

NO.: **IT-521R**

DATE: December 16, 1996

SUBJECT: INCOME TAX
ACT

Motor Vehicle Expenses Claimed by Self-Employed Individuals

REFERENCE: Paragraph 18(1)(a) (also sections 67, 67.2, 67.3 and 67.4, subsections 13(2), 20(16.1), and the definitions of “passenger vehicle,” “automobile” and “motor vehicle” in subsection 248(1), and paragraphs 13(7)(g), 13(7)(h), 18(1)(h) and 85(1)(e.4) of the *Income Tax Act*; and section 7307, subsections 1100(2), 1100(2.5) and 1101(1af), subparagraph 1100(1)(a)(x.1) and Class 10.1 of Schedule II of the *Income Tax Regulations*).

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This bulletin cancels and replaces Interpretation Bulletin IT-521 dated August 25, 1989.

Summary

Subsection 9(1) provides that a taxpayer’s income from a business or property is the profit from that business or property subject to the rules in Part I of the *Income Tax Act*. Section 18 contains several limitations concerning the deductions permitted. The purpose of paragraph 18(1)(a) is to deny a deduction for all outlays and expenses except to the extent that the outlays or expenses are made for the purpose of gaining or producing income from a business or property. The deduction for specific outlays and expenses is discussed in other provisions of the Act. Section 67 limits an otherwise deductible amount to an amount that is reasonable in the circumstances.

The purpose of this bulletin is to provide guidelines to a self-employed individual who is eligible to deduct expenses of operating a vehicle in computing income from a business or property. The commentary below discusses the meaning

given to various words and expressions, the types of expenses that are deductible and the procedures for apportioning those expenses (including capital cost allowance) between personal and business use. Also discussed are the restrictions that apply to the deductibility of lease payments, interest and capital cost allowance, as well as the types of use which constitute personal use rather than business use.

Business and Professional Income, a supplementary income tax guide, contains discussion and examples that may be helpful to users of this bulletin.

References in this bulletin to an "individual" should be read as a reference to an individual other than a trust.

Discussion and Interpretation

General

¶ 1. The terms "passenger vehicle," "automobile" and "motor vehicle" used throughout this bulletin have particular significance. They are defined in subsection 248(1) and can be described as follows:

- (a) a "passenger vehicle" is an automobile (see b below) acquired after June 17, 1987 or leased under a lease entered into, extended or renewed after that date;
- (b) an "automobile" is
 - (i) a motor vehicle (see c below) that is designed or adapted primarily to carry individuals on highways and streets and that has a seating capacity for not more than the driver and eight passengers, but does not include
 - (ii) an ambulance,
 - (iii) a motor vehicle acquired primarily for use as a taxi, a bus used in a business of transporting passengers or a hearse used in the course of a business of arranging or managing funerals,
 - (iv) except for the purpose of section 6, a motor vehicle acquired to be sold, rented or leased in the course of carrying on a business of selling, renting or leasing motor vehicles or a motor vehicle used for the purpose of transporting passengers in the course of carrying on a business of arranging or managing funerals, and
 - (v) a motor vehicle of a type commonly called a van or pick-up truck or a similar vehicle
 - that has a seating capacity for not more than the driver and 2 passengers and that, in the taxation year in which it is acquired, is used primarily for the transportation of goods or equipment in the course of gaining or producing income, or
 - the use of which, in the taxation year in which it is acquired, is all or substantially all for the

transportation of goods, equipment or passengers in the course of gaining or producing income; and

- (c) a "motor vehicle" is an automotive vehicle designed or adapted to be used on highways and streets but does not include
 - (i) a trolley bus, or
 - (ii) a vehicle designed or adapted to be operated exclusively on rails.

Whether or not a vehicle is "acquired primarily" for the stated use will be decided based on the facts of the particular case. Generally, the Department considers that the "used primarily" test will be met where more than 50% of the distance travelled by the vehicle is for the stated purpose.

¶ 2. The comments in this bulletin are directed to

- (a) a self-employed individual who owns or leases a "motor vehicle" used by the individual or an employee of the individual to earn income from a business (including a profession) of the individual, and
- (b) an individual who is a member of a partnership and personally owns or leases a "motor vehicle" to earn income from the business of the partnership and who is not fully reimbursed by the partnership for all the vehicle's expenses that pertain to the business.

Motor Vehicle Expenses

¶ 3. Where a "motor vehicle" is used by an individual in a taxation year partly to earn business income and partly for personal use, the deductible amount is normally that proportion of the aggregate of the

- (a) total operating expenses (see 5 below) of the vehicle incurred by the individual in the year,
- (b) capital cost allowance (see 13 to 20 below), and
- (c) interest (see 21 below)

that the distance travelled by the vehicle to earn the business income is of the total distance travelled by the vehicle for the year. For example, where the aggregate of (a), (b) and (c) as described above for a year is \$8,000 and the total distance travelled for the year is 32,000 kilometres of which 24,000 represent business use, the deductible amount is \$6,000 determined as follows:

$$\frac{24,000}{32,000} \times \$8,000 = \$6,000$$

¶ 4. Should an individual own or lease two or more "motor vehicles" used partly for business purposes and partly for personal purposes, the above calculation may be applied separately for each vehicle or, for convenience, the calculation may be applied for both or all the vehicles taken together. That is, the operating expenses, capital cost allowance and interest (see 5, 13 to 20 and 21 below) for each "motor vehicle" may be combined and the deductible amount determined on the basis of the ratio of combined distance travelled for business purposes to combined total

distance travelled, provided the result so determined is reasonable and not materially different from that where the determination is made for each vehicle.

¶ 5. The term “operating expenses” referred to in 3(a) above includes the cost of fuel, maintenance (for example, car washes, grease, oil and servicing charges), repairs (other than accident repairs—see 7 below), licences, insurance and, except as noted in 6 below, “eligible” leasing costs (see 9 to 12 below), less the aggregate of all rebates or other amounts (except where used to calculate the “eligible” leasing cost) received or receivable by the individual for the expenses and not included in the individual’s income.

¶ 6. Where an individual, who leases a “motor vehicle” on a long-term basis but is not entitled to claim capital cost allowance on it, makes frequent use of the vehicle during normal work hours for business purposes, but the distance travelled for that purpose is comparatively low, the “eligible” leasing cost (see 9 to 12 below) for that vehicle may be excluded from the operating expenses if the individual so requests and the circumstances warrant it. The “eligible” leasing cost is then apportioned on the basis of a reasonable combination of distance travelled and time the “motor vehicle” was used for business purposes. For example, if a “motor vehicle” were used for business purposes five days out of seven in a normal work week, it might indicate that (allowing for personal use in the evening, usual holidays, time off for sickness, etc.) it was used 65% of the time for business purposes. If, on a distance-travelled basis, the vehicle were used only 25% for business purposes, combining the two factors might suggest that 45% of the “eligible” leasing cost should be attributed to business use. However, where a “motor vehicle” is used infrequently for business purposes, the apportionment must be on the distance-travelled basis alone, even though the vehicle is available at all times for business purposes.

¶ 7. Accident repair expenses, whether incurred to repair damages resulting from the accident to a “motor vehicle” driven by the individual or to the property of others, are deductible in full if the vehicle was being used for business purposes at the time of the accident. Any amount deductible is net after recoveries through insurance or damage claims. No portion of such expenses is deductible if the vehicle was being used for personal purposes at the time of the accident.

¶ 8. To be deductible, “motor vehicle” expenses must be reasonable in the circumstances and supportable by vouchers. (The vouchers need not be filed with the individual’s income tax return; however, they must be retained for examination on request.) A claim by an individual for “motor vehicle” expenses calculated on a cents-per-kilometre (mile) basis is not acceptable. To support a claim where a “motor vehicle” is used in part for business purposes and in part for personal purposes, a record should be kept of total distance travelled and distance travelled for business purposes in a year. The record should

contain at least the date, destination and distance travelled for each trip.

Eligible Leasing Cost

¶ 9. Other than as discussed in 10 below for a “passenger vehicle,” the “eligible” leasing cost (referred to in 5 and 6 above) of a “motor vehicle” for a taxation year is the cost to the individual of leasing the vehicle in the year.

¶ 10. Section 67.3 provides that the “eligible” leasing cost, referred to in 9 above, of a “passenger vehicle” for a taxation year shall not exceed the lesser of

(a) the amount determined by the formula

$$\frac{(A \times B)}{30} - C - D - E$$

$$\frac{(A \times B)}{30} - C - D - E$$

and

(b) the amount determined by the formula

$$\frac{(A \times B)}{.85 C} - D - E$$

where in the formula in (a) above

- A** is \$600 or such other amount as is prescribed,
- B** is the number of days in the period commencing at the beginning of the term of the lease and ending at the earlier of the end of the year and the end of the lease,
- C** is the total of all amounts deducted in computing the individual’s income for preceding taxation years for the actual lease charges for the vehicle,
- D** is the amount of interest that would be earned on the part of the total of all refundable amounts for the lease that exceeds \$1,000, if interest were
 - (i) payable on the refundable amounts at the prescribed rate, and
 - (ii) computed for the period before the end of the year during which the refundable amounts were outstanding, and
- E** is the total of all reimbursements that became receivable before the end of the year by the individual in connection with the lease, and

where in the formula in (b) above

- A** is the total of the actual lease charges for the lease incurred for the year or the total of the actual lease charges for the lease paid in the year (depending on the method regularly followed by the individual in computing income),
- B** is \$20,000 or such other amount as is prescribed,
- C** is the greater of \$23,529 (or such other amount as is prescribed) and the manufacturer’s list price for the

vehicle,

- D** is the amount of interest, that would be earned on that part of the total of all refundable amounts paid on the lease that exceeds \$1,000 if interest were
- (i) payable on the refundable amounts at the prescribed rate, and

- (ii) computed for the period in the year during which the refundable amounts are outstanding, and

E is the total of all reimbursements that became receivable during the year by the individual in connection with the lease.

Subsection 7307(3) of the Regulations prescribed the amount for **A** in the formula (a) above as \$650 for the period after August 1989 and before 1991, and after 1990 the prescribed amount is equal to the total of \$650 and the greatest amount of the Goods and Services Tax (GST) and Provincial Sales Tax (PST) that would have been payable on a monthly payment under the lease in the taxation year of the lessee, if the lease had required monthly payments, before those taxes, of \$650.

Subsection 7307(1) of the Regulations prescribes the amount for **B** in the formula (b) above as \$24,000 for an automobile acquired or leased under an agreement entered into after August 1989 and before 1991, and where the automobile is acquired or leased, under an agreement entered into after 1990, the prescribed amount is \$24,000 plus GST and PST payable had the automobile been acquired for \$24,000.

Pursuant to subsection 7307(4) of the Regulations, **C** in the formula (b) is the amount prescribed for an automobile leased under a lease entered into after August 1989 that is the amount equal to $\frac{100}{85}$ of the amount determined for **B** in this formula.

The prescribed rate of interest for the relevant period is described in section 4301 of the Regulations. The rate is determined quarterly and can be obtained from any Revenue Canada tax services office.

For the purposes of **D** in the above formulas, a “refundable amount” includes any amount that the individual is entitled to receive from the lessor at some time under the lease. It would include an amount loaned to the lessor by the individual to effect a reduction of the lease payments.

The amount determined by the above formulas for a particular taxation year for a “passenger vehicle” may generally be described as the lesser of

- (c) the amount by which \$600 (or such other amount as is prescribed) times the number of “months” the vehicle was leased since the beginning of the lease, less any amounts deducted in prior years for the lease exceeds the deemed interest and receivable reimbursements referred to in **D** and **E**, respectively, of the above formulas, and
- (d) the proportion (not exceeding one) of actual lease payments made during the year that \$20,000 (or such other amount as is prescribed) is of 85% of the amount described for **C** of the formula in (b) above, less the deemed interest and receivable reimbursements referred to in **D** and **E**, respectively, of the above formulas. (This computation is designed to provide a restriction for a leased “passenger vehicle” similar to the capital cost allowance restriction discussed in 13 below for a purchased “passenger vehicle.”)

¶ 11. Where an individual computes income from a farming or fishing business using the “cash method” described in section 28 and the total amount paid in a particular year on a lease (entered into before April 27, 1995) is greater than the amount deductible for the year as determined under the above formulas, the individual may be permitted to claim all or part of that greater amount subject to the following limitation. The individual will be permitted to deduct the amount paid in the year to the extent that the aggregate of that amount and all other amounts deducted in preceding years on the lease does not exceed the aggregate of all amounts on the lease that would be deductible over the term of the lease if such amounts were required to be paid in equal monthly payments. For example, assume that such an individual leases a passenger vehicle for three years commencing on January 1, 1993 and makes a payment of \$3,000 on that date and makes 36 equal monthly payments of \$400 thereafter. If we further assume that no refundable amounts in excess of \$1,000 or reimbursements receivable are involved, the total amount payable under the lease (\$17,400) would be deductible if paid by way of 36 equal payments of \$483.33, because the application of the above formulas in such a case would not reduce the amount deductible. Thus, the individual would be allowed to deduct in 1993 the \$7,800 paid in that year. In 1994 and 1995, the individual would deduct the \$4,800 paid in each of those years.

Note: In a Ways and Means Motion released by the Minister of Finance on June 20, 1996 it is proposed that paragraph 28(1)(e) be amended to provide that payments (other than for inventory) that reduce cash-basis income of a farming or fishing business for a year will not include prepaid expenses relating to a taxation year of the business that is two or more taxation years after the year of payment. It is further proposed that paragraph 28(1)(e.1) will provide a deduction in a taxation year of a taxpayer for amounts paid in a previous year by the taxpayer where the amounts would be deductible in computing income for the current taxation year from the taxpayer’s business of farming or fishing if that income were not computed in accordance with the cash method. To be deductible by a taxpayer the amount will be required to have been paid in a preceding taxation year in the course of carrying on the business of farming or fishing and not be deductible in computing the income of the business for any other taxation year. The amendments, if enacted as proposed, will apply to amounts paid after April 26, 1995, except for amounts paid pursuant to written agreements entered into by the payer before April 27, 1995.

If paragraphs 28(1)(e) and (e.1) are enacted as proposed, the following is an example of the application of those paragraphs.

Assume that an individual computes income from a farming or fishing business using the “cash method” described in section 28 and on January 1, 1996, the individual leases a passenger vehicle for three years, makes a payment of \$3,000 on that date and agrees to pay \$600 per month for 1996, 1997 and 1998.

The application of paragraphs 28(1)(e) and (e.1) would produce the following amounts:

1996 – \$9,200 [(\$600 × 12 months) + \$2,000]

1997 – \$7,200 [\$600 × 12 months]

1998 – \$8,200 [(\$600 × 12 months) + \$1,000]

Section 67.3 would then be applied to the above amounts to determine the “eligible” leasing cost for each year.

Example – Computation of “Eligible” Leasing Cost

¶ 12. The following is an example of a computation of the “eligible” leasing cost for a lease entered into after 1990 for a “passenger vehicle” using the formulas in 10 above for a taxpayer on the accrual basis of reporting income.

Assume the following set of facts:

- | | |
|---|--------------------------|
| (a) Lease charges payable for the year for the vehicle (\$750 per month) | \$ 9,000 |
| (b) Days in the year that the vehicle was leased under the particular lease | 365 |
| (c) Days in the previous year that the vehicle was leased under the particular lease | 184 |
| (d) Amount deducted in the previous year for the vehicle based on the application of the formulas in 10 above for that year | \$ 3,545 |
| (e) Manufacturer’s list price for the vehicle | \$ 30,000 |
| (f) Refundable amount | \$ 12,000 ⁽¹⁾ |
| (g) Prescribed rate under section 4301 of the Regulations | 10% ⁽²⁾ |
| (h) Reimbursements receivable for the year in connection with the lease of the vehicle | \$ 800 |
| (i) Reimbursements receivable for the year and for previous years in connection with the lease of the vehicle | \$ 1,200 |

Based on the above, D of the formula in 10(a) above is \$1,655; that is, $549/365 \times [(\$12,000 - \$1000) \times .10]$, and D of the formula in 10(b) is \$1,100; that is, $(\$12,000 - \$1,000) \times .10$

Computation

The “eligible” leasing cost is the lesser of

$$(i) \quad \frac{\$748^{(3)} \times 549 - \$3,545}{30} - 1,655 - 1,200 = \$7,288$$

and

$$(ii) \quad \$9,000 \times \$27,600^{(4)}$$

$$\frac{\$1,100 - 800}{.85} = \$1,100 - 800 = \$7,100$$

$$.85 \times \$32,470^{(5)}$$

or \$7,100

- (1) The refundable amount of \$12,000 represents an interest free loan made to the lessor by the individual at the beginning of the lease and that is to be paid back by the lessor at the end of the lease.
- (2) To simplify the example, the rate for the full 18 months is assumed to be 10%. The prescribed rate is subject to adjustment for each quarter of a particular year.
- (3) \$650 plus GST and PST.
- (4) \$24,000 plus GST and PST.
- (5) Greater of $\$27,600 \times 100/85$ and \$30,000

Capital Cost Allowance

¶ 13. Where an “automobile” owned by an individual is a “passenger vehicle” costing more than \$20,000 (or such other amount as may be prescribed), the amount of capital cost allowance that may be claimed on the vehicle is restricted by limiting the amount of the capital cost and the undepreciated capital cost of the relevant class (see 14 and 15 below).

¶ 14. Paragraphs 13(7)(g) and (h), respectively, provide that the capital cost of a “passenger vehicle” to an individual is to be determined as follows:

- (a) where the cost of the “passenger vehicle” exceeds \$20,000, or such other amount as is prescribed, the capital cost of the vehicle shall be deemed to be \$20,000 or that other prescribed amount, as the case may be; and
- (b) notwithstanding (a), where the “passenger vehicle” is acquired by the individual at any time from a person with whom the individual does not deal at arm’s length, the capital cost of the vehicle at that time shall be deemed to be the least of
 - (i) the fair market value of the vehicle at that time,
 - (ii) the amount that immediately before that time was the “cost amount” (as defined in subsection 248(1)) to that person of the vehicle, and
 - (iii) \$20,000 or such other amount as is prescribed.

Subsection 7307(1) of the Regulations, described in 10 above, prescribes the amounts for the purposes of paragraphs 13(7)(g) and (h).

¶ 15. Under subparagraph 1100(1)(a)(x.1) of the Regulations each “passenger vehicle” having a cost of more than \$20,000 (or such other amount as may be prescribed for the purposes of subsection 13(2)) owned by an individual and used to earn income is included in class 10.1 depreciable at the rate of 30% on a declining balance basis. Subsection 1101(1af) of the Regulations prescribes a separate class for each such vehicle. The capital cost of the vehicle in each separate class is determined in the manner set out in 14 above. “Passenger vehicles” costing less than

\$20,000 (or such other amount as may be prescribed) and motor vehicles such as vans and pick-up trucks are placed in Class 10 and the balance in the class is subject to capital cost allowance at a rate of 30% on a declining balance basis. Certain other motor vehicles, such as taxi cabs are included in Class 16 and are subject to capital cost allowance at the rate of 40% on the declining balance. Subsection 7307(1) of the Regulations, described in 10 above, prescribes the amounts for subsection 13(2).

¶ 16. Subsection 1100(2) of the Regulations limits the capital cost allowance to one-half the normal amount in the year a “motor vehicle” is acquired or became available for use. However, subsection 1100(2.5) of the Regulations permits an individual to claim, in the year of disposition of a “passenger vehicle” that was included in class 10.1 and that was owned by the individual at the end of the preceding taxation year, one-half the amount that the individual would have been permitted to claim as capital cost allowance had the vehicle not been disposed of.

¶ 17. Where an individual is entitled to claim capital cost allowance in computing total “motor vehicle” expenses, the capital cost allowance claim may be calculated by either of the following methods:

- (a) by determining the amount of interest, operating expenses and capital cost allowance, apportioning them on the basis discussed in 3 above and entering the business portion on the appropriate lines on Form T2124, *Statement of Business Activities*, which is provided with the *Business and Professional Income* booklet (a supplementary income tax guide).
Alternatively, where there is frequent business use of the vehicle during normal work hours but the distance travelled for that purpose is comparatively low, the capital cost allowance may be excluded from the total amount to be apportioned on the basis discussed in 3 above and instead be apportioned separately on the basis discussed in 6 above; that is, on the basis of a reasonable combination of distance travelled and time the vehicle was used for business purposes; or
- (b) subject to (i) and (ii) below, by calculating capital cost allowance on that proportion of the capital cost (see 14 above concerning the \$20,000 limitation) of the vehicle that the business use is of the total use and claiming the allowance separately from other expenses. This alternative method is acceptable only if
 - (i) the proportion of the capital cost on which the allowance is calculated is approximately equal to what the proportion for business use would be on the distance-travelled basis, or on the combined distance-travelled and time-used basis discussed in (a) above, and
 - (ii) an appropriate adjustment under paragraph 13(7)(d) is made concerning any change in the use regularly made of the vehicle for business and personal purposes.

¶ 18. Where a “motor vehicle” is used solely for business purposes for part of a year and solely for personal purposes for the other part, appropriate adjustments under paragraphs 13(7)(a) and (b) must be made to capital cost allowance schedules that may, subject to the comments in 19 below,

result in a recapture of capital cost allowance or a terminal loss. An example of where the foregoing procedure would apply is where an individual practises a profession or carries on a business (such as that of a commission agent) for only part of the year.

¶ 19. By virtue of subsection 13(2), there will not be included in an individual's income any recaptured capital cost allowance on a class 10.1 "passenger vehicle." Any amount not included in income by virtue of subsection 13(2) is deemed to be included in the individual's income for the purpose of B of the definition of "undepreciated capital cost" in subsection 13(21) thus ensuring that the result of the computation under the definition "undepreciated capital cost" in subsection 13(21) of the particular class will be nil.

Also, by virtue of subsection 20(16.1), an individual may not claim a terminal loss for a class 10.1 "passenger vehicle."

¶ 20. For the purposes of the Act and the Regulations governing capital cost allowance, recapture of capital cost allowance and terminal losses, the definition of "total depreciation" in subsection 13(21) defines that amount as the aggregate of amounts deducted for capital cost allowance and terminal losses. The definition includes in "total depreciation" amounts that would have been deducted as a terminal loss but for subsection 20(16.1), as discussed in 19 above.

Interest

¶ 21. Where an amount of interest is paid or payable by an individual on borrowed money used to acquire a "passenger vehicle," or on an amount paid or payable for the acquisition thereof, section 67.2 limits the amount deductible to a maximum of \$250 for each 30 days in the period for which the interest was paid or payable. Thus, the interest referred to in 3(c) above for a "passenger vehicle" is the lesser of the relevant interest paid or payable (depending on the method of computing income) in the period and the amount determined by the formula

$$\frac{(A \times B)}{30}$$

where

A is \$250 or such other amount as may be prescribed, and

B is the number of days in the period for which the interest was paid or payable, as the case may be.

Pursuant to subsection 7307(2) of the Regulations, for the purposes of **A** the amount prescribed for an automobile acquired after August 1989 is \$300.

The comments in the second sentence of 17(a) above regarding the alternative method of apportioning capital cost allowance also apply to apportioning interest.

Joint Owners or Lessees

¶ 22. Where an individual owns or leases a "passenger vehicle" jointly with one or more other persons, section 67.4 provides that the amounts of \$600, \$23,529, \$20,000 and \$250 (or such other amounts replacing them as may be prescribed) referred to in 10, 13, 14 and 21 above shall be apportioned among them on the basis of the fair market value of their respective interests in the vehicle. For example, if an individual owned an interest valued at \$9,000 in a "passenger vehicle" valued at \$27,000, the \$300 limit referred to in 21 above for that individual would be \$100 (that is, \$9,000/\$27,000 × \$300) for each relevant 30 days (\$3.33 per day).

Section 85 Rollover

¶ 23. Where an individual disposes of a "passenger vehicle" (having an actual cost to the individual of more than \$20,000 or such other amount as may be prescribed) to a non-arm's length taxable Canadian corporation pursuant to the provisions of subsection 85(1), paragraph 85(1)(e.4) provides that the amount the individual and the corporation have agreed on in their election shall be deemed to be equal to the undepreciated capital cost of the vehicle to the individual immediately before the disposition. This ensures that the cost amount referred to in 14 above will be maintained in non-arm's length transfers that are subject to subsection 85(1). See the current version of IT-419, *Meaning of Arm's Length* for comments on whether an individual is at non-arm's length with a corporation. Subsection 7307(1) of the Regulations, described in 10 above, prescribes the amounts for paragraph 85(1)(e.4).

General Remarks

¶ 24. Although expenses incurred in travelling between different premises of the same business are deductible by an individual who otherwise qualifies, expenses incurred by the individual for the purpose of travelling between the individual's home and place of business are not, unless it is established that the home is the base of business operations.

If the individual has an office or other fixed place of business located elsewhere, the home is normally regarded as not being the base of business operations. The fact that all services are rendered at some other person's place of business does not necessarily make that place the individual's base of business operations. The individual's home may be the base of business operations even though a room therein is not set aside and used solely for the purpose of earning income. The following are examples of homes that may be regarded as the base of business operations:

- (a) the home of a specialist in anaesthesia who performs all office functions of the practice at home, takes emergency calls there, renders all services to patients at one or more hospitals and has no office or other accommodation at the hospital or at any other place other than the home;
- (b) the home of an independent real estate agent who has an office there, has no business accommodation elsewhere and renders services to clients at their homes or at the sites of real properties; and
- (c) the home of a plumber, electrician or painter whose office is at home where all supplies are kept, who has no other place of business and who renders all services to customers at whatever places are necessary to fulfill contractual obligations.

¶ 25. Travelling "in the course of" carrying on a business does not include travelling from a place where one business is carried on to another place where an entirely different business is carried on. For observations on "Travelling to Rental Properties," please see the current version of *Rental Income*, a supplementary income tax guide.

¶ 26. By virtue of section 67, "motor vehicle" expenses are not deductible to the extent they are unreasonable.

Appendix

Assumptions:

- Dr. Lethe is a self-employed anaesthetist who practices at the General Hospital. She does not have an office where she sees her patients but rather sees them in the hospital after they have been admitted.
- Dr. Lethe has an office in her home where she does all of the administration work in connection with her practice.
- Dr. Lethe's fiscal period ends on December 31.
- On November 1, 1993, Dr. Lethe traded-in the automobile that she had purchased for \$28,000 plus GST and PST in 1990. She was allowed \$15,000 as the fair market value of trade-in. The new automobile cost \$55,000 plus GST and PST.
- Dr. Lethe paid interest of \$800 in 1993 and \$3,200 in 1994 on the money she borrowed to buy the automobile. She paid no interest in 1993 on the automobile that she purchased in 1990.

For the years 1993 and 1994, Dr. Lethe's log on the use of her automobile reveals that approximately 20% of the mileage driven was involved in going to and from the hospital. The log also reveals that approximately 70% of the time when her automobile was away from her home it was in use going to or from the hospital or sitting at the hospital.

Analysis:

The automobile that Dr. Lethe purchased in 1990 was placed in Class 10.1 of Schedule II of the Regulations (see 15 above) since the prescribed amount for passenger vehicles purchased in 1990 was \$24,000 (see the discussion of subsection 7307(1) in 10 above). Pursuant to subsection 1100(2.5) of the Regulations (see 16 above), Dr. Lethe can include capital cost allowance of \$1,499⁽¹⁾ in calculating the amount of automobile expenses that she can deduct in 1993 for this automobile. (While the proceeds of disposition in 1993 exceeded the 1992 undepreciated capital cost, pursuant to subsection 13(2) (see 19 above), there is no recapture of capital cost allowance on Class 10.1 property.)

The automobile that Dr. Lethe purchased in 1993 was placed in Class 10.1 of Schedule II of the Regulations (see 15 above) since the prescribed amount for passenger vehicles purchased in 1993 was \$24,000 plus GST and PST on \$24,000 (see the discussion of subsection 7307(1) in 10 above). The amount of \$24,000 plus GST and PST was \$28,080 in the province where Dr. Lethe lived. Dr. Lethe can include \$4,212⁽²⁾ in 1993 and \$7,160⁽³⁾ in 1994 in capital cost allowance in calculating the amount of automobile expenses that she can deduct for those years for this automobile.

Dr. Lethe can include interest of \$610 in 1993 and \$3,200 in 1994 in calculating the amount of motor vehicle expenses that she can deduct in those years. The interest limit

discussed in 21 above is $\$300/30 \times 61 = \610 in 1993 and $\$300/30 \times 365 = \$3,650$ in 1994.

Generally, the personal use of an automobile includes travelling between a person's home and place of business. However, since Dr. Lethe performs the administrative functions of her profession at home and does not have an office somewhere else, her home can be regarded as her base of business operations. Therefore, travelling between her home and the hospital does not constitute the personal use of her automobile (see 24 above).

Dr. Lethe may deduct approximately 20% of her motor vehicle expenses if she apportions them on the basis of the distance travelled to earn business income to the total distance travelled (as described in 3 above) or approximately 45% [$1/2(20\% + 70\%)$] if she apportions them on the basis of distance and time used in the business (as described in 17(a) above).

While Dr. Lethe includes the various amounts of capital cost allowance and interest noted above in calculating the amount of motor vehicle expenses for the year she must reduce those amounts to reflect her personal use of the automobile to determine the amount that she can deduct in calculating her income.

⁽¹⁾ CCA on the Class 10.1 property purchased in 1990 is calculated as follows:

1990 cost of acquisition as determined under paragraph 13(7)(g) (see 14 above)	\$ 24,000
1990 CCA ($30\% \times \$24,000 \times 1/2^{(i)}$)	3,600

1990 UCC	20,400
1991 CCA ($30\% \times \$20,400$)	6,120

1991 UCC	14,280
1992 CCA ($30\% \times \$14,280$)	4,284

1992 UCC	9,996
1993 CCA ($30\% \times \$9,996 \times 1/2^{(ii)}$)	\$ 1,499
	=====

CCA on the Class 10.1⁽ⁱⁱⁱ⁾ property purchased in 1993 is calculated as follows:

1993 cost of acquisition as determined under paragraphs 13(7)(g) (see 14 above)	\$28,080
	0
⁽²⁾ 1993 CCA ($30\% \times \$28,080 \times 1/2^{(i)}$)	4,212

1993 UCC	23,868
	8
⁽³⁾ 1994 CCA ($30\% \times \$23,868$)	\$ 7,160

- (i) Pursuant to subsection 1100(2) of the Regulations, CCA is reduced to one half of the normal amount in the year a motor vehicle is acquired or becomes available for use (see 16 above). a separate class 10.1 for each passenger vehicle (see 15 above).
- (ii) Pursuant to subsection 1100(2.5) of the Regulations, CCA is reduced to one half of the normal amount in the year a Class 10.1 motor vehicle is disposed of (see 16 above).
- (iii) Subsection 1101(1af) of the Regulations prescribes

Explanation of Changes

Introduction

The purpose of the *Explanation of Changes* is to explain the reasons for the revisions to an interpretation bulletin. It outlines revisions that we have made as a result of changes to the law, as well as changes reflecting new or revised departmental interpretations.

Reasons for the Revision

The bulletin has been revised to reflect amendments to the *Income Tax Act* resulting from S.C. 1994, c.7 Schedule II (S.C. 1991, c.49—formerly Bill C-18) which generally apply after 1987, the *Ways and Means Motion Amending the Income Tax Act and Related Acts* issued by the Minister of Finance on June 20, 1996 and to make incidental changes.

In a Press Release dated December 12, 1995, the Parliamentary Secretary to the Minister of Finance referred to subsections 7307(1) to (4) of the Regulations (as described in ¶s 10 and 21 of the bulletin) and announced that the subsections would not be changed for 1996.

Except as described in the Note at the end of ¶ 11, the comments in the bulletin are not affected by proposed legislation that has been released as of October 30, 1996.

Legislative and Other Changes

¶ 1 reflects the amended definition of “automobile.” Generally, the amendment removes from the definition of “automobile,” buses, vans, pick-up trucks and motor vehicles used for transporting passengers in the business of arranging or managing funerals. The amendment applies to taxation years and fiscal periods commencing after June 17, 1987 that end after 1987.

¶ 10 has been revised as follows:

- to reflect an amendment to section 67.3. The amendment deletes the reference to provincial sales tax and permits taxpayers using the cash basis method of calculating income to deduct amounts paid in connection with the cost of leasing a passenger vehicle;
- to describe the relevant prescribed amounts; and
- to delete a position that relates to individuals who compute income under section 28 and, as a result of a prepayment under a lease, pay an amount in a year that exceeds the amount deductible in the year under section 67.3. The comments were moved to ¶ 11.

The amendment to section 67.3 applies to taxation years and fiscal periods commencing after June 17, 1987 that end after 1987, except that, with respect to amounts paid or payable as a reimbursement in respect of a lease expense, it is applicable to taxation years that end after July 13, 1990.

¶ 11 is part of former ¶ 10. A note has been added at the end of the paragraph to reflect an amendment proposed in the *Ways and Means Motion Amending the Income Tax Act and Related Acts* released by the Minister of Finance on June 20, 1996. The proposed amendment provides that certain payments that reduce the cash-basis income of a taxpayer in a farming or fishing business may not be deducted in the year of payment but may be deducted in a later year. The administrative position described in ¶ 11 will only apply to leases entered into before April 27, 1995 since the Ways and Means Motion of June 20, 1996 amend section 28 to effectively produce a statutory requirement relating to the accounting for prepaid expenses.

¶ 12 (former ¶ 28) gives an example of the application of section 67.3, including the changes described in ¶ 10, and reflects the amounts presently prescribed in section 7307 of the Regulations.

¶ 17(a) (former ¶ 15(a)) reflects revisions made to Form T2124, *Statement of Business Activities*.

¶ 21 (former ¶ 19) reflects an amendment to section 67.2. The amendment eliminates unintended results for taxpayers who use the cash basis method of calculating income when interest is paid on the acquisition of a passenger vehicle. The amendment applies to taxation years and fiscal periods commencing after June 17, 1987 that end after 1987.

In former ¶ 13 the comments concerning the transfer of vehicles from class 10 to class 10.1 have not been carried forward as they are no longer relevant.

Formers ¶s 22 to 24 have not been carried forward as the topics discussed in those paragraphs are fully described in *Rental Income*, a supplementary income tax guide.

An appendix was added to illustrate some of the provisions discussed in the bulletin.

Throughout the bulletin we have deleted observations which are no longer relevant and we have revised some of the wording to improve readability without altering the substance.

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