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## **Automobile Benefits and Standby Charges**

### **Personal Use of Company Owned Vehicles**

The rules regarding personal use of a company vehicle have been around for a long time and can have a big impact on small owner-managed businesses. These rules apply the same for a small company with only the owner and a few employees and any large corporation with thousands of employees. Often owners of small businesses like to hold their vehicles in their company, as a lot of their travel has to do with their business. However, the small business owner is treated the same as any employee of any corporation. Generally, the rule is if your employer (the company) provides you with an automobile for carrying out your duties of employment, there is a taxable benefit to you. For this benefit to be calculated, you are required to track your kilometres driven for both personal and total use of the vehicle.

The tax department's definition of a vehicle that falls under these rules includes most cars, mini-vans, and SUV's. A common exception to this is a pick up truck that has the seating capacity for the driver and only two passengers and it is used over 90% for business purposes. So this would include your basic pick up with a bench. Any truck with an extended cab and seating behind the driver would again be subject to the automobile benefit rules.

There are two components to the automobile benefit: The standby charge and the operating cost benefit.

#### **Standby Charge**

The standby charge is a benefit of having a company owned vehicle available for personal use. The benefit is based on the purchase price or lease cost of the vehicle, as well as the business and personal kilometres driven. The full standby charge is 2% per month of the vehicle's original cost. Even if the vehicle is several years old, and its value has decreased, the benefit is still calculated on the original purchase price. If the vehicle is leased, it is 2/3rds of the monthly lease costs. The benefit is calculated on a daily basis for each day that the vehicle is made available to you for your personal use, regardless of whether or not you use it for personal purposes. Note that a vehicle driven only during business hours and left at the employer's place of business during non-business hours is considered not available for your personal use and consequently, there is no benefit. If it is taken home at night, it is considered available for personal use. Note also, that travel from home to your workplace or vice versa is considered personal, not business use. The basic standby charge on a vehicle costing \$35,000, available 365 days a year would be \$8,400. ( $\$35,000 \times 2\% \times 12 = \$8,400$ )

There is a reduction in the standby charge if your total personal driving is less 50% of the total use and is also less than 20,000 km per year. In this case you would get a reduced standby charge based on the percentage that your personal distance traveled is of 20,000 km. For example if total use was 30,000 km and personal use was 7,500 km (25%), the basic standby charge from the previous paragraph would be adjusted to \$3,150. ( $7,500/20,000 \times \$8,400$ ) Of course, you will have to track your kilometres driven to support the reduction.

#### **Operating Expense Benefit**

If the company pays any operating expenses of the vehicle and you have personal use of the vehicle, the company has to charge you an operating expense benefit. The amount of this benefit is calculated at 20¢ per personal km (2005 rate). Note that this amount may bear no relationship to actual operating expenses of the vehicle. You can reduce the benefit by reimbursing the company. Any reimbursements must be made within 45 days of the end of the calendar year. If all personal operating expenses are reimbursed to the employer within the period, then no benefit is charged.

If business driving is more than 50% of the total, you have the option of basing your operating cost benefit on 1/2 of the standby charge described above. You must notify your employer before the end of the taxation year, if you wish to use this method.

The company must report both these benefits on your T4 at year-end and withhold taxes against the benefit throughout the year, just as if it was part of your salary. If the company is a GST registrant, it also must charge GST on these benefits (special calculations needed) and remit the GST on their returns.

For 2005, the total taxable benefit on a vehicle costing \$35,000 with total km driven during the year of 30,000 km and business use of 22,500 km (or 75%), available for use 365 days a year, would be \$4,650.

Under the same situation, if the business use was only 15,000 km or 50%, the taxable benefit would be \$11,400.

### **Options**

For the owner of a small company considering a vehicle that will have a good deal of personal driving and family use, it may be more tax effective to purchase the vehicle personally, and collect a tax free allowance for the business use of the vehicle. The company can pay a tax-free allowance of 45¢ / km on the first 5,000 km and 39¢ / km thereafter. Of course again, you will need to keep a mileage log of your business km driven.

One of temptations for a small business owner of purchasing a vehicle through their company, is being able to claim back the GST paid on the vehicle. However, they need to remember that the company will have to charge GST back to the owner on any automobile benefits. Also, the benefit of the GST reimbursement may not outweigh the tax cost of automobile benefits to the owner personally.

Another fact to remember with respect to higher priced vehicles, is that the maximum GST that can be claimed on a passenger vehicle, is based on a purchase price ceiling of \$30,000. This is also the highest value you can use for depreciation of the vehicle for tax purposes.

### **Unincorporated Businesses**

Generally the above rules are for corporations and their shareholders/employees or employees of businesses or partnerships. If you are a self employed businessperson, different rules apply. Self employed individuals who report their business earnings on their personal tax returns still have to track the personal vs. business km's driven in their vehicles. They are still able to deduct vehicle expenses including capital cost allowance (depreciation), but they must prorate this based on the amount of business km's driven over the total km's driven in the vehicle for the year.

If they are GST registrants, they can not claim the full amount of GST paid on a new passenger vehicle purchased, but must instead claim the 7% GST input tax credit based on the amount of capital cost allowance they are claiming on their vehicle each year on their personal tax return. They are also limited to a \$30,000 ceiling for GST and capital cost allowance.