

Automobile Benefit and Expense Provisions

DIN0578-0804

THE AUTOMOBILE STANDBY CHARGE

For many years, the Canadian Federation of Independent Business has called on the federal government to create fairer and simpler rules concerning automobile benefit and expense provisions. This is because our members, small- and medium-sized businesses, say these types of regulations are complex and create a costly administrative burden.

One of the first automobile benefit provisions highlighted by CFIB was the standby charge, which represents the taxes paid by an employee who has a company car that is also driven for personal use.

In Budget 2003, after listening to CFIB's concerns, the federal government announced a specific change to the standby charge that saves business owners and their employees an estimated \$20 million per year. The change is simple: it raised the limit on personal driving, thereby reducing the taxes of anyone in the business that has a company vehicle.

When does the automobile standby charge apply?

As an employer, if you provide a vehicle to your employee for work purposes and the employee is allowed to also use the vehicle for personal use, the standby charge must be calculated. This is because the personal use of an employer-provided vehicle is considered a taxable benefit to the employee. The standby charge calculates the taxable benefit amount an employer must report on the employee's T4 or T4A slip.

Calculating the standby charge

The calculation of the standby charge is based on the following:

- The purchase cost or lease cost of the automobile;
- The number of days the automobile is made available to the employee and;
- The actual extent of personal use.

Prior to Budget 2003, the standby charge was assessed once personal usage exceeded 10 per cent and was added to personal income, resulting in a punitive tax bite. For example, if an employee drove an owned company vehicle less than 90 per cent for business purposes, they were assessed a standby charge of two per cent of the original cost of the vehicle per month against their top income bracket. If an employee drove a leased company vehicle less than 90 per cent for business purposes, they were assessed a standby charge of two-thirds of the monthly lease payment against their top income bracket.

A reduced standby charge applied if total personal kilometres for the year were less than 12,000, but the business use of the automobile still needed to be at least 90 per cent.

Vehicle Leased Example:	Vehicle Owned Example:
Monthly Lease = \$600 Business/Personal = 62.5% Standby Charge = \$400 Taxes @ 40% = \$160.00 Yearly = \$1,920	Value of Vehicle = \$27,000 Business/Personal = 62.5% Standby Charge = \$540 Taxes @ 40% = \$216.00 Yearly = \$2,592

In Budget 2003, the kilometre limit on personal driving was increased from 12,000 km to 20,000 km, or 1,667 km per month. In addition, the requirement on the employee's business use of the company-provided automobile was relaxed from "at least 90 per cent" to "more than 50 per cent." This resulted in substantial savings in personal income taxes for anyone in the business with a company vehicle.

Vehicle Leased Example:	Vehicle Owned Example:
Monthly Lease = \$600 Business/Personal = 62.5% Standby Charge = \$400 Reduction Ratio = 75% (Personal km/20000 km) Reduced Standby = \$300 Taxes @ 40% = \$120.00 Yearly = \$1,440	Value of Vehicle = \$27,000 Business/Personal = 62.5% Standby Charge = \$540 Reduction Ratio = 75% (Personal km/20000 km) Reduced Standby = \$405 Taxes @ 40% = \$162.00 Yearly = \$1,944
Savings = \$480	Savings = \$648

To help you calculate the automobile standby benefit, consult the Canada Revenue Agency at: www.cra-arc.gc.ca/tax/business/topics/payroll/benefits/automobile/benefits/calculating-e.html

THE AUTOMOBILE EXPENSE DEDUCTION

Another headache involved with driving a vehicle for both business and personal purposes is the need to keep a mileage log. Such a log must be kept to claim a deduction for expenses involved in operating the vehicle for business purposes.

In Budget 2007, after listening to CFIB's concerns, the federal government committed to revisiting the automobile expense deduction. To support the process, CFIB asked its members for more detail on their experiences with the deduction. We received 7,600 survey responses in one week, with the majority pointing to the mileage log as the most problematic issue.

Faced with this type of response, in Budget 2008 the government agreed that a log could be kept for a "sample period of time," instead of the full year. The budget stated that: *"The CFIB has indicated that its members have identified the requirement to keep a logbook as the most burdensome aspect of the motor vehicle tax provisions."*

The government has also committed to working with CFIB to fine-tune the changes, which will take effect in 2009. Stay tuned to www.cfib.ca for more information.

If you have any questions, suggestions or would like more information, please contact our member services counsellors at ms.canada@cfib.ca