

NEWSLETTER

In our ever-changing business environment, our goal is to be the one constant that our clients can trust and rely upon to provide the business, financial and advisory services they need at an outstanding value to them.

WMKL

Chartered
Professional
Accountants &
Business Advisors

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WMKL Office Hours

Please be advised that we have begun our summer office hours, in effect from Friday, May 19th to Friday, September 1st:

Mon: 8:30am – 5:00pm
Tues: 8:30am – 5:00pm
Wed: 8:30am – 5:00pm
Thurs: 8:30am – 5:00pm
Fri: 8:30am – 12:00pm

The office will be closed in observance of Canada Day on Monday, July 3rd and the Civic Holiday on Monday, August 7th.



Regular office hours will resume in September.

Congrats!

We would like to congratulate our co-op student, Brenna Murphy, on receiving the David Atkinson Surgite Award from Brock University for excelling both in the classroom and on the ice!



We would also like to congratulate Taylor Wormald and her fiancé Dave on their engagement in April! Best wishes to you both for a future full of happiness!



Welcome New Hires!

The Partners and staff at WMKL would like to welcome our new summer co-op students; Victoria Kinzel, Jared Whitelaw, Mitchell Taylor and Nathan Miller.



The following article is reprinted from the newsletter Business Matters with the permission of the Chartered Professional Accountants of Canada:

Available-For-Use Rules on Company Automobiles

Operating an automobile for business and personal use has tax consequences.

Purchasing or leasing an automobile in the company name and allowing employees to drive the automobile has tax consequences that may require owner-managers to add a taxable benefit to the employee's T4.

CRA Definition of Automobile

For there to be a taxable benefit, the employer must first determine whether the vehicle is an automobile under the *Income Tax Act*. The Canada Revenue Agency

(CRA) defines an automobile as "a motor vehicle that is designed or adapted mainly to carry individuals on highways and streets and has a seating capacity for not more than the driver and eight passengers."

This definition of an automobile [paraphrased from 248(1) of the *Income Tax Act*], does not include "a van, pick-up truck, or similar vehicle" that:

1. can seat no more than the driver and two passengers, and in the year it is acquired or leased is used primarily to transport goods or equipment in the course of business, or
2. in the year it is acquired or leased, is used 90% or more of the distance driven to transport goods, equipment, or passengers in the course of business; or
3. pick-up trucks that you bought or leased in the tax year that:
 - a) you used primarily to transport goods, equipment or passengers in the course of earning or producing income
 - b) you used at a remote work location or at a special work site that is at least 30 kilometers away from any community having a population of at least 40,000.

Restrictions on Deductibility

Vehicles that fall within this definition of an "automobile" are subject to a maximum capital cost allowance addition (available for future capital cost allowance) of \$30,000 plus HST. This limitation imposes a significant constraint on many business owners' primary motivation for purchasing the vehicle in the corporate name. Vehicles such as king cab trucks that do not fall within the definition of "automobile" are not subject to such a restriction since they are considered necessary for the business and are not considered "luxury vehicles." There are also restrictions imposed on leased automobiles.

Generally, monthly lease costs for automobiles are restricted to \$800 plus HST.

Taxable Benefits

In addition to the restrictions on the deductibility of annual depreciation (or leasing costs), users of such vehicles are also deemed to have received a taxable benefit from the corporation for the use of the vehicles for non-business purposes.

For example, assume an owner-manager purchases a high-end SUV in the company name but the owner-manager's spouse uses it primarily (i.e., more than 50% of the use) for non-business purposes. Assume also that the base price of the vehicle is \$90,000 and the overall cost of owning the vehicle, once HST is added, is \$101,700. The standby charge to the employee is calculated at 2% per month of the total cost of the vehicle. Thus, the standby charge for the employee at \$101,700 at 2% (\$2,034) per month or \$24,408 per year. The standby charges would be reduced in cases where the vehicle is used primarily for business purposes and annual personal driving does not exceed 20,000 kilometres.

On top of the standby charge, an additional operating benefit of 26 cents per personal kilometre driven is taxable in the hands of the employee. In the case where the vehicle is primarily used for business purposes, the operating benefits could be reduced to 50% of the standby charges if the benefit results in an amount lower than otherwise calculated.

(Standby charges for a lease can be expensive as well. A monthly lease cost of \$1,350 over 84 months creates an annual standby charge of \$10,800 plus an operating expense benefit as mentioned above.)



Owner-Manager's Use of Vehicles

Owner-managers may believe they are not subject to the available-for-use rules because they are shareholders of the corporation and not employees. The CRA has made it clear that owner-managers are subject to the same taxable benefit as employees as indicated by the CRA's reference to archived IT63R5 *Benefits, Including Standby Charge for an Automobile, from the Personal Use of a Motor Vehicle Supplied by an Employer – After 1992*.

Paragraph 18 states:

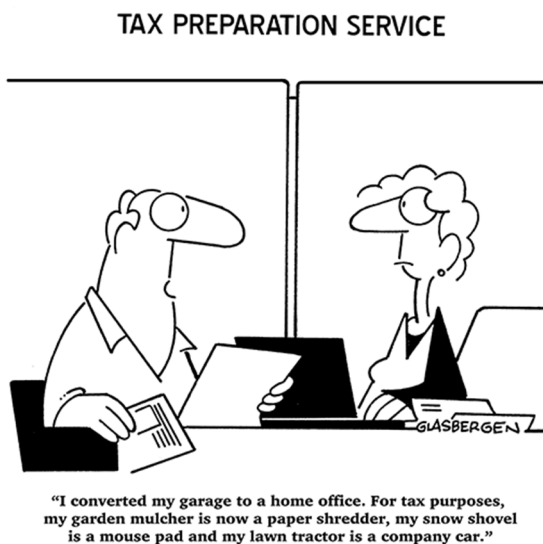
Shareholder Benefit

18. The above guidelines may generally be applied to a shareholder of a corporation. Subsection 15 (5) provides that, for the purpose of subsection 15(1), the value of the benefit to be included in a shareholder's income when an automobile is made available to such a person (or to a person related to that person) by a corporation, whether or not resident or carrying on business in Canada, is calculated on the assumption that subsections 6(1), (1.1) and (2) apply with such modifications as are required in the circumstances, and as though the

references therein to “employer” were read as references to “corporation.”

Working from Personal Residence

Many owner-managers may work from their principal residence and thus have access to the vehicle 24 hours a day. The question is: “Does the close proximity of the vehicle mean that it is available for personal use and therefore a taxable benefit must be added to the owner-manager’s income at the end of the year?”



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CRA: There is no taxable benefit if the automobile is operated for business use only.

The Answer According to the CRA

“An automobile is available to your employee if he or she has access to or control over the vehicle. It includes any part of the day, weekends and holidays during the calendar year.” (This suggests that, since the vehicle is parked at the place of residence and is available 24 hours a day – 365 days a year, there is a taxable benefit.)

“If your employee does not use the company’s automobile for any personal

driving, there is no taxable benefit, even if the automobile is available to your employee for the entire year. This applies as long as the kilometers driven by your employee are in the course of his or her employment duties and the vehicle is returned to your (business) premises at the end of his or her work day.” (This suggests that, if the owner-manager can establish that they do not use the vehicle for personal use at all and park it at the “corporation’s” premises [also the owner-manager’s principal residence] then there may not be a taxable benefit.)

Keep Detailed Records

Convincing taxation authorities that the vehicle is not used for personal use will require due diligence and good records since the CRA will take into consideration many factors when determining whether available-for-use benefits should be added to income.

The first line of defence is a complete log book. Record the odometer reading as at January 1 and December 31 of each calendar year to establish the total annual distance the vehicle has been driven. Log each business trip taken plus a description of the purpose. Hypothetically, the number of kilometers driven for business trips and the total kilometers driven should be the same.

Although it is highly unlikely that an owner-manager would purchase or lease an expensive “toy” and use it primarily for work purposes, the CRA may start to review the purchase of vehicles to ensure they are indeed “work vehicles.” Additional calculations and circumstances will alter the available-for-use add-on, whether for a purchased or leased vehicle. But, as our hypothetical taxable benefit examples demonstrate, the additional taxable benefit will push the employee (i.e. owner-manager) into a higher tax bracket and thus bring closer scrutiny by the CRA.

Consult Your CPA

Calculation of available-for-use benefits is complicated and may be somewhat offset by taxable deductions within the corporation. If your business is considering purchasing or leasing a vehicle that will be operated in the gray area between business and personal, consult your CPA to ensure you understand the potential personal tax consequences.

The following article is reprinted from the newsletter Business Matters with the permission of the Chartered Professional Accountants of Canada:

Password Management

Password manager software is an inexpensive way to secure all your passwords.

Our need for passwords to access everything in our life has become pervasive. Every agency, every computer, every credit card, every smartphone requires an exponential explosion of letters, numbers, and symbols to secure all information from hackers, whether it is personal data or corporate information.

To complicate matters, it is no longer permissible (or advisable) on many sites to use a simple password that is easy to remember, such as a word or name. Instead you must create a password with numbers, special characters, upper and lower case letters, and a minimum length.

One study suggests the average individual has at least 25 Internet-accessible accounts with passwords, while other sources suggest that number could be substantially higher. Is it any wonder that most individuals will, whenever possible, assign the same password to as many accounts as they can? Hackers know this and once they compromise one account, it often doesn't take long to gain access to your other accounts.

Use Different Passwords

The best means of protecting your personal information is to use a different, unguessable password for every account. Most password management software includes the ability to generate passwords, and then store them for you. The beauty of using a password manager is that you only have to remember one password to access all of the passwords you need to remember.

High-end password managers support multiple languages and are able to tie in passwords with hundreds of websites. Two-factor authentication is usually required (and should be!) to protect data in the event someone finds your password and logs in on your device or tries to log in on a new device that is not registered.

Set Up

Setting up a password management app generally requires you to download and install the software and add browser extensions for each browser you use. If you use multiple devices, you will need to load the app on each one. To set up an account, you will use your email address and will need to come up with a master password or passphrase (i.e., one long, hard-to-guess password to rule them all).

One primary password gives you access to all your passwords.

After creating the master password comes the arduous task of entering data about the various accounts or sites you need to access.

Some password managers will import your user names, auto fill standard information, and pull passwords from your existing browsers, although, if you haven't saved the passwords in the browser, the data will have to be entered manually. The password manager will typically assess the strength of your current password, and prompt you to generate a new, stronger password (typically at least 16 characters) for that site. Experts also suggest that you revisit your

security questions and determine whether you want to change them as an added security measure.

Don't Forget Your Master Password

Unlike a typical website with a "forgot password?" feature, the master password is often not recoverable in that way. There are very few password manager systems that provide a "hint" to enable you to try to rebuild your password. For most, you will have to start all over and rebuild the passwords for every site and every account keystroke by keystroke. Commit your master password to memory; do not click "remember my password" for your master password; typing it often will help you to remember it.

Cost Factor

Most of the providers of password manager software provide free trial subscriptions; several offer a limited version of their software for free, with the ability to upgrade for additional features and support for an annual fee. Freebie options aside, password manager services typically range in price from \$20 to \$60 annually.



In Case of Emergency

If a person is incapacitated or dead it will be impossible for someone else to access the accounts. It is important to ensure that the software used provides the ability to set up an emergency contact to inherit your passwords. Some providers allow you to set a waiting period before a trusted individual

can access the codes so that the accounts cannot be accessed while you are alive. If someone tries to access your accounts, you will be notified by email. Other providers allow you to designate specific accounts, such as the business account, that can be accessed by specific people, such as your business partner, or to designate personal accounts to a trusted relative or friend.

Large Benefit for Small Cost

Strong passwords are a necessity for everyone, and we all tend to use passwords that are easy to crack; this makes us easy targets for nefarious people looking to steal our information, money or identities. Using a password manager is an inexpensive way of ensuring access to the ever-growing number of sites we must access in our interconnected world while making it difficult for anyone else to gain access to our personal and financial information.

Reminder

Don't forget to check out the WMKL website under our Taxation News Quick Links. Each month we post articles involving tax updates and tips as well as a Quarterly Newsletter for Personal and Corporate Tax.

Feedback

We encourage your feedback! Please send your comments or suggestions for future issues to: Michelle de Prinse at deprinsem@wmklca.com

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