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2008 Automobile Deduction Limits and Expense Benefit Rates for Business

As we enter 2008, companies which provide owned or leased automobiles to its employees and / or provide operating expensed to its employees, will have to determine the various amounts which must be included on the employee T4/R-1 slips in February 2007 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 2008 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 2007. 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 2007. 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.

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Employer-Provided Auto

OPERATING EXPENSES

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 2008, the benefit is equal to 22¢ 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.

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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 purchase an automobile will remain at \$300 per month for loans related to vehicles acquired after 2007. 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 2 cents to 52 cents per kilometre for the first 5,000 kilometres driven and 46 cents for each additional kilometre. For the Yukon Territory, Northwest Territories and Nunavut, the tax-exempt allowance will rise by 2 cents to 56 cents for the first 5,000 kilometres driven and 50 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.

PERSONAL PORTION OF AUTOMOBILE OPERATING EXPENSES

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 2 cents to 24 cents per kilometre. For taxpayers employed principally in selling or leasing automobiles, the prescribed rate will be increased by 2 cents to 21 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 AUTOMO- BILE 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 kilometres 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 2008 ARE :

- 52¢ per kilometre for the first 5,000 kilometres
- 46¢ 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.

(Continued from page 1)

REDUCED STANDBY CHARGE

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;
- the actual extent of personal use (under certain conditions); and
- any reimbursement by the employee for the availability of the vehicle.

When the automobile is owned by the employer, the standby charge is $2\% \times \text{cost of automobile} \times \# \text{ of months available to the employee in the year}$.

If the automobile is available 12 months of the year, then 24% of the cost of the automobile is included in the employee's income each year.

When the automobile is leased by the employer, the standby charge is $\frac{2}{3} \times \text{monthly lease costs (excluding insurance)} \times \# \text{ of months available to the employee in the year}$.

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.

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.

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 years, the standby charge may be reduced if:

- the kilometres driven for business use are at least 50% (90% previously) of the total kilometres driven, and
- less than 20,004 km per year, or an average of 1,667 km per month (1,000 km per month previously), are driven for personal use.

The above rates remain unchanged for 2008.

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/

tax & business ALERT has been prepared by LEVI & SINCLAIR, 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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ABOUT LEVI & SINCLAIR

LEVI & SINCLAIR 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 & SINCLAIR 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 & SINCLAIR'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**
- **Business valuation**
- **Fairness opinions**
- **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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