

SPRING 2017

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the newsletter of Prentice Yates & Clark

Available for Use

Operating an automobile for business and personal use has tax consequences.

Purchasing or leasing an automobile in the company name and allowing employees to drive the automobile has tax consequences that may require owner-managers to add a taxable benefit to the employee's T4.

CRA Definition of Automobile

For there to be a taxable benefit, the employer must first determine whether the vehicle is an automobile under the *Income Tax Act*. The Canada Revenue Agency (CRA) defines an automobile as "a motor vehicle that is designed or adapted mainly to carry individuals on highways and streets and has a seating capacity of not more than the driver and 8 passengers."

This definition of an automobile [paraphrased from 248(1) from the *Income Tax Act*] does not include "a van, pick-up truck, or similar vehicle" that:

1. can seat no more than the driver and two passengers, and in the year it is acquired or leased is used primarily to transport goods or equipment in the course of business, or
2. in the year it is acquired or leased, is used 90% or more of the distance driven to transport goods, equipment, or passengers in the course of business; or
3. pick-up trucks that you bought or leased in the tax year that:
 - a. you used primarily to transport goods, equipment, or passengers in the course of earning or producing income
 - b. you used at a remote work location or at a special work site that is at least 30 kilometres away from any community having a population of at least 40,000.

Restrictions on Deductibility

Vehicles that fall within this definition of an "automobile" are subject to a maximum capital cost allowance addition (available for future capital cost allowance) of \$30,000 plus HST. This limitation imposes a significant constraint on many business owners' primary motivation for purchasing the vehicle in the corporate name. Vehicles such as king cab trucks that do not fall within the definition of



"automobile" are not subject to such a restriction since they are considered necessary for the business and are not considered "luxury vehicles". There are also restrictions imposed on leased automobiles. Generally, monthly lease costs for automobiles are restricted to \$800 plus HST.

Taxable Benefits

In addition to the restrictions on the deductibility of annual depreciation (or leasing costs), users of such vehicles are also deemed to have received a taxable benefit from the corporation for the use of the vehicles for non-business purposes.

For example, assume an owner-manager purchases a high-end SUV in the company name but the owner-manager's spouse uses it primarily (i.e., more than 50% of the use) for non-business purposes. Assume also that the base price of this vehicle is \$90,000 and the overall cost of owning the vehicle, once HST is added, is \$101,700. The standby charge to the employee is calculated at 2% per month of the total cost of the vehicle. Thus, the standby charge for the employee is calculated at \$101,700 at 2% (\$2,034) per month or \$24,408 per year. The standby charges would be reduced in cases where the vehicle is used primarily for business purposes and annual personal driving does not exceed 20,000 kilometres.

On top of the standby charge, an additional operating benefit of 26 cents per personal kilometre driven is taxable in the hands of the employee. In the case where the vehicle is primarily used for business purposes, the operating benefits could be reduced to 50% of the standby charges if the benefit results in an amount lower than otherwise calculated.

(Standby charges for a lease can be expensive as well. A monthly lease cost of \$1,350 over 84 months creates a standby charge for 12 months of \$10,800 plus an operating expense benefit as mentioned above.)

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Available for Use - continued

Owner-Manager's Use of Vehicles

Owner-managers may believe they are not subject to the available-for-use rules because they are shareholders of the corporation and not employees. The CRA has made it clear that owner-managers are subject to the same taxable benefit as employees as indicated by the CRA's reference to archived IT63R5 *Benefits, Including Standby Charge for an Automobile, from the Personal Use of a Motor Vehicle Supplied by an Employer — After 1992*.

Paragraph 18 reads as follows:

Shareholder Benefit

18. The above guidelines may generally be applied to a shareholder of a corporation. Subsection 15(5) provides that, for the purpose of subsection 15(1), the value of the benefit to be included in a shareholder's income when an automobile is made available to such a person (or to a person related to that person) by a corporation, whether or not resident or carrying on business in Canada, is calculated on the assumption that subsections 6(1), (1.1) and (2) apply with such modifications as are required in the circumstances, and as though the references therein to "employer" were read as references to "corporation."

Working from Personal Residence

Many owner-managers may work from their principal residence and thus have access to the vehicle 24 hours a day. The question is: "Does the close proximity of the vehicle mean that it is available for personal use and therefore a taxable benefit must be added to the owner-manager's income at the end of the year?"

CRA: There is no taxable benefit if the automobile is operated for business use only.

The Answer According to the CRA

"An automobile is available to your employee if he or she has access to or control over the vehicle. It includes any part of the day, weekends and holidays during the calendar year." (This suggests that, since the vehicle is parked at the place of residence and is available 24 hours a day — 365 days a year, there is a taxable benefit.)

"If your employee does not use the company's automobile for any personal driving, there is no taxable benefit, even if the automobile is available to your employee for the entire year. This applies as long as the kilometres driven by your employee are in the course of his or her employment duties and the vehicle is returned to your (business) premises at the end of his or her work day." (This suggests that, if the owner-manager can establish that they do not use the vehicle for personal use at all and park it at the "corporation's" premises [also the owner-manager's principal residence] then there may not be a taxable benefit.)

Keep Detailed Records

Convincing taxation authorities that the vehicle is not used for personal use will require due diligence and good record keeping since the CRA will take into consideration many factors when determining whether available-for-use benefits should be added to income.

The first line of defence is a complete log book. Record the odometer reading as at January 1 of and December 31 of each calendar year to establish the total annual distance the vehicle has been driven. Log

each business trip taken plus a description of the purpose. Hypothetically, the number of kilometres driven for business trips and the total kilometres driven should be the same.

Although it is highly unlikely an owner-manager would purchase or lease an expensive "toy" and use it primarily for work purposes, the CRA may start to review the purchase of vehicles to ensure they are indeed "work vehicles." Additional calculations and circumstances will alter the available-for-use add-on, whether for a purchased or leased vehicle. But, as our hypothetical taxable benefit examples demonstrate, the additional taxable benefit will push the employee (i.e., owner-manager) into a higher tax bracket and thus bring closer scrutiny by the CRA.

Consult Your CPA

Calculation of available-for-use benefits is complicated and may be somewhat offset by taxable deductions within the corporation. If your business is considering purchasing or leasing a vehicle that will be operated in the gray area between business and personal use, consult your CPA to ensure you understand the potential personal tax consequences.◆

Inside PYC

The annual conference of the Co-operative Housing Federation of Canada will be held in Niagara Falls, ON from June 7th to 10th. J.J. Pauze, Viola Bardhoshi and Paul Jaroszko will be attending. We will be delivering one workshop; "Fraud; Audit Preparation and End of Section 95 Operating Agreements" and taking part in the trade show; please come and visit our booth.

We would like to welcome **Derek Chu, Peter Nham and Seena Molavi** as new members of our professional staff.

Congratulations to **Doreen Levair**, Admin Co-ordinator, Shriners Creek Co-operative Homes Inc. Ms. Levair won the Niagara Presents gift basket courtesy of Prentice Yates & Clark at the recent GHCHF AGM/Winter Workshops Supplier Expo in St. Catharines.



Road Warriors

Consider taking a few extra accessories when working offsite.

Working while on the road, whether at nearby job sites or when travelling to distant locations, usually means taking a smartphone, laptop or tablet.

The ability to work almost anywhere in the world is marvellous; however, when we are working at a hotel, jobsite, vendor or client location, or even at the cottage, we often wish we had the same conveniences we have at home.

Before taking your next trip, you may wish to consider adding a few of these travel essentials to ensure that, if your makeshift workstation is more like your home office, you will be less fraught with concern about your ability to complete the project.

Productivity

- For many, typing on the touch screens or keyboards provided on smartphones or laptops is inefficient and tiresome. Why not invest in a rechargeable portable keyboard that can be folded and placed into your briefcase? (Cost: approximately \$20)
- If you find your laptop's built-in touchpad or pointing stick frustrating to use, try a miniature (travel-sized) wireless or USB mouse to make dragging and dropping a lot easier. (Cost: approximately \$10)
- Check your devices and determine what kind of battery they use. If any of your devices use separate disposable batteries, always ensure you have some spare AA or AAA batteries in the event your wireless keyboard or mouse dies at an inopportune moment. (Cost: approximately \$2-5)
- If you frequently need to enter numbers on the go, punching one number at a time into the top row on a laptop can be frustrating. An external USB numeric keypad will make this task go faster, be more efficient and less frustrating than one-finger typing. (Cost: approximately \$10)

Always carry extra USB sticks to create backups or share data.

Communication and Storage

- When you are on the road, Internet connectivity may not always be available, and even when it is available, there can be restrictions such as speed or port limitations. Before heading out on your trip, make sure you have copies of all the necessary files with you. Do not rely on the Internet to back up to the cloud or to transfer data to your office computer. Always carry one or two extra USB sticks to create backups or share data. Always check the USB stick for viruses after it has been plugged into any other computer. (Cost: approximately \$10)
- If you are using Skype or another video or audio conferencing app, have a high-quality set of headphones with a microphone to provide some confidentiality when addressing private issues. If possible, find a model that is compatible with all your devices, including your computer, mobile phone and tablet. (Cost: approximately \$30)

Ready for Business

- If you travel out of the office with any frequency, keep a dedicated power adaptor in your bag or briefcase. Grabbing your briefcase and heading out to a job site only to find that your battery is low and you have left the power cable at the office is not a good way to start a meeting or presentation. (Cost: approximately \$50-100)



- Changes in technology have created situations where devices are not always compatible with each other. It is best to have dongles to make sure you are covered for the most common ports that may not be built into your computer or device, such as VGA, HDMI and Ethernet. (Cost: approximately \$20-30)
- Older buildings were never designed to accommodate the proliferation of modern electronic needs and thus may not have electrical outlets close enough to be reached by your plug-in adapter. Consider a two-metre (six-foot) extension cord as part of your emergency kit. (Cost: approximately \$5)
- You would never think of plugging your laptop into a wall socket at the office without using a surge protector; yet, every time you plug in at another location, you are undoubtedly not using one. Perhaps it is time to carry a small and affordable wall-mount surge protector that will not only protect your computer or other device, but can also be used as a USB charging station. Quality surge protectors have swivel mounts to allow more adaptability, LEDs that verify the unit is working and provide surge suppression, low clamping voltage, shutdown technology, and EMI/RFI noise reduction. (Cost: approximately \$15)
- Many new vehicles have built in USB ports that allow you to plug in adapters to charge or run your devices. For vehicles that do not come with built-in USB charging ports, you can still take advantage of this "free" power source with a converter that steps down the 12 Volt output to the input voltage required by your device. Newer adapters will allow up to 4 USB plug-ins to allow additional units to be used or charged. (Cost: approximately \$30)
- If your vehicle does not already have a power outlet, you can plug a power inverter into the cigarette-lighter port to convert the 12 volt DC power into a 120 watt AC outlet like the standard electrical outlets you have at home and at the office. You can operate and charge your computer, or any other electronics using the standard plug without having to buy vehicle adaptors for each device. Read the specs or go online to ensure output amperage is compatible with the more sensitive devices being charged through the USB port. The downside of these units is that your vehicle battery will run down quickly unless the vehicle is running all the time. (Cost: approximately \$60)

Start Filling Your Shopping Cart

The list of available technology to make life more bearable when you are working out of the office is almost endless. Putting together a travel kit of practical, inexpensive electronics can turn a potentially non-productive day filled with frustration and anxiety into a productive and successful venture — all for the low, low price of about \$420. ♦

Face to Face

Social media have their place, but do not forget to talk to each other face to face.

Social media are reducing the number of face-to-face conversations. "In person" encounters allow a person to speak while another responds spontaneously without resorting to the more formal structure of the written word.

Why do we seem to prefer Facebook/Twitter or emails rather than meeting with someone to discuss issues? The most obvious answer is that electronic media is more effective and saves us time. Psychologists tell us we find interacting with others through the computer is easier because a computer does not require us to become emotionally involved.

When to Meet Face to Face

Certainly there are situations when communicating via social media is effective, such as when sending a quick inquiry to a colleague. But when owner-managers need to announce decisions that will have an emotional impact and bring employee reaction, face-to-face meetings are a must for the following reasons:

- Face-to-face communication has incredible advantages since you receive an immediate response. If, on the other hand, you text someone and they do not respond, uncertainty prevails.
- One-on-one proximity allows you to "read" the respondent's reaction to the message. A shrug of the shoulders, a deep sigh, or an unexpected expletive are great indicators of the recipient's acceptance or understanding of what has been said.
- People need to be able to express how they feel about a project, a change in venue or a performance review. Face-to-face meetings allow each party to add a level of interpretation to the message by providing and reading body language, eye contact, or voice intonations. The meaning of words alone can often be misinterpreted. Receiving a text saying "The project is due next week." sends a different message than someone who laughs and says "The project is due next week!" then rolls their eyes.

Talking face to face allows more effective negotiation.

- Talking face to face allows each party to negotiate more effectively by immediately understanding the obstacles and opportunities that may not be easily understood by simply reading a progress report or a job description.
- Communicating face to face provides each party a better opportunity to adjust their approach to ensure the end results are achieved. Interpreted another way, face-to-face interaction builds trust, creates understanding, and assists both parties to understand they share a mission for the project and the organization.

• Face-to-face meetings force interactions, which in turn create new ideas and approaches that are essential to success. Yahoo's CEO Marissa Mayer indicated in a memo:

Some of the best decisions and insights come from hallway and cafeteria discussions, meeting new people, and impromptu team meetings. Speed and quality are often sacrificed when we work from home. We need to be one Yahoo!, and that starts with physically being together.

Meeting through Skype is a means of communicating with remote jobsites. Surveys indicate employees like Skype because it allows them to "get more done" as they can handle one-on-one meetings without

the distractions of social graces. However, such methods still disconnect the workers from each other and the company and as such it is important for management to instill the need to maintain one-on-one personal contact.

Communicating face to face embraces the seven most important elements of interpersonal communication by:

1. clarifying expectations and purpose
2. creating brief, unambiguous communication
3. focusing all parties on a purpose
4. setting a consistency of tone that allows individuals to understand the underlying pattern and seriousness of the message
5. addressing all issues without the need to wait for additional instructions
6. ensuring that all points relevant to both sides of the discussion are brought to the table and discussed
7. allowing both parties to measure the knowledge and competence of the other party.

Get Back to Personal Contact

Even though Twitter has lifted the 140 character limit on messages, both owner-managers and employees must recognize that regardless of the length of the message, projects must be discussed face to face to generate the best results possible for the company, the employee and its customers.



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We hope that you find *info@pyc* a useful source of information. If you should ever have any specific questions or concerns regarding your own business or personal finances, please call us. We will gladly help in any way that we can.

If you would like to contact us by e-mail, we can be reached at *info@pyc.net*. Some of the articles appearing in this issue of *info@pyc.net* were prepared by the Chartered Professional Accountants of Canada for the clients of its members.