

Claiming motor vehicle expenses gets easier for small businesses (July 2010)

Many, if not most, small business owners incur vehicle expenses in relation to their businesses and often, the vehicle used is one which is also used for personal travel. Where motor vehicle expenses are incurred for business purposes, a deduction from income may be claimed. However, the need for detailed documentation of such expenses can be a barrier to making such a claim, as few small business owners have the time or inclination to spend a lot of time or energy on paperwork.

The federal government has indicated in recent years that it recognizes that the administrative and paperwork burden on small business owners, in a variety of areas, can be onerous or even excessive. It has made a number of changes to reduce that paperwork burden, and the most recent of those changes involves the need for documentation of claims for business-related motor vehicle expenses.

Under current rules, business owners are required, in order to claim business-related motor vehicle expenses, to keep a detailed logbook recording business travel – the purpose of the travel, the mileage involved, and the costs incurred (with supporting receipts). The need to document every business use of a motor vehicle in such a manner has likely led many business owners to conclude that the deduction is just not worth the trouble.

The change recently announced by the Minister of National Revenue will allow small business owners to reduce that paperwork burden significantly, through the use of a “sample logbook”. Under the new rules, a business owner must first keep a detailed logbook for a 12-month period starting in 2009 or later – the “base year”. Once that base year logbook has been kept, the business owner will be entitled, in subsequent years, to maintain a logbook only for a “sample year period” of at least 3 months during the year. The business use of the motor vehicle in each subsequent year will then be calculated by multiplying the business use as determined in the base year by the ratio of the sample period and base year period.

There are some restrictions on the use of the “sample logbook” system – in order to continue to use this system, business use of a motor vehicle must not vary a great deal from year to year. Specifically, the sample logbook will be acceptable to the Canada Revenue Agency (CRA) as a record-keeping method, as long as the distances travelled and the business use of the vehicle during the three-month sample period is within 10 percentage points of the corresponding figures for the same three-month period in the base year, and the calculated annual business use of the vehicle in a subsequent year does not go up or down by more than 10 percentage points in comparison to the base year.

While all that sounds confusing, the CRA has provided an example of how the new system will work, as follows:

An individual has completed a logbook for a full 12-month period, which showed a business use percentage in each quarter of 52/46/39/67 and an annual business use of the vehicle as 49%. In a subsequent year, a logbook was maintained for a three-month sample period during April, May and June, which showed the business use as 51%. In the base year, the percentage of business use of the vehicle for the months April, May and June was 46%. The business use of the vehicle would be calculated as follows:

$$\frac{51\%}{46\%} \times 49\% = 54\%$$

In this case, the CRA would accept, in the absence of contradictory evidence, the calculated annual business use of the vehicle for the subsequent year as 54%. (I.e., the calculated annual business use is within 10% of the annual business use in the base year – it is not lower than 39% or higher than 59%.)

Finally, the CRA release notes that the logbook kept by the business owner for the 12-month base year must be retained for a period of six years from the end of the tax year for which it is last used to established business use.

The announcement of the new logbook system can be found on the CRA Web site at <http://www.cra-arc.gc.ca/nwsrm/rlss/2010/m06/nr100628-eng.html>, and details of its application are also available on the Web site at <http://www.cra-arc.gc.ca/whtsnw/lgbk-eng.html>.