

Canadian Tax Planners Newsletter

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In this edition of the Canadian Tax Planners Newsletter, we shall review the Department of Finance's update on automobile expenses and allowances for 2008, plus examine the tax implications of non-traditional work relationships. Many firms are challenging the assumption that they require long term full time employees. In an attempt to reduce labour costs and increase flexibility, greater utilization has been made of contract staff, part timers, agents, sub-contractors and individuals from employment agencies. An increasing number of employers and employees consider the concept of "cradle to grave employment" to be outdated.

2008 Automobile Expenses

The Department of Finance has released the automobile deduction limits and expense benefit rates for 2008. The rules for the current year are:

- the maximum claim for capital cost allowance will remain at \$30,000 per year plus applicable GST and PST
- the limit on leasing costs will remain at \$800 per month plus applicable commodity taxes
- the maximum interest deduction on a loan to acquire a vehicle is \$300 per month
- the maximum tax free allowance that can be paid to employees for the business use of their personal vehicle is increased from 50 to 52 cents on the first 5000 km driven. The amount is 56 cents in the Yukon and NWT
- after the first 5000 km, the maximum tax free payment is 46 cents per business km driven
- for each personal km driven in a company vehicle, individuals receive a taxable benefit of 24 cents per km. This amount is reduced by any

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- reimbursement made by the employee. In 2007, the taxable benefit was calculated at a rate of 22 cents per personal km driven

Note – The Department of Finance released the automobile deduction limits and expense benefits rates on December 24, 2007. The timing of this release makes it difficult for employers to make any necessary changes before the start of calendar 2008. It would make the administrative effort significantly simpler, if these rates could be released by the end of November, rather than posting the new rates on the Finance web site on the day before Christmas.

Non-Traditional Work Relationships

In order to reduce costs and increase flexibility, employers have the option of replacing full time employees with various categories of non-traditional workers. This strategy offers a number of tax planning opportunities and potential tax traps. We shall review the following issues as they relate to non-traditional work relationships:

- nightmare scenario for employers
- classification of workers
- defining employee status
- payroll taxes
- compensation for “non-traditional” employees
- tax planning for individuals that do not qualify for employee status

Nightmare Scenario for Employers

Consider the following real life example. An employer wishes to reduce payroll costs and decides the next hire will not be offered employee status. The individual is offered a job as a consultant with a fixed two year term. Both parties agree the new hire is an independent contractor and will be classified as self-employed. A contract is signed and both parties acknowledge the new hire will not have employment status. Employers may like such an arrangement as they do not have to pay Canada Pension Plan, Employment Insurance, health care taxes, or worker’s compensation based on amounts paid to the new hire. Given there is a fixed term, the employer can end the arrangement after two years without paying termination costs. Over the course of the contract, the employer can monitor the individual’s performance and a full time job can be offered if both parties agree. The new hire is satisfied as the individual not only acquires a job, but the self-employed status allows a potential tax deduction for various business expenses, such as an office in the home and vehicle expenses getting to and from work.

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