

Business travel logs: Don't leave home without one

In October I wrote about how to deduct expenses for the business use of your personal car, pick-up, or van. The "service vehicle" is a red-flag item for Canada Revenue Agency, so you need to know how to make claims that will stand up in the event of an audit.

I want to build on last month's column because I get a lot of questions about "company cars" as we approach the end of the year. The big issue has nothing to do with what type of expenses you can write off or whether it's best to lease or own a vehicle. The number one reason claims are denied is for failure to log business-related travel.

Whether you buy or lease, whether the vehicle belongs to your company or to you personally, CRA needs an accurate record of the total number of kilometres you drive in a year as well as the date, destination,

Tax Talk

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purpose, and the distance in kilometres for each business-related trip. Without it, your audit report letter will read like this: "As no mileage log was kept, your total kilometres to date was used for calculation of personal kilometres."

That's bad. Because you can't prove that your vehicle was used for business, all your kilometres are deemed to be personal and your service vehicle expense claims will be denied. Since CRA can audit three years at a time, you may lose three years of claims.

You'll also lose the GST/HST in-

put tax credits on those expenses. This includes the GST/HST in your lease payments, purchase price, gas, repairs, etc. which can be refunded to you at the percentage of business use. You may have to pay back part of your GST/HST refunds.

If you're a sole proprietor buying a new service vehicle, you can claim 100% of the GST/HST immediately on your next return if you can show that the vehicle is used for business 90% of the time. If the business use is less than 90%, you have to calculate the GST/HST included in the depreciation of the vehicle each year and claim it back over time. Don't count on that GST/HST being refunded on your service vehicle purchase unless you are prepared to prove 90% or more business use.

If you're an incorporated owner/operator whose company buys or leases the service vehicle, then a

travel log is even more crucial. Like a sole proprietor, you too can lose the business expense claim and have to pay more tax (in your case, corporate tax). You also can lose the right to claim GST/HST and have to pay it back.

The 'taxable benefit' trap

If your company leases or owns the vehicle, there's the added risk of having a taxable benefit applied to your personal income. CRA uses two factors to calculate the taxable value of the company car: a "standby" charge plus an "operating expense benefit."

The standby charge represents the benefit the employee enjoys when the automobile is available for his personal use. If your company leases the vehicle, the standby charge is two-thirds of the cost of the lease. If it owns the vehicle, the standby charge is 2% of the vehicle's cost to the company. If the cost of the vehicle is \$40,000, including taxes, the standby benefit is \$800 per month. When an employer pays operating expenses incurred for personal use (including gas and oil; maintenance and repairs; insurance; and licences), this also constitutes a taxable benefit to the employee.

Corporation owners can be hit with double taxation. Without a log to validate the business use of the vehicle, your corporation won't be able to deduct expenses, and you personally will pay more tax because the taxable benefit of using the company car will be added as income on your T4.

A simple logbook

So there's a lot at stake. One owner/operator I know had an auditor question his use of the family pick-up to visit a truck show in Quebec, where one of his vehicles was competing in a show-and-shine. The owner/operator loaded up his wife and kids in the pick-up for the long drive from Ontario. CRA questioned the expense and gave the owner/operator a week to prove the trip was for business. Trouble was, the owner/operator's log was weak, and the show-and-shine was from two years ago.

So he and his wife rebuilt two years of logs. They went through fuel receipts, bank records, carrier meeting notices – anything to help them recall what business trips they made. Thank goodness they kept the truck show tickets and entry forms to prove the purpose of this trip so that the gas, hotels, and meals could be expensed. On a side note, the auditor did not allow hotel and meal expenses for the wife and kids, as they were considered personal.

So keep your travel log current. The simple act of writing down your business trips is vital to making valid expense claims. □

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