

## TAXATION

## New 2018 CRA Allowances for Company-Use Vehicles



**Owner-managers should discuss Canada Revenue Agency (CRA) changes to employee vehicle allowances with their CPAs before announcing any changes to company policy.**

To keep up with the rising costs of operating vehicles, Revenue Canada has increased the maximum tax-exempt car allowance deductible for employees to 55 cents per kilometer for the first 5,000 kilometers, and to 49 cents per kilometer for distances travelled in excess of 5,000 kilometers.

If you live in the Northwest Territories, Nunavut or the Yukon, the per-kilometer rate has increased to 59 cents for the first 5,000 kilometers and to 53 cents for distances exceeding 5,000 kilometers.

The rates and application are based on a calendar year. As can be expected, any employee claim for the exemption must be supported by documentation. Employees must keep a travel log for each vehicle indicating:

- date
- starting point of business trip
- destination
- purpose of the trip
- vehicle starting kilometers
- vehicle ending kilometers
- kilometers driven.

Expense reports should be submitted monthly. Management should enforce a policy that travel costs will only be reimbursed after the expense reports are received.

### Use of Personal Vehicle

Because employees and owner-managers alike also use their personal vehicles for business trips, it is important to record the January 1 odometer reading and the December 31 odometer reading of each personal vehicle that may be used for business.

The purpose of the car allowance is to cover all expenses relating to the operation of a vehicle. These expenses include:

- maintenance and repairs
- fuel, including gas, oil and propane, and charging cost
- insurance
- registration and license fees
- leasing costs
- capital cost allowances (a percentage of the cost of the vehicle allowed by the CRA to be offset against revenue as an expense)
- interest costs paid on any loan used to buy the vehicle.

None of these expenses should be submitted to the employer if the employees are receiving a vehicle allowance. The allowance paid is *not* taxable in the hands of the employee only if:

- the allowance is based on the number of kilometers driven for business purposes
- the rate per kilometer is reasonable
- none of the above expenses was reimbursed by the employer.

### **Allowance Less Than Vehicle Expenses**

Sometimes, the allowance paid may be less than the vehicle expenses incurred by the employee while working. In some circumstances, the employees do not get reimbursed for their employment-related expenses at all. If so, employees may claim their out-of-pocket expenses on their personal tax returns.

In order to claim these expenses, the employees should retain copies of the expense reports submitted for the year as well as all the vehicle expenses incurred during the year. They may wish to categorize them into specific expenses as outlined under “Calculation of allowable motor vehicle expenses” within the CRA form T777. If more than one vehicle is used, a detailed record of expenses should be maintained for each vehicle.

Additionally, the employees must obtain a T2200 Declaration of Condition of Employment form to be prepared and signed by the management. This form provides important information about the conditions of employment including:

- whether an employee was required to pay their own expenses while carrying out the duties of employment
- whether the employee was required to travel away from the employer’s place of business in the normal course of employment
- whether the employee received any fixed allowance or per-kilometer reimbursement
- the amounts of allowances/reimbursements received and whether such amounts were included in the employee’s T4 slip.

The employees are able to deduct vehicle expenses on their personal tax returns only to the extent they did not receive sufficient allowance/reimbursements from the employer. Also, they can deduct expenses, even if they received sufficient allowance from the employer, if such allowance was included in their T4 income. Because the deductibility of employment expenses is dependent on each employee’s unique terms of employment, the T2200 form must be completed for anyone hoping to claim employment expenses. The CRA then uses this information to analyze which expenses are deductible.

*"Place of work" may soon include off-premises job sites.*

### **Changing Definition of "Place of Work"**

Kilometers driven from residence to workplace or office (i.e., home base for use of the vehicle for work) are considered "personal" expenses, not reimbursable costs. Recent changes to tax rules further extend the definition of “place of work” itself to include job sites (i.e., off-premises work places). For instance, if an employee is driving directly from home to a job site such as a construction project (i.e., place of work) on a

daily basis for an extended period, that construction site may be considered “home base” and as such, travel to that site would not be considered a reimbursable expense.

## HST / ITC

If employees do not receive a vehicle allowance but remit receipts for reimbursement, a business is allowed to reimburse the expense and offset the HST charged on the submitted receipt against the HST collected on sales. Similarly, when employees submit the car allowance expense report, a business should carve out the HST amount and claim it as an input tax credit (ITC). The ability to offset HST collected with ITCs from car allowances paid is another reason for employers to ensure employees submit expense reports on a timely basis.

## No Change Since 2001

Despite the increase in the cost of vehicles over the last few years, the allowable ceiling costs for vehicle purchases, leases and interest have not risen accordingly. Unfortunately for the taxpayer, the vehicle cost ceiling has remained at \$30,000, the lease cost ceiling at \$800 per month, and the interest cost ceiling at \$10 per month since January 1, 2001.

## Guidance from Your CPA

Vehicle allowances and deductions can be a contentious point between employee, employers and taxation authorities. Owner-managers are encouraged to discuss with their CPA the specific requirements and restrictions that may apply to their workplace and their employees for the 2018 tax year.

## TECHNOLOGY

# Seeing Is Believing



### **New device does more than just locate studs.**

Contractors, especially those whose business is renovating older homes, always need to know the location of studs, wiring or pipes. A simple job of retrofitting a bathroom in an old building, for example, may suddenly become a nightmare when the drill, reciprocating saw, screw, or nail hits electrical wiring or pipes because the wiring or pipes are not where they should be under the modern Building Code. Locating wires and pipes can be an especially serious problem if the previous owners were do-it-yourselfers who disregarded the Code.

Magnetic and electronic stud finders are very helpful for locating studs, but they do not provide an image, nor are they effective in finding electrical wiring or “seeing” through concrete.

*The Walabot produces a 3D image on a cell phone or laptop.*

### **3D Imaging**

A new development in imaging allows a contractor to produce a 3D image of what is behind the wall on a cell phone or laptop. The device (marketed under the name Walabot) uses people-safe broadband radio frequencies of three to 10 GHz. Inside each unit are 18 paired mini-antennas (one transmits a signal and the other receives it). The system can be used on drywall to image studs and can even detect objects behind concrete or wood. The device's sensitivity can also detect pests such as moving rodents beneath wallboard, and can even detect water leaks. The multiple signals and reception allow the software to construct a three-dimensional image of the environment behind the wall. The result is a map of the inside of the wall.

The device has a magnetic mount for attaching to metal shelving and a gel-pad adhesive that allows it to be placed on the cellphone. A USB connects the device to your cell phone and produces an image on your screen. You can also download pictures to your laptop with another connector (wireless transmission is not yet available). The electromagnetic waves can probe through 10 centimeters of concrete or drywall and let you know to what depth a nail or screw can be driven.

Recent improvements include the ability to determine whether the object in the wall is a wooden or metal stud, a pipe or electrical wire, and measure the distance between them. The different materials of the hidden objects can be identified by colors in the electronic images.

### **Specifications**

The dimensions of this device are 16.25 cm x 10.41 cm x 5.08 cm and it weighs 204 grams. The package includes a Micro USB OTG short cable, USB C short cable, protective film, gel pad, and quick-start guide. The software is compatible with Linux, Windows and RPI. Each unit comes with a six-month guarantee.

### **Some Limitations**

The product can only be used on Android phones 5.0 and later generations. A word of caution: the Walabot is not compatible with all Android phones, and thus, before you make the investment, be sure your cell phone is compatible with the Walabot.

At the moment, it appears that the Walabot can only be ordered online from U.S. sources.

### **Reducing Uncertainty**

For those businesses in the renovation trades, these devices not only reduce the uncertainty associated with the question "What is behind this wall?" but also may prevent injury to workers as well as save the contractor from having to pay for damage caused after accidentally cutting through wires or pipes.

## Training for the Future



**New technology makes training easier and more effective.**

Training is an essential part of building and maintaining any successful business. Technological advancements have increased the amount and types of knowledge required to perform a task. There is still a need for some traditional skills, but gone are the days when a new employee learned a fixed body of knowledge and applied that knowledge for their entire career. New training methods are making the training process faster, more efficient and less expensive.

Sending employees off to training courses used to be the only means by which a business could keep workers up to date. But that too appears to be ending as faster, more efficient, less expensive means of upgrading employees flood the work world.

Technological advancements have made work less demanding but have extended the knowledge base required to complete a task. Employers need to realize that access to information on a “need-to-know” basis is an essential attribute that they must embrace if they wish to survive. Management should take advantage of new methods now available within most industries.

### Online Training

Online training is a starting point. This type of training is much like the old classroom approach where the employee watches and listens to experts explain problems and methods. Like classroom training, however, it assumes a “full vessel” (instructor) pouring information into an “empty vessel” (student). This method of instruction, known today as “sage on the stage”, is teacher-centered instead of student-centered. The “sage on the stage” method of instruction does not always provide practical or in-depth discussions of issues because there are often too many participants and not enough instructors. In the “guide on the side” model the instructor draws on the students' work and life experience and guides them to finding their own solutions. The focus of this model is on the process of problem solving through critical thinking but also fully recognizes the role played by raw knowledge. Unfortunately, unless the instruction takes place in real time, online training does not allow much interaction.

### Real-Time Information

Augmented reality (to be distinguished from virtual reality) was developed in the 80s and 90s for military application. Augmented reality enhances selected environments or aspects of them to enrich perception; it does not create an artificial reality. The need to train astronauts and pilots in real time became cost prohibitive, but replicating reality with computer-generated situations trained individuals to deal with potential issues via simulation. The gaming industry has demonstrated how inexpensive it is for computers to generate information perceptible by all the senses. As such, it will not be long before heads-up displays will incorporate augmented reality to guide workers step by step in real time as they learn how to diagnose and fix a specific problem.

*New technology will reduce training time.*

## **Remote Solutions**

The implications of this ability to identify a problem and find a solution are that workers no longer need to retrain every time information becomes outdated or obsolete. This technology will enable employees to learn incrementally and advance at their own pace. Incorporating augmented reality hardware within the workplace will reduce training time, encourage younger workers to join your business and increase productivity. The ability to impart knowledge, experience and skill without the expense of transporting individuals to the job site is a massive cost savings and a step to providing the best possible service to clients in a fraction of the time required to send in a team to fix the problem. This is the model of the call centre in India or the Philippines: technology permits remote solutions to technical problems without the need to send someone to the site of the problem. The fact that a remote expert can solve the problem within a short time today means you can operate your business more efficiently and meet tighter deadlines.

## **Transformation**

Clients want instant fixes to their problems. Employers should consider investing in the new approach to training if they wish to stay in business. Owner-managers should consider the following sequence of a transformation process:

1. Examine their existing business model to determine whether there will be a future market for their service or product.
2. Phase out services and products that will become obsolete within the foreseeable future.
3. Determine how to provide improved services or products for existing customers.
4. List the equipment or process that must be replaced or updated and research the appropriate replacements.
5. Set a timeline for financing, acquiring and integrating the upgraded equipment/process, training staff and reconfiguring the workplace (if necessary).
6. Establish a hands-on training schedule to deal with real issues rather than hypothetical ones presented in a classroom environment. Employees learn faster if they can apply new processes to familiar problems. Once they are up to speed, employees can apply the new knowledge in the existing work environment and expand its application going forward.
7. Engage all employees right from the start in the employer's vision of the business and encourage them to adopt the new skills they will need to prepare them for a future in the organization.
8. Promote the expectation that training will increase productivity and personal satisfaction, reduce turnover, and increase job security.
9. Investigate external training facilities that provide recognized certificates of achievement through formalized training that emphasizes the need to complete or pass a training program. This approach allows your business to evaluate the results supplied by an independent source and to identify those employees who should be set on a career path and those who exhibit sufficient competence to evolve with current and future changes.

## **The Future Is Now**

Owner-managers need to understand the inevitable changes occurring in their business. Perhaps a complete re-think of the business and a five-year plan will be worth the time. Planning and skills development today will build your future business. And, the future is now.

## Age Management



**Combining the skills and experience of older workers with the enthusiasm of younger employees makes a more productive workplace.**

Of Canada's 19.7-million labor force, about 5.0 million persons (25%) are 55 years of age or older, most of whom are between 55 and 65. (Only about 4% of the labor force is over 65.) This pool of older workers is a rich resource of knowledge and skills. Introduction of an age-management strategy within every organization will provide opportunities for both the younger and older worker while increasing the efficiency of the business. Both government

and industry are attempting to facilitate the intergenerational transfer of knowledge, but education takes time; the accumulation of skills through experience can take a long time. Organizations, with their daily demand for traditional as well as new skills, cannot just wait for the education system to provide the new skills.

As can be expected, a person's work abilities may decline with aging as both physical and mental functions diminish with aging. Because the natural rate of physical and mental decline depends on each individual and is not indicated by universal markers such as teething, walking, talking and puberty in children, it is difficult to determine an exact age when an individual's physical and mental capacity suggests retirement.

### Enforce Compliance with Safety Rules

Studies of European workers have found that workers over 50 are more likely to have accidents within the workplace regardless of the amount of training provided before the job commenced. This suggests that employers need to provide the best safety equipment and rigorously enforce compliance with all safety procedures. Safety should be part of every job.

The accident experience of older workers should temper the sometimes risky practical joking and carelessness of some younger workers by showing them potentially dangerous situations and behavior. With old and young looking out for one another, an overall safer workplace should reduce the high cost of injury not only to the individual but also to the business.

### Retain the Mature Worker and Benefit the Organization

Offering the mature worker, the opportunity to work at full capacity provides benefits to the younger worker. Accommodating the needs of older workers can certainly assist in maintaining productivity and may even reduce the possibility of injury to employees or damage to property that often accompany exhaustion or inattentiveness brought on by the work environment.

### *Establish flexible work schedules.*

### Greater Productivity

Many factors will improve the workplace and therefore employee productivity:

- **Establish** flexible working schedules not only in the number of hours worked per day, but also the time of day that work is performed. For example, doing roofing in the early morning or later in the day when

temperatures are lower than between the hours of 10 a.m. and 2 p.m. will enhance both productivity and safety.

- **Rotate** jobs not only to remove monotony (a contributor to accidents) but also to provide a greater depth and range of skills within the workplace among more employees so that a task does not get interrupted when someone leaves, goes on vacation or is off sick.
- **Ensure** a mix of younger workers in any work team. Not only can “old dogs” learn new tricks, but “young dogs” can learn old tricks. Stress on older workers can be reduced if younger workers take on the more demanding physical elements of the task.
- **Reduce** the stress on all employees by investing in:
  - ergonomically designed tools and machinery and a workplace environment that reduces stress through noise reduction, mats on floors and appropriate lighting and air conditioning
  - personal safety equipment that not only complies with legislation, but also meets the needs of all employees
  - safety education and insistence that all safety rules and regulations be followed
  - employee-by-employee risk assessment; younger employees would be evaluated on their ability to complete a task without the experience of a seasoned veteran.

## Combine and Continue

There are many 50+ workers who want to continue working not only for the income but also because they enjoy working and need to feel a purpose in life. A program that considers the work ability of employees on an individual basis regardless of age and co-mingles employees of different ages in the performance of tasks is an excellent means of ensuring the continuation of business by combining the skills and patience of the older generation with the enthusiasm and productivity of the younger worker.

---

### Disclaimer:

*BUSINESS MATTERS* deals with a number of complex issues in a concise manner; it is recommended that accounting, legal or other appropriate professional advice should be sought before acting upon any of the information contained therein.

Although every reasonable effort has been made to ensure the accuracy of the information contained in this letter, no individual or organization involved in either the preparation or distribution of this letter accepts any contractual, tortious, or any other form of liability for its contents or for any consequences arising from its use.

*BUSINESS MATTERS* is prepared bimonthly by the Chartered Professional Accountants of Canada for the clients of its members.

Richard Fulcher, CPA, CA – Author; Patricia Adamson, M.A., M.I.St. – CPA Canada Editor.

**Contact us:** [patricia@adamsonwriters.ca](mailto:patricia@adamsonwriters.ca)