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The Learning Kurve

Logan Katz LLP s.r.l.
Chartered Accountants / Comptables Agréés
www.logankatz.com

105-6 Gurdwara Road
Ottawa, ON K2E 8A3
Tel: 613-228-8282 Fax: 613-228-8284
Email: office@logankatz.com

Vehicles and Loans

Keeping up to date on tax rules can help employers increase deductible expenses and keep their employees compliant with new obligations arising from taxable benefits.

Tax rules and regulations are always changing. To ensure your business takes advantage of tax changes and to make certain your employees are aware of changes that apply to the 2012 calendar year, take a moment to review the following.

VEHICLES

The CRA has different rules affecting the deductibility of vehicle expenses depending on whether the company owns the vehicle or the employee owns or leases it.

Company-Owned Vehicles

The maximum cost of a company-owned passenger vehicle to which the capital cost allowance can be applied is $30,000 plus federal and provincial sales taxes. The CRA also limits the amount of interest deductible for any car loan. The limit is either the lower of the total amount of interest paid or $10 x the number of days for which interest is paid. The limit is $3,650 ($10 x 365 days) or $304 per month if interest is paid for the entire year.

Personal Operating Expenses

An employee who is provided with a company-owned vehicle must include in income an operating cost benefit based on the number of personal kilometres driven. If this additional income moves the employee's overall income into a higher tax category, the employee might consider paying back all or a portion of the benefit if the reduction would create tax savings. If the amount is repaid to the company within 45 days of the calendar year-end, the amount is not considered taxable in the previous calendar year. This year the personal benefit has increased by two cents to 26 cents per personal kilometre driven. For those employees who primarily lease automobiles, the benefit has increased two cents to 23 cents per personal kilometre driven.

Standby Charges

A standby charge is the benefit an employee receives when a company car is available for personal use. Employees who use company vehicles and do *not* reimburse the company for this benefit may be subject to a standby charge (the rates for standby charges have not changed from 2011). The standby charge is based on 2% of the original cost of the vehicle plus applicable HST or PST and considers such factors as the kilometres driven, the percentages of time used for business and personal and any reimbursement by the employee. The standby charge needs to be included in the employee's income for each month the employee uses the vehicle. If the vehicle cost $60,000 and the employee used the vehicle for the full 12 months, the standby charge would be 24% of the vehicle cost or $14,400 minus any reimbursements. There is some relief in a reduced stand-by charge if the employee's personal use does not exceed 1,667 kilometres per month and the employment use exceeds the personal use.

Company-Leased Vehicles

If the employer leases a car for an employee, the standby charge to be included in the employee's income would be two-thirds of the quotient of the lease cost including the HST and PST, divided by the number of months the employee had use of the vehicle.

Employee-Owned Vehicles

Servicing and Driving

The cost of servicing and driving company vehicles is a major expense for most small businesses. For businesses with employees who need a car for work, the tax-deductible automobile allowance paid to the employee for the use of the employee's own car is an attractive alternative to the cost of a company-owned vehicle. The Canada Revenue Agency (CRA) recognizes that gasoline and repair expenses have increased, and as a result, has raised the deductible amount for the employer to 53 cents per kilometre for 2012 from 52 cents for the first 5,000 kilometres driven and to 47 cents from 46 cents for kilometres driven above the 5,000 kilometre base amount.

For those in the Northwest Territories, Nunavut and the Yukon, allowances have been increased to 57 cents for the first 5,000 kilometres and 51 cents for each kilometre driven over 5,000.

Employee-Leased Vehicles

If an employee leases a vehicle that is used for work, certain items are deductible as leasing expenses, and others are not. Insurance, maintenance and taxes are paid to operate the leased vehicle but are normally not part of the lease contract and must be deducted separately from the calculation for deductible lease expenses. These additional expenses are to be listed separately on CRA Form T777, Statement of Employment Expenses. The lease expense calculation includes the leasing charge, the number of days the vehicle is leased and the manufacturer's list price. It is advisable to have your chartered accountant assist with interpretation of this rather complicated area.

LOANS

Loans to Employees

Employees who receive an interest-free or low-interest loan from their employers are required to add to their employment income interest calculated at the CRA-prescribed interest rate for each quarter the loan is outstanding, less any interest paid that year or within 30 days of the end of the year. The prescribed interest rate for such loans for the second quarter of 2012 is 1%.

In the case of a home-purchase loan, the benefit is calculated using the prescribed interest rate at the time the loan was acquired. In other words, the benefit does not fluctuate with future changes in the prescribed rate. This rate applies for the first five years of the loan. If the prescribed interest rate increases, the original rate is locked in until the end of the five-year term; if the rate drops, however, the employee is entitled to use the lower interest rate. If the loan term extends beyond five years, the amount outstanding during the second and subsequent five-year periods is treated as a new loan and the benefit is equal to the prescribed rate applicable at that time. A deduction may be available for employees who move to a new work location.

CRA prescribed interest rates are also applicable to a variety of overdue remittances for taxes, duties and other charges. These rates are posted quarterly on the CRA website. For details of current and historical rates go to **http://www.cra-arc.gc.ca/tx/fq/ntrst_rts/menu-eng.html**.

Loans to Shareholders

Although shareholders may consider themselves employees and treat themselves as employees for remuneration purposes, tax rules and regulations regarding loans to shareholders or related parties have different reporting requirements from those for employees. Shareholders should speak to their chartered accountant before borrowing funds from the company.

Keep Employees Informed

Employers may find it advantageous to have their bookkeeper or accountant, whether in general operations or payroll, review the past few months of transactions and confirm that all books and records reflect the 2012 tax changes. It may be worthwhile to provide employees with a copy of this article to help them understand the reasons for additional income on their year-end T4 and assist them to prepare for their year-end liability.

This'n That at Logan Katz

Logan Katz in the Community

On May 17th Anjali Dilawri, Brenda Valente, David Logan and Trevor Kennedy participated in the Junior Achievement program. They educated grade 5 students on the basics of business — costs, sales, profit, advertising, etc.

Gary Katz and Trevor Dickison attended Salut! 2012, the annual Children's Aid Foundation of Ottawa fundraiser. The event was dedicated to raise funds to offer enrichment and education opportunities to children and young adults.