rates:

**Table 9 Prescribed rates for tax-exempt allowances**

		Reasonable allowance for 2012	
Distance driven	First 5,000 km	53¢	+ 4¢ for each kilometre driven in the Yukon, N.W.T. or Nunavut
	Each additional km	47¢	

Every December, the Department of Finance normally announces the maximum automobile allowance rates that employers may deduct in the next year. The CRA uses the same rates to assess whether motor vehicle allowances will be tax-exempt to employees. The rates are intended to reflect the key components of owning and operating an automobile, such as depreciation, financing and operating expenses (i.e., gas, maintenance, insurance and licence fees). Rates for 2012 are in **Table 9**, above.



To be considered reasonable, allowances that exceed the prescribed rates must be supported by actual automobile operating expenses. However, the facts of the particular case will determine the reasonableness of an allowance.

In a nutshell, only “reasonable allowances” (i.e., neither too high nor too low) will be tax-free. If an allowance is considered unreasonable, and therefore is included in the employee’s income, the employee may deduct automobile expenses if the requirements outlined in [Table 6](#) (page 9) are met.

Technically, an allowance that is unreasonably low is to be included in the employee’s income. Nevertheless, the CRA normally permits such an allowance to be treated as tax-free. The employee, however, has the option of including the allowance in income and deducting the applicable automobile expenses. An employee who considers an allowance to be unreasonably low should be prepared to support that position. However, an allowance for travel expenses will not be considered unreasonably low simply because the employee’s total expenses for business travel exceed the allowance.

Different rules may apply when travelling allowances are paid to part-time employees.

### Advances

As an administrative concession, the CRA has indicated that a set periodic advance based on kilometres driven for employment purposes will not be taxable if:

- at the beginning of the year, the employee and the employer agreed on the amount to be paid to the employee for each business kilometre;
- the per-kilometre amount, periodic advances and the projected annual total kilometres are reasonable; and
- at the end of the year (or earlier, if employment ends), the total periodic advance is compared to the product of:
  - the stated amount per kilometre; and
  - total business kilometres traveled,
 and the employee repays any excess or the employer covers any shortfall.

### Payment for personal expenses

The employees will have a corresponding taxable benefit if the employer:

- pays the personal portion of motor vehicle expenses directly; or
- reimburses employees for them.

Such a benefit could arise, for example, if employees are allowed to charge gasoline purchases to a company credit card and are not required to repay the portion that relates to personal use.

Similarly, if an employer reimburses an employee for the full cost of leasing a vehicle, a taxable benefit will arise, equal to the personal portion.

The calculation of the benefit is based on the extent to which the car was used for personal purposes. This is illustrated in the following example.

### Example

Employee provides own leased vehicle with the following facts for 2012:

Personal-use kilometres	10,000 km
Total kilometres	30,000 km
Employer-paid operating costs (including GST/HST & PST)	\$2,000
Employee-paid lease costs reimbursed by employer	\$7,000

### Results:

The taxable benefit equals the portion of employer-paid costs related to the employee’s personal use of the automobile, i.e.,  $(\$2,000 + \$7,000) \times 10,000 \text{ km} / 30,000 \text{ km} = \$3,000$ .

### Parking costs

Generally, employer-provided parking constitutes a benefit to the employee unless:

- the parking is provided for business purposes; and
- the employee regularly has to use the automobile for employment purposes.

In addition, the CRA *Employers’ Guide—Taxable Benefits and Allowances* (T4130(E) Rev. 11) states that a benefit may not arise if:

- a business operates from a shopping centre or industrial park, where parking is available to both employees and non-employees; or
- an employer provides “scramble parking” (i.e., there is a shortage of parking spaces, which are taken on a first-come, first-served basis).

The CRA has commented that the taxable benefit for an employer-provided parking space should not be reduced for days when an employee is unavailable to use the spot (e.g., when on vacation or travelling out of town by plane).

### Employer deductions

The general rule is that employers may deduct automobile allowances only up to the prescribed rates in [Table 9](#) (page 11). This does not apply, however, if the allowance is required to be included in the employee’s income. The rules are summarized in [Table 10](#) on the next page.

**Table 10 Consequences of automobile allowances to employees and employers**

	Consequences to:			
	Employee		Employer	
<b>Allowances &gt; prescribed rates</b>	Not taxable if reasonable	Taxable if <b>not</b> reasonable	Deductible up to prescribed rates	Fully deductible if taxable to the employee
<b>Allowance &lt; prescribed rates<sup>1</sup></b>	Not taxable		Fully deductible	
<b>Allowance = prescribed rates</b>				
<b>Allowance not based on business km</b>				
	Taxable			

1. Although technically an allowance that is unreasonably low is taxable, the CRA will normally allow it to be treated as tax free.

The prescribed rates are applied employee-by-employee, so the employment kilometres of several employees cannot be averaged.

### Planning techniques for employers

Employers that pay all or a portion of their employees' automobile expenses should consider the following strategies so that a deduction can be claimed for the amount paid.

**Table 11 Strategies for automobile expenses**

Possible strategy		Employee tax consequences
	Pay a per-kilometre automobile allowance that does not exceed prescribed rates	Allowance is not taxable
	If paying a per-kilometre automobile allowance that exceeds prescribed rates, take the position that the allowance is unreasonable	Allowance is taxable, but employee can deduct expenses
	Pay an automobile allowance that is not based on business kilometres driven	
	Reimburse employees for actual automobile expenses or pay them accountable advances	Reimbursements and advances are not taxable

Of course, an analysis of these strategies should take into account employee preferences.

### Planning techniques for employees

Employees who use their own cars for employment purposes will want to minimize their after-tax cost of doing so. The following planning techniques should be considered.

#### Minimize personal use, maximize business use

Individuals can minimize the after-tax cost of a car by making simple adjustments to car use. For example:

- make business visits on the way to or from work to convert personal kilometres to business kilometres; and
- in two-car families, use one car for personal purposes so that the percentage of business use of the other vehicle is maximized.

#### Get an interest-free or low-interest loan from your employer

In some cases, employers may agree to make interest-free or low-interest loans to employees, to help them purchase their own cars. The employee includes in employment income a deemed interest benefit equal to:

- the prescribed rate of interest on the loan (e.g., 1% for the first quarter of 2012); less
- any interest paid by the employee to the employer on or before January 30 of the following year.

If the employee is eligible to deduct automobile expenses, the business portion of the deemed interest benefit is deductible, up to the monthly interest limit (see [page 2](#)). However, any forgiveness of the loan (or increased salary to cover loan repayments) will constitute an additional taxable benefit.

#### Don't combine flat-rate and per-kilometre allowances

Reasonable per-kilometre automobile allowances are tax-free. However, if the employee receives a combination of flat-rate and reasonable per-kilometre allowances (or any other personal reimbursement such as a fuel card) that cover the same use for the vehicle, the total combined allowance is taxable (see [page 11](#)).

#### Borrow to purchase a car

An employee who is entitled to deduct expenses related to the employment use of a car may be better off borrowing to finance the acquisition of a car and using cash to reduce non-deductible debt (e.g., a home mortgage). This can make at least a portion of the interest deductible.

## Record keeping

<b>Receipts for automobile expenses</b>	To be deductible, automobile expenses must be reasonable in the circumstances and should be supported by receipts and other documents (e.g., invoices, cancelled cheques, vouchers, credit card statements or agreements). Supporting documents need not be filed with the income tax return, but must be retained for examination on request. A claim for automobile expenses calculated on a cents-per-kilometre basis is not acceptable.
<b>Automobile log</b>	<p>If the automobile is used in part to earn income and in part for personal purposes, records of total kilometres driven and kilometres to earn income should contain the date, purpose, destination and kilometres driven for each trip.</p> <p>A <a href="#">log</a> that can be used to compute deductible automobile expenses is provided as a separate attachment. Monthly totals should be summarized at the end of the year, any applicable CCA added, an allocation made between personal and employment use, and any allowances or reimbursements made by the employer reflected.</p>
<b>Income tax forms</b>	<p>An employee who claims automobile expenses regarding employment must complete Part A of Form T2200, and retain it in case the CRA requests it. This form is a declaration of employment conditions, which must be completed and signed by the employer. The Quebec equivalent, which must be filed with the employee's Quebec tax return, is Form TP-64.3-V.</p> <p>The employee must file Form T777 with his or her income tax return to support a claim for automobile expenses. The Quebec equivalent is Form TP-59-V.</p>
<b>GST/HST rebate</b>	An employee seeking a GST/HST rebate, with respect to the GST/HST paid on expenses that are deducted from employment income, is required to file Form GST-370-E Employee and Partner GST/HST Rebate Application with his or her personal tax return. Area C of Form-370-E must be completed by the employer.
<b>QST rebate</b>	Similarly, Quebec-based employees seeking a QST rebate are required to file Form VD-358-V Quebec Sales Tax Rebate Application for Employees and Partners.

## 4. Shareholders and partners

When a corporation makes an automobile available to a shareholder or a person related to a shareholder, both a standby charge and any operating cost benefit must be included in the shareholder's income. The standby charge also applies to partners who are entitled to use an automobile owned by the partnership. The standby charge applies even though the CCA deductible to the partnership is restricted to the business portion of the automobile's capital cost.

A shareholder or partner is assumed to be an employee for the purposes of these benefit calculations, and all references to employees apply equally to shareholders and partners.

Partners do not appear to be subject to the operating cost benefit that applies to employees. Instead, when a partnership pays a partner's automobile operating expenses, the partner includes in income an amount based on the percentage of operating costs that relate to personal driving. The deduction of the personal portion of the operating expenses is disallowed to the partnership.

The CRA has commented that an allowance paid by a partnership to a partner for the use of an automobile is a distribution of partnership profits. Consequently, the allowance is not deductible to the partnership, nor is it a taxable benefit to the partner. However, the partner may be able to deduct the actual automobile expenses incurred.

A corporation or partnership that supplies an automobile to a shareholder or partner is subject to the same restrictions as employers on the deductibility of CCA, interest and lease payments. (See **Capital costs**, [page 1](#)).

The GST/HST and QST rules applicable to employers who provide company cars to employees generally apply when a car is provided to a shareholder. These rules are discussed in [Appendices F](#) and [G](#). A partnership is not required to remit GST/HST or QST on the taxable benefit arising when a partner is provided with an automobile owned by the partnership, unless the vehicle is used exclusively in the commercial activities of the GST/HST or QST registered partnership.

## 5. Self-employed individuals

A self-employed person who owns or leases an automobile to earn business income is eligible to deduct automobile expenses for tax purposes. Similarly, an individual who is a member of a partnership and personally owns or leases an automobile used in the business of the partnership may also deduct automobile expenses pertaining to the business, to the extent not reimbursed by the partnership.

The specific costs eligible for deduction, and the acceptable methods of allocation between business (deductible) and personal (non-deductible) use, are the same as those described for employees who use their own automobiles to earn employment income (see [page 9](#)). Only actual operating expenses are deductible; a claim for expenses calculated on a cents-per-kilometre basis is not permitted.

Except for Quebec, self-employed individuals can use an automobile logbook maintained for a sample period to support motor vehicle expenses if:

- a full logbook for a 12-month “base” period (starting in 2009 or later) is maintained;
- a sample logbook for a continuous three-month period (sample period) in each subsequent year (sample year) is completed;
- the business use in the sample logbook is within 10% of the results for the same three-month period in the base year; and
- the calculated annual business use<sup>1</sup> as extrapolated from the subsequent sample log is within 10% of the base-year result.

If the calculated annual business use in a subsequent year exceeds the 10% threshold, the base year will no longer be appropriate, and the sample period logbook will be reliable only for the three-month period that it had been maintained.

The CCA, lease payment and interest expense limitation described for employers apply equally to self-employed individuals (see [page 2](#)).

When a self-employed person owns or leases two or more cars, deductible expenses should be computed separately for each.

The GST/HST and QST implications for a self-employed person who owns or leases an automobile for his or her business are discussed in [Appendix H](#).

## Appendix A

### Motor vehicle, automobile and passenger vehicle

#### Why the vehicle’s type matters

The limits on capital cost allowance (CCA), interest and leasing costs apply to passenger vehicles. Therefore, any vehicle that is not a passenger vehicle is not subject to these limits.

The standby charge and operating cost benefit apply when an automobile is provided to an employee. Therefore, if the vehicle provided to an employee is not an automobile, the benefit calculation will differ.

#### Definitions: A snapshot

For tax purposes, three terms have distinct meanings: motor vehicle, automobile and passenger vehicle. The following diagram provides a snapshot of these definitions. A more detailed discussion follows.

##### Motor vehicle

If you see it on the street, it is probably a motor vehicle.

##### Automobile

Ordinary cars, plus some vans and pick-up trucks.

##### Passenger vehicle

“Automobiles” acquired or leased after June 17, 1987.

#### Motor vehicle

A motor vehicle is designed or adapted for use on highways and streets.

Excluded from the definition are a trolley bus and any vehicle operated exclusively on rails.

#### Automobile

An automobile is a motor vehicle that:

- is designed or adapted to carry passengers; and
- seats at most nine people, including the driver.

1. Calculated annual business use =  

$$\text{Annual business use \% in base year} \times \frac{\text{Sample period business use \% in sample year}}{\text{Sample period business use \% in base year}}$$

Excluded from the definition of “automobile” are:

- an ambulance, a taxi, bus or hearse;
- a pick-up truck, van or similar vehicle that:
  - seats no more than three people, including the driver, and, in the taxation year acquired, was used more than 50% to transport goods or equipment in the course of earning income; or
  - in the taxation year in which it was acquired was used more than 90% to transport goods, equipment or passengers in the course of earning income;
- pick-up trucks used more than 50% to transport goods, equipment or passengers in the course of earning or producing income at a remote or special worksite that is at least 30 kilometres from the nearest urban community having a population of at least 40,000 persons;
- clearly marked emergency-response vehicles used in connection with, or in the course of, an individual’s office or employment with a fire department or the police;<sup>1</sup>
- clearly marked emergency medical response vehicles used in connection with, or in the course of, an individual’s office or employment with an emergency medical response or ambulance service, to carry emergency medical equipment together with one or more emergency medical attendants or paramedics; and
- except for the purposes of determining the taxable benefits associated with vehicles, a motor vehicle:
  - acquired for sale, rental or lease in the course of carrying on a motor vehicle sales, rental or leasing business; or
  - used to transport passengers in a funeral business.

### Passenger vehicle

A *passenger vehicle* is an “automobile” that was:

- acquired after June 17, 1987, unless acquired under the terms of a written agreement entered into before June 18, 1987; or
- leased under a lease entered into, extended or renewed after June 17, 1987.

## Appendix B

### Deduction for lease costs

#### Sample worksheet—for passenger vehicles leased during 2012

The annual deduction for lease costs is limited to the least of the following three amounts:

#### Actual lease payments paid or payable in the year:

Amount of payments	\$
--------------------	----

#### Prescribed monthly based limit, calculated as:

	\$ 800 <sup>1</sup>	
+ GST/HST & PST on \$800 <sup>1</sup>	\$	
Subtotal	\$	
x Number of days from the start to the end of lease (to end of year, if earlier)		
Subtotal	\$	
	÷ 30 =	\$
– Amounts deducted in previous years in respect of the lease	\$	
– Interest at the prescribed rate that would be earned on refundable lease amounts over \$1,000	\$	
– Reimbursements that became receivable by the year end on the lease	\$	
<b>= Prescribed monthly based limit</b>	<b>\$</b>	

#### Annual lease limit, calculated as:

	\$30,000 <sup>1</sup>	
+ GST/HST & PST on \$30,000 <sup>1</sup>	\$	
Subtotal	=	\$ <b>A</b>
	\$35,294 <sup>1</sup>	
+ GST/HST & PST on \$35,294 <sup>1</sup>	\$	
= Subtotal	=	\$ <b>B</b>
Manufacturer’s list price (MLP)	\$	
Greater of MLP and B		\$ <b>C</b>
	A ÷ C =	\$
x Actual lease payments paid or payable in the year	\$	
Subtotal		
	÷ 0.85 =	\$
– Interest at the prescribed rate that would be earned on deposits over \$1,000	\$	
– Reimbursements that became receivable by the year end on the lease	\$	
<b>= Annual lease limit</b>	<b>\$</b>	

1. For leases entered into before 2012, see [Appendix C](#) for the limits that applied.

1. For Quebec purposes, the definition of “automobile” excludes police and fire emergency vehicles only if:

- the employer provides a written directive limiting the personal use of the vehicle and specifying that the vehicle must be returned during extended absences; and
- the vehicle is clearly marked or has special equipment enabling a rapid response to events involving public security.

## Appendix C

### Automobile deduction limits<sup>1</sup>

		Passenger vehicles				
		Acquired		Leased		
		Monthly interest limit <sup>2</sup>	Max. capital cost	Lease cost limit	Monthly lease limit	Manufacturer's list price limit
When acquired or leased	1991 to 1996	\$300	\$24,000 <sup>3</sup>	\$650 <sup>3</sup>	\$28,235 <sup>3</sup>	
	1997		\$25,000 <sup>3</sup>	\$550 <sup>3</sup>	\$29,412 <sup>3</sup>	
	1998/99	\$250	\$26,000 <sup>3</sup>	\$650 <sup>3</sup>	\$30,588 <sup>3</sup>	
	2000		\$27,000 <sup>3</sup>	\$700 <sup>3</sup>	\$31,765 <sup>3</sup>	
	2001 to 2012 <sup>4</sup>	\$300	\$30,000 <sup>3</sup>	\$800 <sup>3</sup>	\$35,294 <sup>3</sup>	

1. The Department of Finance normally announces the limits each December for the following year.
2. Technically, for each 30-day period during which the interest was paid or payable.
3. Plus GST/HST and PST.
4. The limits for passenger vehicles purchased or leased in 2012 are:

	Max. capital cost & lease cost limit	Monthly lease limit	Manufacturer's list price limit
Alberta	\$31,500	\$840	\$37,059
British Columbia	\$33,600	\$896	\$39,529
Manitoba			
New Brunswick	\$33,900	\$904	\$39,882
Newfoundland and Labrador			
Northwest Territories	\$31,500	\$840	\$37,059
Nova Scotia	\$34,500	\$920	\$40,588
Nunavut	\$31,500	\$840	\$37,059
Ontario	\$33,900	\$904	\$39,882
Prince Edward Island	\$34,650	\$924	\$40,765
Quebec	\$34,493	\$920	\$40,579
Saskatchewan	\$33,000	\$880	\$38,823
Yukon	\$31,500	\$840	\$37,059

## Appendix D

### Taxable benefit from an employer-supplied automobile

For more help, refer to the CRA's Automobile Benefits Online Calculator at [www.cra.gc.ca/autobenefits-calculator](http://www.cra.gc.ca/autobenefits-calculator).

#### Sample worksheets

#### Standby charge calculation

Employer-owned automobile	Cost of automobile	\$	x 2% <sup>1</sup>	\$	<b>A</b>
Employer-leased automobile	Monthly lease cost	\$	x 2/3	\$	<b>B</b>
Number of days in year auto is available to employee					
				÷ 30	
				=	
Round result (with 0.5 rounded down) to the nearest whole number if this fraction exceeds 1.0				=	<b>C</b>
<b>(A x C) or (B x C)</b>				\$	<b>D</b>

#### Reduction for low personal use<sup>2</sup>

Personal kilometres	
÷ (1,667 x number of months auto was available)	
= <b>Reduction for low personal use</b>	<b>E</b>
= Standby charge before reimbursements	\$
= <b>D x E</b>	
– Reimbursements to employer during the year	\$
= <b>Standby charge</b>	\$

1. Special rules apply if the employee is employed principally in selling or leasing automobiles.
2. The reduction for low personal use is available only if:
  - the employer requires the employee to use the car to carry out employment duties;
  - business use is more than 50%; and
  - personal kilometres average less than 1,667 per month.



## Operating cost benefit

### Basic calculation

Personal kilometres driven during the year	
	x 26¢ <sup>1</sup>
= Operating cost benefit before reimbursements	\$
– Reimbursements to employer made before February 15 of the following year	\$
= <b>Operating cost benefit</b>	\$

1. In 2012, 23¢ for automobile salespersons.

### Alternative calculation

An employee may use this alternative calculation if both:

- the employee uses the automobile more than 50% for business purposes; and
- the employee requests (in writing by December 31) that this method be used.

Standby charge before reimbursements ( <a href="#">page 17</a> )	
	x 1/2
= Operating cost benefit before reimbursements	\$
– Reimbursements to employer made before February 15 of the following year	\$
= <b>Operating cost benefit</b>	\$

### – Reimbursements to employer

If, before February 15 of the following year, the employee reimburses his or her employer for all operating expenses attributable to personal use, no operating cost benefit will arise.

The CRA has commented that it will consider payments made by employees to third parties in respect of operating costs to be reimbursements made to the employer. As a result, these payments will reduce or eliminate the employee's operating cost benefit. The employee should retain receipts for operating costs paid to third parties, and provide a summary to his or her employer before February 15 of the following year.

### – Operating costs paid by the employer

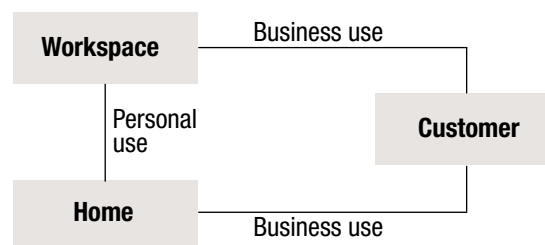
Gas and oil	\$
+ Repairs and maintenance	\$
+ Insurance, licence and registration	\$
+ Other operating costs	\$
= <b>Total operating costs</b>	\$
x Personal km/Total km	
= <b>Operating costs attributable to personal use</b>	\$

## Appendix E

### Personal use—What counts?

The standby charge benefit depends on the car's availability for personal use. The operating cost benefit is based on the personal-use kilometres actually driven. Therefore, determining what constitutes personal-use driving is important.

Personal driving is any driving by an employee, or a person related to the employee, that is not in the course of employment. This includes vacation trips and any other personal driving. As illustrated in the diagram below, trips between work and home are considered personal use.<sup>1</sup> This is the case even if the employer insists that the employee drive the vehicle<sup>2</sup> home. However, if the employee stops at a customer or makes another business stop on the way, these trips constitute business use.



The employee should keep records of the business and personal kilometres of an automobile for each calendar year, so that this information can be supported.

- The Tax Court of Canada's (TCC's) decision in **Tolson A. Hudson v. The Queen** (2007) contradicts the CRA's position that travel between an employee's regular place of employment and home is considered to be personal. The TCC ruled that automobile expenses incurred to commute to and from work were deductible because:
  - the taxpayer was required to have his automobile available to him at work for employment-related travel; and
  - if not for the employer's requirement, the employee would have taken a different form of transportation to work.
- Generally, the employment benefit for a motor vehicle that is not an "automobile" (see [Appendix A](#)) as defined in the *Income Tax Act*, is based on the rates used for tax-exempt allowances (for 2012, in most areas in Canada, 53¢ for the first 5,000 kilometres and 47¢ for each additional kilometre). The CRA has clarified the circumstances under which a lower rate can be used for motor vehicles (other than "automobiles") that are required to be taken home at night. The CRA accepts that the benefit can be based on the rate used for the operating cost benefit (for 2012, 26¢ for most employees), if all the following conditions are met:
  - the employer stipulates in writing to the employee that the motor vehicle must not be used for personal use other than commuting between home and work and the vehicle has in fact not be used for any other personal use;
  - the employer has bona fide business reasons for requiring the employee to take the motor vehicle home at night; and
  - the motor vehicle is specifically designed, or suited for, the employer's business or trade and is essential for the performance of the employee's duties.

The CRA's comments were in *Income Tax Technical News No. 40* (June 11, 2009), but were previously made in its opinion letters issued in 2008.

A [log](#) for recording business and personal kilometres and expenses is provided in a separate attachment.

Except for Quebec, which has more stringent rules, self-employed individuals can use a logbook maintained for a sample period to support motor vehicle expenses if:

- a full logbook for a 12-month “base” period (starting in 2009 or later) is maintained;
- a sample logbook for a continuous three-month period (sample period) in each subsequent year (sample year) is completed;
- the business use in the sample logbook is within 10% of the results for the same three-month period in the base year; and
- the calculated annual business use<sup>1</sup> as extrapolated from the subsequent sample log is within 10% of the base-year result.

If the calculated annual business use in a subsequent year exceeds the 10% threshold, the base year will no longer be appropriate, and the sample period logbook will only be reliable for the three-month period that it had been maintained. For the remainder of the year, the business use of the vehicle will need to be determined based on actual travel records. The self-employed individual also has to establish a new base year by maintaining a logbook for a new 12-month period.

## Appendix F

### Employer-supplied automobiles —GST/HST

This Appendix provides an overview of the goods and services tax (GST) and harmonized sales tax (HST) concerns of employers that supply employees or related individuals with company cars. Generally, these rules also apply when a car is provided to a shareholder or a related individual. GST/HST concerns of employees are briefly discussed on [page 10](#).

A partnership is not required to remit GST/HST on the taxable benefit arising when an employee is provided with an automobile owned by the partnership, unless the vehicle is used exclusively in the commercial activities of the GST/HST registered partnership.

#### Overview

The GST is a 5% tax on the sale of most goods and services in Canada. The HST is a sales tax adopted by British Columbia, New Brunswick, Newfoundland and Labrador, Nova Scotia and Ontario to harmonize their provincial sales tax systems with the GST. It is administered by the CRA.

For 2012, the HST rate is:

- 12% in British Columbia<sup>1</sup> (7% provincial component plus 5% GST);
- 13% in New Brunswick, Newfoundland and Labrador and Ontario (8% provincial component plus 5% GST); and
- 15% in Nova Scotia (10% provincial component plus 5% GST).

A large business in British Columbia or Ontario (i.e., having more than \$10 million of taxable sales in Canada on an associated group basis during the previous fiscal year or certain financial institutions) should refer to **British Columbia and Ontario—GST/HST** on [page 22](#).

#### Input tax credits

Employers that purchase or lease cars for their employees may be entitled to claim input tax credits (ITCs) in respect of GST/HST paid on the purchase or lease. As illustrated in **Table 12**, the amount of the ITC is related to:

- the percentage of commercial use of the vehicle;
- the type of registrant claiming the ITC; and
- the cost of the vehicle.

1. Calculated annual business use =  
Annual business use % in base year x  $\frac{\text{Sample period business use \% in sample year}}{\text{Sample period business use \% in base year}}$

1. Although British Columbia's provincial sales tax (PST) was harmonized with the GST on July 1, 2010, a referendum that was held in 2011 has determined that the HST will be cancelled and replaced with the former PST and GST regime. The change is targeted to be effective April 1, 2013. The PST rate is expected to be higher on passenger vehicles with a purchase price greater than \$55,000.



Table 12 ITC eligibility on the purchase of a vehicle

		Individuals and partnerships	Financial institutions	Other corporations and public sector <sup>1</sup>
Use in commercial activities	≤ 10%	0%	= Percent used in commercial activities	0%
	> 10% to ≤ 50%	See the ITC calculation table below		
	> 50% to < 90%			
	≥ 90%			100%

- Public sector includes government bodies, non-profit organizations, charities, municipalities, schools, and hospitals.
- Special rebate rules apply for certain public sector bodies.

ITC calculation for individuals and partnerships <sup>1</sup> (see Table 12)		
GST	Alberta	5/105 x
	Manitoba	
	Northwest Territories	
	Nunavut	
	Prince Edward Island	
	Quebec	
	Saskatchewan	
	Yukon	
HST <sup>2</sup>	British Columbia	12/112 x
	New Brunswick	13/113 x
	Newfoundland and Labrador	
	Nova Scotia	15/115 x
	Ontario	13/113 x

- No ITC is available if a standby charge is included in an employee's income under the *Income Tax Act* and the vehicle is used less than 90% in commercial activities.
- In special situations (e.g., if the vehicle was purchased from a registrant in a non-HST province or territory and then brought into the HST province), with respect to the ITC claim the HST rate factor may be reduced to:
  - 7/107 for British Columbia;
  - 8/108 for New Brunswick, Newfoundland and Labrador and Ontario; and
  - 10/110 for Nova Scotia.
 In these situations, the individual registrant must pay the provincial component: 7% in British Columbia; 8% in New Brunswick, Newfoundland and Labrador and Ontario; and 10% in Nova Scotia of the HST and then claim the appropriate ITC. Other HST rate factors apply if the vehicle is purchased in an HST province and brought into another HST province.

For passenger vehicles acquired or leased in 2012, the maximum value on which an ITC may be claimed is:

- the prescribed amount for CCA purposes, excluding GST/HST and PST (i.e., \$30,000); or
- the monthly lease limit, excluding GST/HST and PST (i.e., \$800).

See [Appendix C](#) for the limits that apply for vehicles purchased or leased before 2012.

## Standby charge benefit

The calculation of the GST/HST that generally must be remitted by the employer relating to the standby charge benefit is illustrated below.

		GST/HST to be remitted by employer <sup>1</sup> (standby charge)	
GST	Alberta	4/104 x	Standby charge benefit before reimbursements <sup>1</sup> (see <a href="#">Table 3</a> on page 3)
	Manitoba		
	Northwest Territories		
	Nunavut		
	Prince Edward Island		
	Quebec		
	Saskatchewan		
HST	Yukon	11/111 or 4/104 <sup>2</sup> x	
	British Columbia		
	New Brunswick		
	Newfoundland and Labrador		
	Nova Scotia		
	Ontario	12/112 or 4/104 <sup>3</sup> x	

- The employer is required to remit GST/HST on the amount reimbursed by an employee. However, no GST/HST is required to be remitted by a GST/HST registrant that is:
  - an individual or a partnership if the vehicle is used less than 90% in commercial activities; or
  - not an individual, partnership or financial institution if the vehicle is not used primarily in commercial activities.
- In British Columbia, the rate factor is:
  - 11/111 for employers that are not large businesses and therefore are not required to recapture ITCs; and
  - 4/104 for employers that are large businesses and therefore are required to recapture ITCs.
- In Ontario, the rate factor is:
  - 12/112 for employers that are not large businesses and therefore are not required to recapture ITCs; and
  - 4/104 for employers that are large businesses and therefore are required to recapture ITCs.

### Example

On January 1, 2012, an employee in Manitoba is provided with an employer-leased automobile for one year with the following monthly costs.

Lease cost	\$700
GST (5%)	\$ 35
PST (7%)	\$ 49
Total monthly lease costs	<u>\$784</u>

#### Results:

Maximum ITC claimable by employer:

\$700 x 5% = \$35/month or \$420/year

Employer's GST liability:

4/104 x standby charge before reimbursements<sup>1</sup>

4/104 x (\$784 x 12 x 2/3) = \$241<sup>2</sup>

- The example assumes there is no reduction in the standby charge for low personal use.
- The employer must remit this amount with the GST/HST return for the period covering February 28, 2013. If the benefit is provided to a shareholder, the deadline is the last day of the corporation's taxation year.

## Operating cost benefit

The calculation of the GST/HST to be remitted by the employer relating to the operating cost benefit is illustrated below.

		GST/HST to be remitted by employer <sup>1</sup> (operating cost benefit)	
GST	Alberta	3%	x
	Manitoba		
	Northwest Territories		
	Nunavut		
	Prince Edward Island		
	Quebec		
	Saskatchewan		
HST	Yukon	5%	x
	British Columbia		
	New Brunswick		
	Newfoundland and Labrador		
	Nova Scotia		
	Ontario	9% or 6% <sup>2</sup>	x

Operating cost benefit before reimbursements<sup>1</sup> (see [Table 4](#) on page 5)

- As with the standby charge benefit, the employer is required to remit GST/HST on the amount of the operating costs reimbursed by an employee. However, no GST/HST is required to be remitted by a GST/HST registrant that is:
  - an individual or a partnership if the vehicle is used less than 90% in commercial activities; or
  - not an individual, partnership or financial institution if the vehicle is not used primarily in commercial activities.
- In Ontario, the rate is:
  - 9% for employers that are not large businesses and therefore are not required to recapture ITCs; and
  - 6% for employers that are large businesses and therefore are required to recapture ITCs.

### Example

An employee in Manitoba drives an employer-provided automobile 12,000 personal-use kilometres in 2012.

Result:

Employer's GST liability:

3% x operating cost benefit before reimbursements

3% x (12,000 x 26¢<sup>1</sup>) = \$93.60<sup>2</sup>

- 23¢ for persons employed principally in selling or leasing automobiles.
- The employer must remit this amount with the GST/HST return for the period covering February 28, 2013. If the benefit is provided to a shareholder, the deadline is the last day of the corporation's taxation year.

## Reimbursements

Employers will be entitled to claim ITCs in respect of reimbursements for automobile expenses paid to an employee. The employer is deemed to have paid GST/HST equal to:

GST or HST paid by the employee	x	The lesser of:
		<ul style="list-style-type: none"> <li>the percentage of the total expense that is reimbursed; and</li> <li>the percentage for which the property or service that gave rise to the expense was acquired for use in relation to activities of the employer.</li> </ul>

Consequently, a full (i.e., 100%) ITC for the GST/HST paid in respect of a reimbursement made to an employee is available only if the employer reimburses 100% of the expense (and the employer is engaged exclusively in commercial activities). When the reimbursement is less than 100% of the expense, the ITC is pro-rated based on the percentage of the cost that was reimbursed.

Employers may claim ITCs equal to:

- the tax deemed to have been paid (as determined above); or
- the reimbursement (subject to the 50% limit applicable to meal and entertainment expenses) multiplied by the following factors:
  - for GST, 4/104; or
  - for HST:
    - 11/111 for British Columbia;
    - 12/112 for New Brunswick, Newfoundland and Labrador and, Ontario; and
    - 14/114 for Nova Scotia.

Employers in British Columbia and Ontario can continue to claim ITCs equal to the tax deemed to have been paid (subject to the ITC recapture rules for large businesses discussed on [page 22](#)).

The method used to claim ITCs (i.e., i or ii) must be used consistently within each expense category. Both methods are illustrated in the following example for GST purposes.

### Example

Expenses incurred by employee	
\$350 + \$17.50 GST + \$24.50 PST (7%)	\$392
Percentage which the expense was acquired for use in relation to the employer's activities	80%
Employer reimburses employee	\$300

Results:

The employer is deemed to have paid tax equal to \$17.50 x the lesser of:

- 300/392 = 77%; and
- 80%

= \$17.50 x 77% = \$13.48

The employer can claim an ITC equal to the deemed tax paid (\$13.48); or 4/104 of the \$300 amount reimbursed (\$11.54).

Clearly, in this example the employer will prefer to claim an ITC equal to the deemed tax paid.

Employers in British Columbia or Ontario that are large businesses are required to recapture input tax credits on reimbursements that are subject to the recapture rules (see [British Columbia and Ontario – GST/HST on page 22](#)).

## Allowances

Employers will be entitled to claim ITCs in respect of automobile allowances paid to employees that are reasonable (i.e., non-taxable to the employee) and deductible to the employer.

The ITC claimable for expenses subject to GST is equal to 5/105 of the allowance paid. If all or substantially all of the supplies for which the allowance was paid were made in the respective province, the ITC claimable for expenses subject to HST is equal to the allowance paid multiplied by the following factors:

- 12/112 for British Columbia;
- 13/113 for New Brunswick, Newfoundland and Labrador Ontario; and
- 15/115 for Nova Scotia.

The minimum documentation that must be maintained by the employer to substantiate ITCs on allowances paid is:

- the name of the employee receiving the allowance;
- the nature of the allowance paid;
- the reporting period in which the allowance was paid;
- the total amount of the allowance paid to the employee;
- the total GST/HST deemed to have been paid in respect of the allowance; and
- the name and GST/HST registration number of the employer paying the allowance.

Normally, this information is contained in expense reports.

If an employee is paid a combination of a flat-rate and reasonable per-kilometre allowance, or any other personal reimbursement such as a fuel card, that cover the same use of the vehicle (see [page 11](#)), the employer will not be able to claim ITCs on the allowances. The employer should be entitled to claim an ITC on the fuel card reimbursement provided the conditions for reimbursements are met.

Employers in British Columbia and Ontario that are large businesses are required to recapture input tax credits on allowances for the use of a motor vehicle.

## British Columbia and Ontario — GST/HST

### Recapture of input tax credits for large businesses

Large businesses in British Columbia and Ontario are required to recapture ITCs for the provincial component of the HST (7% in British Columbia and 8% in Ontario) on:

- automobiles and other road vehicles weighing less than 3,000 kilograms that are licensed or required to be licensed for use on public roads;
- parts and services for these vehicles that are acquired within the first 12 months following the date of acquisition of the vehicle (parts and service for routine maintenance are excluded from the restriction); and
- fuel to power these vehicles (Ontario only; British Columbia provides a point of sale rebate for the 7% provincial component of the HST for motor fuel).

This restriction will apply until July 1, 2015, after which it will be phased out over three years.

The recapture of input tax credits will not apply to goods or services acquired for the sole purpose of being resupplied.

An employer is a large business during a recapture period (July 1 to June 30) if its total revenue, including the revenue of associated companies, from GST/HST taxable supplies (excluding exempt supplies) other than the sale of capital real property, the supply of financial services and certain consideration received in respect of goodwill, exceeds \$10 million, in the last fiscal year before the recapture period.

### Input tax credits for small or medium-sized businesses

Employers that are small or medium-sized businesses in Ontario and British Columbia will continue to claim ITCs for the GST/HST paid on the purchase or lease of cars used in their commercial activities. See [Input tax credits on page 19](#).

## Appendix G

### Employer-supplied automobiles—QST

This Appendix provides an overview of the Quebec sales tax (QST) concerns facing employers that provide employees with company cars. Generally, these rules also apply when a car is provided to a shareholder. QST concerns of employees are briefly discussed on [page 10](#). A partnership is not required to remit QST on the taxable benefit arising when an employee is provided with an automobile owned by the partnership, unless the vehicle is used exclusively in the commercial activities of the QST registered partnership.

#### Overview

The QST functions essentially the same as the federal GST/HST, although there are some differences. The QST rate is 9.5% (8.5% for 2011). Because it is applied to the price inclusive of the GST, the effective rate for both taxes is 14.975% (13.925% for 2011). In addition, Quebec has agreed in principle to harmonize the QST with the GST on January 1, 2013 (the target implementation date), at which time the harmonized rate will be 14.975%.

#### Input tax refunds

Large businesses (defined for QST purposes, in general, as having more than \$10,000,000 of taxable sales in Canada during the previous fiscal year), and certain specified businesses, all referred to below as “large businesses,” are not entitled to claim input tax refunds (ITRs) for QST on automobiles under 3,000 kilograms licensed for highway use, or on fuel for these automobiles. Small and medium-size businesses may be entitled to claim ITRs up to the following maximum values:

- the prescribed amount for Quebec CCA purposes, excluding GST and QST (i.e., \$30,000); or
- the monthly lease limit, excluding GST and QST (i.e., \$800).

#### Standby charge and operating cost benefits

Large businesses, as defined for QST purposes, are not required to remit QST on automobile benefits related to automobiles and fuel for which they are denied ITRs. Small and medium-sized businesses (and large businesses that claimed ITRs on QST paid in respect of a “prescribed new hybrid vehicle” acquired or leased for at least one year, after June 26, 2007, and before 2009) must remit QST on the standby charge and operating cost benefits, as follows:

	QST to remit on the standby charge and operating cost benefits	
Standby charge benefit	$9.5/109.5^1$	x Standby charge benefit before reimbursements
Operating cost benefit	$6\%^2$	x Operating cost benefit before reimbursements

1. The rate factor was 8.5/108.5 for 2011.

2. The rate factor was 5.4% for 2011.

**Example**—For small or medium-sized businesses<sup>1</sup>

An employee uses an employer-leased automobile with the following facts for 2012:

Personal-use kilometres	50,000 km
Use in commercial activities	> 90%
Monthly lease cost	\$ 700.00
GST (5%)	\$35.00
QST (9.5%)	\$69.83
Monthly total	<u>\$ 804.83</u>

Results:

Employer's ITCs:

Deductible lease cost (excluding tax)	\$700.00
GST ITC (\$700 x 5%)	35.00
QST input tax refund (\$700 + \$35) x 9.5%	69.83

Employer's QST liability on standby charge benefits:

$$9.5/109.5 \times \text{standby charge before reimbursements}^2$$

$$9.5/109.5 \times (\$804.83 \times 12 \times 2/3) = \$558.60$$

Employer's QST liability on operating cost benefit:

$$6\% \times \text{operating cost before reimbursements}$$

$$6\% \times (50,000 \times 26\text{¢}^3) = \$780.00$$

- For a large business that is excluded from the requirement to remit QST (other than on standby charge and operating cost benefits with respect to a “prescribed new hybrid vehicle”), the GST input tax credit would still be \$35.00, but the QST input tax refund, QST liability on the standby charge and QST liability on the operating cost benefit would all be nil.
- The example assumes there is no reduction to the standby charge for low personal use.
- 23¢ for persons employed principally in selling or leasing automobiles.

#### Reimbursements and allowances

Small and medium-sized businesses may determine the ITR related to allowances as 9.5/109.5 (8.5/108.5 for 2011) of the allowance paid.

If these businesses reimburse employees and the employer is engaged exclusively in commercial activities, an ITR may be claimed equal to:

- A x B, where A is the actual tax paid and B is the lesser of:
  - the percentage of the total expense reimbursed; and
  - the percentage the property or service was acquired for use in relation to the activities of the employer; or
- 9/109 of the reimbursement (8/108 for reimbursements incurred in 2011), subject to the 50% limit applicable to meal and entertainment expenses.

The method used to claim ITRs (i.e., i or ii) must be used consistently within each expense category.

Large businesses generally cannot claim an ITR for allowances and reimbursements paid to employees in respect of the use of an automobile. This restriction applies if the business reimburses or pays the allowance to the employee, other than through an expense report.

Under an alternative “quick method” that may be used by large businesses when the employee files an expense report, the ITR is estimated at 5% (4.5% for expenses incurred in 2011) of the taxable amounts reimbursed. The rate of 5% can be applied to all expenses, even those not normally eligible for the input tax refund (e.g., motor vehicles, fuel, etc.) and to reasonable allowances for such expenses.

A large business, including its branches and divisions, that uses the 5% rate is required to apply the rate to all employees and all expenses that are reimbursed through expense reports.

If an employee is paid a combination of a flat-rate and reasonable per-kilometre allowance, or any other personal reimbursement such as a fuel card, that cover the same use of the vehicle, the employer will not be able to claim ITRs on the allowances. The employer should be entitled to claim an ITR on the fuel card reimbursement provided the conditions for reimbursements (as noted above) are met.

## Appendix H

### Self-employed individuals —GST/HST and QST

#### GST/HST

The following table illustrates the extent to which self-employed individuals may claim ITCs in respect of the cost of purchasing or leasing an automobile.

		Entitlement to ITCs
Use in commercial activities	≥ 90%	100%
	> 10% and < 90%	5/105 (for GST) or 13/113 (for HST) <sup>1</sup> x CCA claimed x % used in commercial activities
	≤ 10%	0%

1. The 13/113 factor applies in New Brunswick, Newfoundland and Labrador and Ontario. The factor is 12/112 for British Columbia and 15/115 for Nova Scotia.

Self-employed individuals in British Columbia or Ontario that fall within the category of a large business are restricted from claiming ITCs on the provincial component of the HST for vehicles acquired or leased after June 30, 2010. See **British Columbia and Ontario—GST/HST** on [page 22](#).

For passenger vehicles acquired or leased in 2012, the maximum value on which an ITC may be claimed is:

- the prescribed amount for CCA purposes, excluding GST/HST and PST (i.e., \$30,000); or
- the monthly lease limit, excluding GST/HST and PST (i.e., \$800).

See [Appendix C](#) for the limits that apply for vehicles purchased or leased before 2012.

If the commercial use of the vehicle exceeds 10%, a self-employed individual may also claim ITCs on automobile operating costs to the extent of the use of the vehicle in commercial activities.

#### QST

Self-employed individuals who qualify as a small or medium-sized business for QST purposes are entitled to claim input tax refunds (ITRs) on the purchase or lease of a vehicle to be used in commercial activities. The maximum amount on which ITRs may be claimed appears to be the same as the maximum on which ITCs may be claimed (see above).

Self-employed individuals may also claim ITRs on automobile operating costs to the extent that the vehicle is used in commercial activities.

## PwC contacts

For more information on how these rules affect you or your company, please contact your PwC adviser or any of the following individuals.

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1. Member of PwC's Canadian National Tax Services (see [www.pwc.com/ca/cnts](http://www.pwc.com/ca/cnts)).

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