

2005 AUTOMOBILE DEDUCTION LIMITS AND EXPENSE BENEFIT RATES FOR BUSINESS

As the 2005 year draws to a close, those companies which provide owned or leased automobiles to its employees and/or provide operating expenses to its employees, will have to determine the various amounts which must be included on the employee T4/R-1 slips in February 2006 as well as the appropriate GST/QST treatment of these amounts. This newsletter will provide some guidance to you in connection with the calculations and planning to correctly address these issues.

LIMITS

The automobile expense deduction limits and the prescribed rates for the automobile operating expense benefit that will apply in 2005 are as follows:

- The ceiling on the capital cost of passenger vehicles for capital cost allowance (CCA) purposes will remain at \$30,000 (plus applicable federal and provincial sales taxes) for purchases after 2004. This ceiling restricts the cost of a vehicle on which CCA may be claimed for business purposes.
- The limit on deductible leasing costs will remain at \$800 per month (plus applicable federal

and provincial sales taxes) for leases entered into after 2004. This limit, which ensures that the level of deductions for leased and purchased vehicles is consistent, is one of two restrictions on the deduction of automobile lease payments.

A separate restriction prorates deductible lease costs where the value of the vehicle exceeds the capital cost ceiling.

Interest deduction

The maximum allowable interest deduction for amounts borrowed to

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OPERATING COSTS

In the case of personal use of an employer-provided vehicle, certain employer-paid costs of running the automobile are included when calculating the operating cost. This includes gas, oil, maintenance charges, repair expenses, licences, and insurance. It does not include interest cost, capital cost allowance, lease costs for a leased automobile and parking costs.

For 2005, the benefit is equal to 20¢ per kilometre of personal use.

STANDBY CHARGE

The standby charge is designed to estimate the depreciation (wear-and-tear) on the automobile attributable to the fact that the employer provided automobile was used for personal driving. The calculation is based on the following:

- the purchase cost or the lease cost of the automobile;
- the number of days that the automobile is made available to the employee; and
- the actual extent of personal use (under certain conditions).

Federal Website Auto benefits calculator

You can calculate the value of an employee's automobile benefits using the Automobile Benefits On-line Calculator.

www.cra-arc.gc.ca/autobenefits-calculator/

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purchase an automobile will remain at \$300 per month for loans related to vehicles acquired after 2004. This limit reflects the reasonable cost of financing a vehicle for business purposes.

Tax-exempt allowances

The limit on the deduction of tax-exempt allowances paid by employers to employees using their personal vehicle for business purposes will increase by 3 cents to 45 cents per kilometre for the first 5,000 kilometres driven and 39 cents for each additional kilometre. For the Yukon Territory, Northwest Territories and Nunavut, the tax-exempt allowance will rise by 3 cents to 49 cents for the first 5,000 kilometres driven and 43 cents for each additional kilometre. The allowance amounts reflect the key cost components of owning and operating an automobile, such as depreciation, financing, insurance, maintenance and fuel costs.

The general prescribed rate used to determine the taxable benefit relating to the personal portion of automobile operating expenses paid by employers will increase by 3 cents to 20 cents per kilometre.

For taxpayers employed principally in selling or leasing automobiles, the prescribed rate will be increased by 3 cents to 17 cents per kilometre. The amount of the benefit reflects the costs of operating an automobile. The additional benefit of having an employer-provided vehicle available for personal use (i.e., the automobile standby charge) is calculated separately and is also included in the employee's income.

HOW TO CALCULATE THE ALLOWANCE YOU GIVE TO YOUR EMPLOYEE FOR USING HIS OR HER OWN AUTOMOBILE OR OTHER VEHICLE

Instead of providing the employee with a vehicle, you may give the employee an allowance for using his or her own automobile or other vehicle for work.

This type of an allowance is a taxable benefit to the employee unless the allowance is calculated solely on the number of business kilometres driven in a year multiplied by a reasonable rate per kilometre.

Reasonable rate per kilometre

An amount is considered to be reasonable only if all of the following conditions apply:

- use of the motor vehicle is measured solely by the number of business kilometre driven in a year;
- the rate per kilometre is reasonable; and
- the employer did not reimburse the employee for expenses that relate to the same use, except if you reimburse an employee for supplementary business insurance, tolls, ferry charges, and parking.

The rates are for 2005 are :

- 45¢ per kilometre for the first 5,000 kilometres
- 39¢ per kilometre thereafter
- an additional 4¢ per kilometre for travel in the Northwest Territories, Yukon, and Nunavut

Flat rate allowances

A flat-rate allowance is not considered to be a reasonable allowance since it is not based solely on the business kilometres driven in a year. Consequently, it is a taxable benefit.

Combination allowances

There may be situations where you pay a combination allowance that is comprised of both a flat rate and a reasonable per-kilometre allowance. If this allowance covers the **same use** for the vehicle, the total combined allowance is taxable.

tax & business ALERT has been prepared by LEVI KATZ, LLP for the general information of our clients, staff and other interested parties. The enclosed comments are of a general nature and are not intended to cover all aspects of the subject matter. Prior to implementing any planning based upon information in this publication, the specific facts pertaining to any particular situation should be carefully considered. We will be pleased to assist in this regard and to provide further details pertaining to the matters discussed herein.

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STANDBY CHARGE (CONTINUED)

It's important to note that the availability of an automobile is a separate consideration from that of personal use. An automobile is considered to be available to the employee until such time that the employee is required by the employer to return the automobile and the control over its use to the employer. It is considered to be available to the employee if it is used by the employee all day or for any part of the day or even if the automobile sits unused in the employee's garage or on the employee's driveway or parking spot.

Prior to 2003, a reduced standby charge was applicable if the total personal kilometres for the year was under 12,000 per year and the business use of the automobile was substantial (at least 90%). For 2003 and later tax years where the employee uses the vehicle primarily for business purposes - more than 50% of the time - and the employee does not exceed 1,667 kilometres per month (20,004 kilometres per year) when he or she uses the vehicle for personal driving.

REDUCED STANDBY CHARGE

The purpose of the reduced standby charge is to reduce the tax implications for employees who use the employer-provided automobile as little as possible for personal use.

This will considerably affect the calculation of the automobile benefit; it will allow many employees whose personal use is restricted to calculate the automobile benefit using the reduced standby charge.

CRA - Voluntary Disclosure Program policy change for no-name disclosures

The Canada Revenue Agency's (CRA) Voluntary Disclosures Program (VDP) is a fairness initiative that gives taxpayers the opportunity to come forward and to correct inaccurate or incomplete information, or to disclose previously-unreported information, without penalty or prosecution that would otherwise be imposed. The CRA has issued an Information Circular IC00-1R, *Voluntary Disclosures Program*, which refers to the CRA's policy concerning voluntary disclosures submitted on a no-name (hypothetical) basis. This no-name disclosure policy provides taxpayers and their representatives an opportunity to gain insight into the implications of making a disclosure before any identification information is exchanged with CRA. The CRA has updated this no-name disclosure policy and is presently reviewing this information circular for changes to be made.

NO-NAME VOLUNTARY DISCLOSURE POLICY

The no-name disclosure policy provides that should a taxpayer decide to proceed with a no-name (hypothetical) disclosure the identity of the taxpayer must be provided to the CRA within 90 calendar days from the "effective date of disclosure". The "effective date of disclosure" for a no-name disclosure is either the date of receipt by a CRA tax services office of a written voluntary disclosure submission or the receipt of a completed form VDP-1 - Taxpayer Agreement Form, as used for the VDP.

During this 90-day period the taxpayer is protected from the application of penalty and from prosecution. The no-name voluntary disclosure file will be closed, without further contact from the CRA, if at the end of this 90-day period the identity of the taxpayer remains unknown. No extension to this 90-day period will be allowed to identify the taxpayer.

In addition, a final and complete submission of the disclosure is expected within these 90-days.

Automobile Log Book

In the March 30, 2004, Budget, the Quebec Ministry of Finance introduced an additional compliance requirement for employees who are provided with an automobile. Effective January 1, 2005, in addition to recording the number of days during the year that the automobile was made available to the employee and the number of kilometres travelled each day in connection with work, the employee will have to provide the employer with a copy of the logbook no later than the tenth day after:

- the end of the year, when the automobile is made available to the employee at the end of the year, or
- the end of the period in which the automobile was made available to the employee, if the period ends before the end of the year.

Employees not providing employers with the logbook within the prescribed time limit will incur, in Quebec, a penalty of \$200.

You may get an Excel version of this logbook from the **LEVI KATZ** website.

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December 15, 2005

Fourth quarterly personal income tax instalment for 2005 due

Deadline for filing the annual Québec Registration Declaration for corporations, partnerships and some proprietorships.

February 14, 2006

Deadline for employees to reimburse employers for operating costs for personal use of automobile to avoid imputed benefit.

February 28, 2006

Deadline for filing 2005 remuneration slips to employees (T4/Relevé1) and independent sales representatives (T4A/Relevé1), slips for payments of dividends and interest (T5/Relevé3); including related summaries to the respective governments.

March 1, 2006

Deadline for 2005 contributions to an RRSP.

Commission de la Santé et de la Sécurité du travail du Québec (CSST) filing due date.

MAXIMUM CPP CONTRIBUTIONS TO RISE IN 2006

The maximum contribution to the **Canada Pension Plan (CPP)** by an employer and an employee will increase by \$49.50 to \$1,910.70 in 2006, while the maximum self-employed contribution will increase by \$99 to \$3,821.40.

ANOTHER WAY TO UNLOCK YOUR CAR

If you lock your keys in the car and the spare keys are home, call someone at home on your cell phone and ask them to get your spare car keys.

Hold your cell phone about a foot from your car door and have the other person at home press the unlock button on your keys while holding it near the phone on their end. Your car will unlock.

Distance is no object. You could be hundreds of miles away, and if you can reach someone who has the remote for your car, you can unlock the doors (or the trunk) this way!

ABOUT LEVI KATZ

LEVI KATZ is a firm of chartered accountants that traces its origin in Montreal to 1950. We pride ourselves on being more than just an accounting firm. We offer an effective blend of personalized service, experience and technological leadership, coupled with a steadfast commitment to consistently deliver excellence.

Our Chartered Accountants and Business Consultants provide advisory services on a broad range of issues to both our individual and corporate clients. The members of our firm possess unique talents, expertise and experience, giving our clients access to a knowledge base of considerable breadth and depth. Together with our support personnel, we share a commitment to developing practical solutions for the business challenges of today, and to devising strategies for tomorrow.

OUR SERVICES

Our firm takes pride in adding value to every client that we serve through our extensive expertise and proactive approach to your financial needs. We match our dedication to adding value with experience and expertise: we have experience in servicing virtually every type of industry and professional practice.

TAXATION

Our office has a strong basis in federal and provincial tax issues. Our tax group has been in existence for 50+ years and is highly qualified and experienced. Our accountants work hard to minimize your taxes, yet make sure that you fulfill your tax requirements ethically while working to add value. We can fill a variety of tax needs, both domestic and international as well as corporate and personal. Our specialties lie in tax reporting and representation, tax planning (business, personal, divorce and litigation), tax structuring of entities and transactions and tax research.

FINANCIAL

Levi Katz can meet all of your basic financial needs with our exemplary Accounting Services Group that can truly add value whether it's your business or your personal finances that we are reviewing. We work with business entities as well as non-profits and foundations. Our accounting services include; auditing and compilation review of financial statements, budgets and forecasts, and government reporting. We won't simply process your financial statements, our mission is to add value. We will go the extra mile to help you forecast or locate opportunities that you may be missing.

BUSINESS CONSULTING

Levi Katz's Business Consulting unit has proven itself as a valuable resource to businesses of all kinds. We can help you plan your future, whether you see it coming or not. We can help you bring seminal business events to life; like mergers and acquisitions, business valuation, leases and contracts, or business development plans, all of which take a huge amount of planning and attention to detail. If there are no big events on your horizon, we can still be of service by helping you to anticipate the unexpected through our forecasting, real estate projections, risk management assessments, or our feasibility studies. We look at your business and all of its many facets, to find both issues and opportunities and bring that valuable insight to you.

LITIGATION SUPPORT AND DISPUTE RESOLUTION SERVICE AREAS

- **Civil and criminal Fraud Investigation**
- **Management and employee fraud and theft**
- **Identification of secret commissions and kickbacks**
- **Sarbanes-Oxley compliance audits**
- **Sarbanes-Oxley 404 audits**
- **Intellectual Property Litigation Support**
- **Training on fraud awareness and prevention**
- **Due Diligence Audits**
- **Insurance claim assistance**
- **Retail sales audits**
- **Contract dispute resolution**
- **Professional negligence litigation support**
- **Fraud prevention program design, implementation and evaluation**
- **Bank due diligence audits**
- **Employee background audits**
- **Financial discrepancy analysis**
- **Divorce litigation support**
- **Insurance claim quantification**
- **Breach of contract quantification**
- **Electronic Discovery and Data Recovery**
- **Computer forensics**

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