

Deducting the use of a car, van or pick-up for business

I get the buy-versus-lease question a lot, but last month someone asked what I thought about leasing a new pick-up truck. The guy planned to use it “mostly for business” and wanted a service vehicle he could write off.

Whether it’s a trip to your accountant or a visit to a truck show, sometimes it just makes sense to use your car, truck, or van for business, and Canada Revenue Agency has rules about deducting expenses for business-related use of the vehicle.

Unfortunately, lots of people don’t take the necessary steps to back up their claims. Ask anyone who has been audited and I guarantee that CRA popped the hood on their service vehicle expense claim.

So here’s what you need to know to make a claim that will stand up in the event of an audit.

What is a service vehicle?

When it comes to tax deductions, CRA doesn’t even define what a “service vehicle” is. The agency has only two vehicle classifications: motor vehicles, defined as any automotive vehicle used on highways or streets; and passenger vehicles, any automotive vehicle designed primarily to carry people on highways or streets. In either case, you can deduct similar types of expenses: licence and registration fees; fuel costs; insur-

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ance; interest on money borrowed to buy the vehicle; maintenance and repair cost; and your lease payment or capital cost allowance (CCA or depreciation). The expenses must be reasonable and you need to have receipts to support them.

But let’s get this straight: you have to show that you spent the money as part of your business operations.

It doesn’t matter what type of vehicle you have, or how you finance it. You can deduct these expenses or a percentage thereof only if the expense was incurred to earn income.

Support the claim

To support your claim, you must keep a record of the total amount of kilometres you drive in a year (e.g. your odometer readings on January 1 and December 31). Then, each time you use the vehicle for business, list the date, destination, purpose, and the number of kilometres you drive.

Now you can determine the percentage of business use to be applied against your expenses.

Divide your business-use kilometres by your total kilometres for the year, giving you anywhere from 1% to 100%. If you can’t produce a journal or log detailing the business use of the vehicle, validating that percentage figure, CRA can deny or reduce your claim.

Valid trips

There are all kinds of reasons to use your service vehicle for business, from a revenue-producing courier delivery to a trip that involves banking, a trip to the parts store, or a meeting with your carrier. What’s not valid is the drive from home to your truck. This is considered commuting – a personal trip.

I’ve argued this with CRA numerous times, using the logic that since the business office is in the home, then driving from the “office” to a work site is business travel.

I don’t think I’m wrong, but I haven’t found an auditor yet who has bought the argument.

Financing

If your vehicle is categorized as a “passenger vehicle,” your claim for your financing expense (i.e. your lease payments or CCA and interest costs) has maximum limits. Lease payments can’t exceed \$800 per month. If you purchased the vehicle, the cost can’t be more

than \$30,000. If the vehicle cost more, you can only add \$30,000 plus the appropriate taxes (PST, GST, or HST) onto your CCA schedule.

The other cost of purchasing – interest on your loan – is limited to \$10 per day.

So if you own the vehicle for the entire year, \$3,650 is the maximum claim.

If you own it for less, you must prorate the interest expense claim for the appropriate number of days.

CRA’s guide, *T4002 Business and Professional Income*, is a great reference on motor vehicle expenses (look for it online at www.cra-arc.gc.ca).

Note how many times they mention supporting claims with a detailed record.

Don’t wait to hear it again from an auditor.

And don’t listen to what your buddy says about how he’s able to write off his car or pick-up. Talk to your accountant about how to make a valid service vehicle claim. □

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