Claiming Automobile Expenses

Many people use the same car for business and personal travel but the deductible portion of your expenses depends on how much of your driving is for business. The Canada Revenue Agency (CRA) has strict requirements for claiming automobile deductions that are designed to ensure that only true business-related expenses may be claimed. To substantiate your deductions you will have to maintain detailed records of the expenses you incur and the kilometers you drive on income-earning activities. You can keep a log book or record business driving in your appointment calendar. The log must show the total number of kilometers driven and total business kilometers for the year. It should also include the date, destination, distance driven and the reason for each trip. Travel between work and home is normally considered personal use.

If you are self-employed and don't carry on your business through a corporation, you can deduct your business-related car expenses from your business income. If you have a corporation and you own the car you use for business travel, the rules are more complicated as there are several options available for deducting business-related car expenses incurred by you and your employees. For this purpose, we're assuming you're acting in your capacity as an employee or officer of your company.

One option is to have your company reimburse you based on the number of kilometers you drive for business. For 2020, the CRA considers a reasonable amount to be a maximum of 59¢ a kilometer (up from 58¢ for 2019) for the first 5,000 kms driven for business in the year and 53¢ (up from 52¢ for 2019) for each kilometer after 5,000. Your company can deduct the amount of this payment and it will not be considered a taxable employment benefit for you. In some cases, the company may be able to justify a higher amount. However, the company will still only be able to deduct the 59¢ per km, while all of the higher amount will be tax-free for the employee.

As a business owner, you might decide not to have the company reimburse your business-related car expenses. Instead, you can pay those expenses and deduct them from your employment income from the company. This approach can be beneficial because personal tax rates are usually higher than corporate tax rates, making the deduction more valuable to you personally than it is to your company.

For employer and employees, deductible expenses include fuel and oil, maintenance and repair, licence and registration fees, and insurance. You may also be able to claim a rebate of any GST/HST paid on these expenses.

Interest on loans or financing used to purchase the car, leasing costs and capital cost allowance for a car you purchased are also deductible but are subject to limits. Your interest deduction is limited to $300 a month. Deductions for lease payments are restricted to $800 a month, plus GST/HST. The depreciation rate for capital cost allowance is 15% in the year you acquire the car, followed by 30% of the remaining balance in each subsequent year. The rates are different for zero emission vehicles.

Another option is to have your company buy a car for your use. Because the tax rules in this situation are even more complicated than those reviewed, business owners often choose to use their own cars. Briefly, if your company buys you a car, it will deduct all the related expenses but you will have to pay tax for your personal use of the car in the form of a taxable benefit called a standby charge and an operating cost benefit for expenses the company pays such as gas and insurance.

Whichever option you choose, good record keeping is vital to successfully claiming all the tax benefits to which you are entitled.

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