

These are the rules of the road when it comes to deducting automobile expenses on your taxes

You may be entitled to write off some of the costs of using a car for work, but only if you meet four conditions



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If you're an employee and you use your car for work, you may be entitled to write off some of your automobile expenses on your tax return, but only if you meet four conditions.

The four conditions

The first condition for auto expense deductibility is that you are normally required to work away from your employer's place of business or in different places.

Secondly, under your contract of employment, you are required to pay your own automobile expenses. Note that the Canada Revenue Agency's position is that you are *not* considered to have paid your own automobile expenses if your employer reimburses you (or you refuse a reimbursement or reasonable allowance from your employer.)

The third condition is that you don't receive a non-taxable allowance for motor vehicle expenses. Generally, an allowance is non-taxable when it is based solely on a "reasonable per-kilometre rate."

What is reasonable? The *Income Tax Act* sets a maximum amount that an employer can pay an employee for the amount to be considered "reasonable" and, therefore, excluded from your income. For 2018, that limit is 55 cents per kilometre for the first 5,000 kilometres driven and 49 cents a kilometre after that. In the three territories, there is an additional four cents per kilometre allowed for travel.

The fourth condition is that you must have a copy of CRA *Form T2200, Declaration of Conditions of Employment*, which has been completed and signed by your employer.

What expenses can I deduct?

The types of expenses you can deduct include: fuel (gasoline, propane, oil), maintenance and repairs, insurance, licence and registration fees, capital cost allowance (i.e. depreciation), eligible interest you paid on a loan used to buy your vehicle, and eligible leasing costs.

What if my employer reimburses me, but it's insufficient to cover my costs?

It's quite common for employers who require their employees to travel using their own vehicles for work, perhaps to visit clients or suppliers, to reimburse them on a per-kilometre basis to help defray the costs of gas, oil and wear and tear on the motor vehicle.

Many employers, however, choose to reimburse their employees at per-kilometre rates below the maximum allowable amounts, as above. If you feel that your employer's "reasonable" allowance is not reasonable, in that it is insufficient to cover the actual costs of operating your vehicle, you can deduct the business portion of your actual vehicle operating expenses.

A completed copy of CRA *Form T2200, Declaration of Conditions of Employment*, is still required and must be signed and certified by your employer acknowledging your requirement to use a car for work and pay for some (or all) of the expenses. In this case, any employer reimbursement that is paid to you must be included in your income.

What if I use my car for work as well as for personal purposes?

Most employees use the same vehicle for both employment and personal use. For tax purposes, however, you can only deduct the percentage of expenses related to earning income. To support the amount you can deduct, you're supposed to keep a record of both the total kilometres you drove and the

kilometres you drove to earn employment income. The CRA considers driving back and forth between home and work as personal use.

It's important to keep such a log and for that log to be accurate. The CRA may choose to review your automobile expenses and challenge their validity if the amounts deducted seem too high.

Take, for example, the recent tax case decided last fall involving a personal support worker who tried to deduct her automobile expenses for the 2010, 2011 and 2012 taxation years. The worker testified that she was required to use her personal vehicle in the course of her employment to visit clients at their homes. She explained that she would leave her home each morning, drive directly to a client's home, and then move on from there to visit additional clients before finally returning to her own home at the end of the day. She testified that she only drove to her employers' places of business about once a month.

The taxpayer stated that she received a motor vehicle allowance of only 20 cents per kilometer from one of her employers and she argued that this allowance was "unreasonable," and that she should be entitled to claim deductions for her actual car expenses. Those actual expenses amounted to approximately \$6,000 in each of 2010, 2011 and 2012, all of which exceeded the allowance that was provided to her by her employer.

The evidence showed that during the years in question, the taxpayer was reimbursed by one of her employers for driving 5,655 km, 6,446 km and 4,891 km for employment purposes in 2010, 2011 and 2012 respectively. Yet when she filed her tax returns for those years, the taxpayer claimed to have driven nearly 23,000 km in each year for work, out of about 25,000 km of annual total usage.

Her only explanation for these very large discrepancies was “that she drove a less direct route from each client’s home to the next client’s home than the route used by her employer to calculate her mileage.” But the judge wasn’t buying it, saying, “This explanation is highly improbable. I do not accept it.”

The judge also found that the taxpayer failed to properly account for her personal use of her vehicle. Given that the family had only one car, “there would clearly have been a need for personal use of the vehicle by either (the taxpayer), or her husband for household and social purposes. Furthermore, in the years in question, (the taxpayer) had two children who were 13 years old or less. Presumably those children would have needed rides to and from various locations.”

The judge concluded that the amount she received from her employer was a “reasonable allowance” and denied all of her automobile expense other than \$284 for 2012 when she worked for the employer that didn’t provide her with any car allowance.

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