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Tax Advisory Bulletin

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Re: Reduced Taxable Benefit for Company Cars

Whenever an employer provides an employee with a car, there is a taxable benefit that must be included on the employee's T4. The taxable benefit is made up of a "standby" charge and an "operating" charge. The standby charge is computed as 2% of the original cost of the car for each month the car is available to the employee (or 24% of the cost of the car per annum). For leased cars, the standby charge is 2/3 of the lease cost.

As a result of changes announced in an earlier federal budget, the rules that allow for a reduced standby charge have been relaxed. The standby charge can be reduced if both of the following conditions are met:

- the car is used for work for more than 50% of the total kilometres driven; and
- the personal driving is less than 20,000 kilometres per year.

If the relaxed conditions are met, the standby charge can be reduced based on personal use divided by 20,000 kms. For example, if you drive the car 30,000 kms for work and 15,000 kms for personal purposes, the standby charge can be reduced to 75% of the normal charge (15,000kms/20,000).

Prior to this recent change, the standby charge could only be reduced if the car was driven 90% or more for work and the personal driving amounted to less than 12,000 kilometres per year. In the example noted, the full standby charge would have applied.

The operating charge is computed as 24 cents per kilometre of personal use. If your work-related use of the car exceeds 50%, the operating charge can be calculated as a flat amount equal to ½ of the standby charge. In light of the new reduced standby charge, this method may be beneficial, particularly if the cost of the car is low and there is a high personal driving component (albeit less than 50%).

In all cases, it will be critical to keep dated records to substantiate your work-related driving, including your destination and distance.