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Your Company Car's Taxable Benefit:
Standby Charge and Operating Cost

So, you're looking good cruising to work in that sweet ride, belting out the latest Bieber bop from that SiriusXM station you like, and smiling all the while 'cause, well, it's a company car, so it's a free ride, right? Or is it? Better pull over for a sec. It's very likely a taxable benefit that you need to report. "But, Debbie," you say, "how can it be a taxable benefit if the car is used for work?" Good question, Astute Client. And true *if* that vehicle is used strictly for work. But if you or your employees use a company car, chances are good that from time to time, that vehicle will see some driving time outside of the definition of business use. That is especially true given that the CRA deems the journey from home to the office as personal time. And non-business use of a company car is a taxable benefit and needs to be reported.

This particular benefit is split in two and is comprised of a standby charge, referring to the personal access to the car, and an operating benefit, referring to the personal portion of operating expenses paid by your company. Normally, the standby charge is 2% of the original cost of the car for each month the car is available for use. If the car is leased, the standby charge is 2/3 of the lease cost minus insurance costs.

Generally speaking, it is better to have your corporation reimburse your vehicle expenses on a per kilometre basis, particularly if it is a relatively inexpensive (i.e. economical) vehicle and you tend to rack up the mileage over the course of the year. If the vehicle is more expensive (i.e. bougie), however, and doesn't see a lot of business kilometres, then it likely makes sense for your corporation to own or lease the vehicle.

Remember that you must calculate the standby charge or personal use taxable benefit and add it to your income. It's box 40 on your T4.

To do the calculation, you need:

- Cost of the vehicle including trade-in amount, additions, PST and GST/HST
- Total km driven in the year
- Business use km driven in the year
- Personal use km driven in the year
- Days available in the year (usually 365)
- Total amount that you or the employee reimbursed the corporation for any vehicle expenses

Since the corporation has claimed Input Tax Credit (ITC's) for the HST paid on the vehicle expenses, the corporation has to remit the HST back to the CRA on the personal use portion of the vehicle expenses.

If you'd rather take a stab at self-acupuncture than spend your time figuring all that out, the CRA has graciously provided a calculator that should make the process a bit less painful:

https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/payroll/benefits-allowances/automobile/automobile-motor-vehicle-benefits/calculating-automobile-benefits.html

BUT

The above calculation does not include the personal use portion of the operating expenses. The tax effect of that also has to be added to box 40 of the T4.

If the employee has a standby charge and racks up more than 50% of the kilometres for business use and notifies the corporation in writing before the end of the calendar year, then the operating cost benefit can be calculated as half of the standby charge.

If the above conditions do not apply then the 2018 calculation of the operating cost benefit is $.26 (including GST/HST and PST) for each personal kilometre driven.

You can find rates for previous tax years in older versions of the T4130, *Employers' Guide – Taxable Benefits and Allowances* or in Section 7305.1 of the *Income Tax Regulations*.

Remember, you need to calculate and deduct CPP and income tax on the auto benefit too!

So, crank up the Biebs and be on your merry way in your not-so-free ride. Of course, if you've recently started a new gig critiquing automobile acoustics for mediocre mainstream boy bands and teen pop artists from the cockpit of your company mobile office, then all your kms are working k's, and none of this applies to you. For the rest of us, though, it's Box 40!