Greg Vercaigne, President of GDV Management Services, shares some tips on how to make tax time more bearable for your company and your drivers.

How To Minimize Tax Time Headaches

No business, or individual for that matter, can afford to waste money. Giving it away unnecessarily to the taxman is particularly to be avoided.

When it comes to fleet operations, some simple and easily implemented steps can generate immediate short-term tax savings for both the company and drivers:

• Ensure that each driver keeps a logbook recording personal and business kilometers. This is necessary whether the company leases, owns or provides car allowance. Drivers subjected to a tax audit will have to fully substantiate claims. If unable to do so, drivers face adjustments to any claim which then results in more tax payable and or penalties. The driver must substantiate his or her claim as a personal responsibility. Logbooks cost about $2 each; make them available to eligible employees.

• If vehicles are leased, ensure all lease payments are at or under the maximum amount allowable for deductibility as specified by Revenue Canada. The limit for the 2003 tax year is $800 plus applicable PST and GST/HST. Lease payments greater than this amount are not deductible and therefore become a direct cost to the company.

• If your firm owns or finances vehicles, ensure the purchase price and/or the interest expense are at or below the maximum limit stipulated by Revenue Canada. The ceiling for 2003 is $30,000 for the maximum purchase price of a vehicle. If the vehicle purchase price exceeds $30,000, the CCA (Capital Cost Allowance) is only applicable on the amount up to $30,000. Interest expense is limited to a maximum of $300 monthly. Interest over this amount is not deductible.

• If you own vehicles, make sure to trade the old vehicle against the purchase of the new one. Using a trade on a new purchase, PST and GST/HST are calculated on the difference between the sale price and the trade value. If the sale of the old vehicle is a separate transaction, PST cannot be claimed.

• If drivers are on allowance, they must complete federal tax form T2200. This step allows the driver to receive the allowance free of tax or at a rate equal to the previous year's claim. If the form is not completed, the allowance is taxed at source at the rate established for the driver's gross salary.

• When employees are reimbursed for use of a personal vehicle on company business, ensure the Revenue Canada prescribed amount of 42 cents for the first 5,000 kilometres and 36 cents thereafter is not exceeded. These amounts are in effect for the taxation year 2003. If these amounts are exceeded, the amount over the prescribed limit not deductible by the company and it is also deemed taxable income to the employee.

• Maximizing resale proceeds can reduce company car expenses. For example, if a leased vehicle is sold for more than the outstanding book value the difference is credited to the company plus taxes. Selling vehicles in the fall or spring when the used vehicle market is generally strong can be very advantageous.

• In some cases, employees can save on taxable benefits by opting to pay an additional half of the standby charge as the operating cost benefit. This can be less expensive than paying 17 cents per personal kilometer use. The stipulations here are that the employee must drive the vehicle at least 50 per cent of the mileage for business and must notify the company in writing before the end of the taxation year to for this option to be applicable.

This article was written by Greg Vercaigne of GDV Management Services. GDV Management Services manages fleet operations for a number of Canadian companies as well as providing consulting services to companies operating fleets on a leased, owned, allowance and/or reimbursement basis. He can be contacted at (705) 458-2146, by fax at (705) 458-1697 or e-mail at gdvmgt@bconnex.net. ❑