

# Canadian Tax Planners Newsletter

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In the previous edition of the Canadian Tax Planners Newsletter, we reviewed tax issues related to an individual's use of an automobile. In this issue, we shall review the taxation of automobiles from the employer's perspective. Topics to be reviewed include:

- lease vs. purchase decisions
- avoiding the interest restriction rules
- designing a company car plan

To summarize the key points from our last newsletter, if employees use their personal vehicle for company business, employers should normally pay a reimbursement that does not exceed CRA's annual guidelines. Currently the rates are

- 50 cents for the first 5,000 km.
- 44 cents for each additional kilometre driven
- the rate is 4 cents higher for driving in the Yukon, North West Territories and Nunavut.

When employers select a reimbursement policy, there is no requirement that all employees receive the same rate. For example, executives could be reimbursed at 50 cents per km and other employees could receive 27 cents. One of the corporate objectives is to establish a rate that ensures employees are willing to use their personal vehicles for company business. If the rate is considered inadequate, employers may have to invest in company vehicles or the use of rental vehicles for incidental business driving.

## Lease vs. Purchase

If a company acquires an automobile, they have the option of leasing or purchasing a vehicle. The choice is primarily a financing decision as the tax rules were

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drafted to be neutral; thus the company's decision to purchase or lease should not be influenced by tax considerations. Let's review the income tax implications of purchasing or leasing a company vehicle.

*Purchasing a Vehicle* - If a company purchases a vehicle, it may deduct operating expenses such as insurance, gasoline, repairs, maintenance and capital cost allowance. These amounts are deductible, even if they relate to the personal driving of an employee. If the purchase price of a passenger vehicle is less than \$30,000, the capital cost allowance (CCA) rules are quite straightforward. Vehicles are included in class 10 and the annual write-off is 30%, on a declining basis. In the year of acquisition, the write-off is 15%. Thus, it is more tax effective to purchase a vehicle in the last month of an employer's fiscal year, rather than acquiring the vehicle in the first few months of the next fiscal period.

If the purchase price of the passenger vehicle exceeds \$30,000, the rules become more complex. Factors to consider include:

- the maximum amount on which capital cost allowance can be claimed is

$\$30,000 + \text{PST} + \text{applicable GST}$

- if the PST rate was 10%, the threshold amount would be  $\$30,000 + \$3,000 = \$33,000$ . If the vehicle cost less than \$33,000, it would qualify as class 10 and no portion of the CCA would be disallowed
- the GST and PST calculations are based on the \$30,000 limit. For example, if a passenger vehicle cost \$50,000 and the PST rate was 10%, \$3,000 rather than \$5,000 of provincial sales tax would be added to the cost of the vehicle
- the expression "applicable GST" is important. If a company is registered under the GST legislation, they would receive an input tax credit and recover the GST paid on the purchase. As a result, there is no GST to include in the calculation of the "threshold amount." Companies that are not registered under the legislation, or are not allowed to claim a full input tax credit, would include any non-recovered GST in the cost of vehicle
- if the cost of the passenger vehicle exceeds the threshold amount i.e. \$30,000 plus PST and applicable GST, the vehicle is put in a separate CCA class 10.1. Thus, if a company had 35 vehicles and 15 had a cost in excess of the threshold amount, 20 vehicles would be in class 10 and there would be 15 separate 10.1 CCA classes
- only the "threshold" amount is added to class 10.1 as the excess costs become non-deductible

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