

CCA Tax Guide to Employer-Provided Vehicles & Allowances

IMPORTANT: This document is intended as a summary guide on the current rules and regulations respecting the tax treatment of employer-provided vehicles and allowances and should not be solely relied upon as the definitive explanation. Reference should be made in such cases to the pertinent legislation, regulations and CCRA publications. Consult your tax professional.

Benefit vs. Allowance

It is important to make the distinction between a motor vehicle *benefit* and a motor vehicle *allowance*. When an employer makes a motor vehicle available to an employee, the employee is considered to have received a taxable benefit where the motor vehicle is used for personal purposes rather than business purposes. A motor vehicle allowance is any periodic or other payment that employees receive from an employer for using their own motor vehicle in the course of their office or employment, in addition to their salary or wages, where they do not have to account for its use.

Personal Use

Any use of an employer-provided vehicle, (automobile or otherwise), by the employee for personal driving is a taxable benefit.

Personal driving is any driving for purposes other than those of the employer's business and includes:

- Vacation travel;
- Driving in the course of conducting personal business; and
- Travel between the employee's residence and the employee's place of work.

Travel between the employee's personal residence and his or her place of work is considered to be personal driving. It has been the CCRA's long-standing position that an employee receives a taxable benefit when a vehicle or an allowance, (including any refunded expenses such as taxi fares), is provided for driving between home and a regular place of employment.

It is a question of fact whether a particular work location is a regular place of employment. However, any location at or from which the employee regularly reports for work or performs the duties of employment is generally considered a regular place of employment.

An employee may have more than one regular place of employment, which can change from time to time because of the nature of the employment situation.

Example per Income Tax Rulings document no. 2002-0177055 - Company A employs district managers who are responsible for visiting retail stores within their respective region on a regular basis. They also must report once a week to a home store where they have an office. The company provides the managers with a vehicle to be used in performing their duties. The managers travel between their residence and the various

store locations within the region, including the home store.

CCRA determined that each of the regional stores, including the home store, is considered to be a regular place of employment for the district managers. Consequently, all travel between their home and each location is considered personal.

This reasoning was also applied to situations where construction workers went from one job site to another. It was decided that the travelling from home and back to a construction site was a taxable benefit.

A taxable benefit is deemed to be received even when the employee is required by the employer to drive an automobile home for any one of several reasons, such as the employee is on 24-hour call, the employer feels the security of the vehicle and contents is better served at the employee's residence, it is more convenient or economical for the automobile to be driven home, etc.

Exemptions

A taxable benefit is not received when the employer:

1. requires or allows the employee to proceed directly from home to a point of call, other than a regular work place (a salesman visiting customers). This does not include driving from home to a job site if it is the settled (regular) work place.
2. provides the employee with transportation from pick-up points to the job location because of security or other reasons, or because public vehicles or private vehicles are not allowed nor are they practical at the employment location.
3. provides a reasonable mileage allowance or taxi fare where
 - employees work at least three hours overtime immediately following the normal hours of work;
 - public transport is not available or the physical safety of the employee is at risk; and
 - the occurrence of such overtime is occasional rather than the rule.

Note: if working overtime becomes the rule, the employer-provided taxi fares and the mileage allowances become a form of additional remuneration and constitute a taxable benefit.

4. provides free or subsidized transportation between a special work site or a remote work location and the employee's principal residence. For more information, see section 2.2 in the Employers' Guide - Taxable Benefits 2002-2003 (T4130).

Both the employer and the employees should keep records of automobile use. The business and personal use portions of the total kilometres driven in a calendar year by an employee, or a person related to the employee, must be identified.

The determination of the taxable benefit that accrues to the employee as a result of the personal use of the employer-provided vehicle is different depending upon whether the vehicle is an automobile or not, within the meaning of the *Income Tax Act*.

Definition of an “Automobile”

An “automobile” is defined in the Act as:

“A motor vehicle that is designed or adapted primarily to carry individuals on highways and streets and that has a seating capacity for not more than the driver and eight passengers but does NOT include:

- An ambulance;
- A taxi, a bus or hearse;
- A van, pick-up truck or similar vehicle that either
 - was used 90% or more, in the taxation year in which it was acquired, for the transportation of goods, equipment or passengers in the course of producing income;
 - or
 - was used more than 50% for such purposes in the taxation year in which it was acquired, if it has a seating capacity for not more than the driver and two passengers.

Given the foregoing, a pick-up truck or van with a super cab or extended cab would be considered an automobile within the meaning of the Act if it had:

- a seating capacity of 3 or less, which is used **less** than 50% for the transportation of goods or equipment for business purposes; or
- a seating capacity greater than 3 that is used **less** than 90% for the transportation of goods, equipment or passengers for business purposes,

Removing the back seats from a van or other vehicle will not by itself get around the “seating” definition, if the vehicle was originally manufactured to accommodate more than two, (no more than 8), passengers in addition to the driver.

NEW: - The **2003 Federal Budget** proposes to add a further exclusion from the definition of an automobile. It will exclude pick-up trucks from the definition of an automobile if they are:

- used primarily, (more than 50%), for the transportation of goods, equipment or passengers in the course of producing income; **and**
- are used at a remote location or a special work site that is at least 30 kilometres away from any community having a population of at least 40,000 people or more.

This Budget change essentially allows pick-ups with extended or super cabs that would not have otherwise been excluded from the automobile definition on the basis of their passenger capacity to be excluded if they are engaged for business purposes at remote or non-urban special sites. This avoids the standby charge and operating cost benefit charge that apply to employee personal use of employer-provided automobiles described below. There can, however, contrary to popular belief, still be personal use/taxable benefits associated with non-automobiles, (e.g. vans and pick-ups), but that benefit is calculated differently.

Calculating the Taxable Benefit for Employer-Provide “Automobiles”

The taxable benefit where the vehicle provided by the employer is an automobile is generally the total of the following:

- The *standby charge* portion for the year; and
- The *operating cost benefit* for the year, less any reimbursement made by the employee.

The *standby charge* represents the benefit an employee enjoys when having an employer-provided automobile available for personal use. It only applies to automobiles. A different method is used to calculate the employee/personal benefit for employer-provided vehicles that are not automobiles (see below).

The standby charge method of calculation depends on whether the automobile is owned or leased by the employer.

The standby charge for an *automobile* that is owned by the employer is 2 percent of the *capital cost* of the automobile for each 30 day period the automobile was available for use by the employee (i.e. usually 24%). For an automobile leased by the employer, the standby charge is 2/3 of the leasing cost, pro-rated for each day in the year the automobile was available to the employee.

Example: The cost of a vehicle/automobile two years ago was \$20,000, plus \$1,400 GST and \$1,600 PST. It is made available to an employee from March 1st to December 31st. The capital cost for the purposes of the standby charge is \$23,000. From March 1st to December 31st there are 306 days. Dividing by 30, there are 10 periods of 30 days (plus 6 extra days which are ignored). The standby charge is $2\% \times 10 \times \$23,000 = \$4,600$.

The standby charge for a vehicle that is leased by the employer is 2/3 of the leasing cost, pro-rated for **each day** in the year the automobile was available to the employee. When calculating the lease cost, any insurance cost in the lease payments is excluded. Included in the lease costs are GST and provincial sales tax.

Example: The cost of leasing an automobile is \$500 plus \$35 GST and \$40 PST per month. The automobile is made available to the employee from March 1st to December 31st. There are 306 days in that period. Dividing by 30 there are 10, 30-day periods. The standby charge is $2/3 \times 10 \times \$575 = \$3,833.33$.

Capital cost means the original purchase price of the automobile, with no reduction or allowance for depreciation, plus any additions after purchase that are added to the capital cost. Included in the capital cost are sales taxes, both federal (GST) and provincial.

The *operating cost benefit* for the year includes such expenses as licenses and insurance, repairs and maintenance, and gas and oil. It may be calculated using a fixed rate pursuant to (cents per kilometre for 2003). The basic rule is that if the employer pays *any* of the operating costs relating to personal use, the benefit is the annual general prescribed rate, (i.e. 17 cents per kilometre for 2003).

Of the 17 cents per personal use kilometre for 2003, 7/107 is considered to be the GST and must be remitted by the employer. It does not affect the employee's taxable benefit.

Automobile Standby Charge where Limited Personal Use

The standby charge for personal use of an employer-provided automobile can be reduced only to the fraction of "personal kilometres" driven by the employee during the days on which the automobile is available to the employee provided all of the following conditions are met:

- The employee is required by the employer to use the automobile in connection with the employment; and
- "Substantially all " of the distance travelled by the automobile during those days is "business use". CCRA generally considers "substantially all" to mean 90% or more; and
- The total number of "personal use" kilometres is less than 1,000 per 30-day period (i.e. 12,000 per year).

NEW: - The **2003 Federal Budget** proposes to reduce the standby charge for the 2003 taxation year and later years if personal driving does not exceed **1,667 kilometres a month**, (i.e. 20,004 kilometres a year) and the automobile is used ***primarily, (more than 50%)***, for business purposes.

Example: An employee drives a vehicle 25,000 kilometres for business and 15,000 kilometres for personal use annually. Because the personal use of the vehicle does not exceed 20,004 kilometres annually and its is used *primarily*, (i.e. more than 50%), for business, the reduced standby charge applies. In this case, the taxable benefit is 75% (15,000 divided by 20,004) of the regular standby charge.

Taxable Benefit Calculation for Non-Automobiles

The standby charge applies to automobiles only. The taxable employee benefit associated with employer-provided vehicles that are not automobiles is essentially the amount an employee would have to pay in an arm's length transaction for the use of comparable transportation, (i.e. fair market value of the actual benefit).

Where the only personal use of an employer-provided vehicle that is not an automobile is to provide transportation between the employee's residence and the place of work, it may be appropriate to calculate the employee benefit in terms of a cents-per-kilometre basis for equivalent transportation.

Automobile Allowances for Business Use of Personal Vehicles

A cash allowance paid by an employer to an employee for using his or her own personal vehicle in the course of an office or employment may be taxable depending upon the type of allowance paid.

If the allowance paid is based solely upon a reasonable per kilometre rate, it is NOT taxable.

CCRA considers an amount to be reasonable only if ALL of the following conditions apply:

- It is based solely on the number of business kilometres driven in a year;
- The per kilometre rate is reasonable; and
- The employer did not reimburse the employee for expenses that relate to the same use, (other than parking, tolls, etc.)

Any allowances based upon a per kilometre rate that CCRA does not consider reasonable because it is too high or too low will be considered a fully taxable allowance. However, if the allowance paid is unreasonably low, an employer may not have to include it in the employee's taxable income provided the employee does not claim reasonable expenses as part of the employee's income tax return.

If the allowance has no real relationship to the number of kilometres driven and is based on a flat rate, the allowance is taxable.

Generally, CCRA uses the rates prescribed in Regulation 7306 as a guideline to determine if the rates are reasonable. The rates for the 2003 taxation year are:

- 42 cents per kilometre for the first 5,000 kilometres; and
- 36 cents for each additional kilometre; and
- an additional 4 cents per kilometre for travel in the Yukon, Nunavut and Northwest Territories.

When an employee receives a reimbursement or an accountable advance for travelling expenses, other than personal expenses, the amount is not considered a taxable benefit.

When an automobile allowance is deemed to be a taxable allowance in the hands of the employee, the amount must be included in the employee's income in the year of receipt. The employee, however, may be able to claim allowable expenses on his or her T1 individual income tax return. Form T2200 – *Declaration of Employment* must be completed for this purpose.

An employee also receives a taxable benefit when an allowance is provided for driving between home and the workplace, since this is considered personal driving as described above.