

How to Calculate Business Use of Company Vehicles



Expenses related to business travel are deductible under the *Income Tax Act* and eligible for input tax credits on GST/HST. So, when a company vehicle is used for both business and other purposes, it's essential to apportion mileage travelled between business and non-business use. The key to doing that is to use the CRA's log book system. Here's how.

The Full Log Book

The best evidence to support the use of a vehicle, according to CRA, is an accurate log book of business travel maintained for the entire year, showing for each business trip:

- The date;
- Destination;
- Purpose; and
- Number of kilometres driven.

[Click here](#) for a Model Business Mileage Log Book Sheet you can adapt to track mileage manually.

The Simplified Log Book

Because keeping the full log book is so cumbersome, CRA established an alternative method to simplify business mileage tracking and cut the paperwork. Under the simplified method, employers must establish a baseline showing their typical business use that can then be projected forward to calculate business travel in the subsequent tax years. There are 4 conditions:

1. Base Year Established

The employer must have previously filled out and kept a logbook covering a full 12-month period that was typical for the business. The so called "base year" doesn't have to be a calendar year.

2. Subsequent Sample Year Period Maintained

Once the base year is set, the employer must keep a logbook for at least one consecutive 3-month period in each subsequent year (the "sample year period").

3. No More than 10% Variance in Mileage

Distance travelled and business use of the vehicle during the sample period must be within 10% of the corresponding 3-month period in the base year (the “base year period”).

4. No More than 10% Variance in Business Use

The calculated annual business use of the vehicle in a subsequent year can't go up or down by more than 10% as compared to the base year.

Applying the Rules

Calculating Annual Business Use: If all 4 conditions are met, business use of the vehicle in subsequent years will be calculated by multiplying the business use as determined in the base year by the ratio of the sample period and base year period. The formula:

$$(\text{Sample Year Period \%} \div \text{Base Year Period \%}) \times \text{Base Year Annual \%}$$

Example: CRA lists an example showing how the calculation will work:

An employer completes a 12-month log book showing the following business use in the base year:

- First Quarter: 52%;
- Second Quarter: 46%;
- Third Quarter: 39%; and
- Fourth Quarter: 67%.

The annual business use for the base year is 49%.

In a subsequent year, the employer maintains a logbook during the 3-month sample period for the second quarter which shows business use as 51% (as compared to 46% in the second quarter of the base year). Business use of the vehicle would be calculated as:

$$(51\% \div 46\%) \times 49\% = 54\%$$

Since 54% is within 10% of the base year business of 49%, the CRA would accept the figure as representing the business use for the vehicle for the entire subsequent year absent evidence to the contrary.

Records Retention

Even though records and supporting documents are only required to be kept for a period of 6 years from the end of the tax year to which they relate, the logbook for the full 12-month period must be kept for a period of 6 years from the end of the tax year for which it's last used to establish business use.

Separate Records for Separate Vehicles

CRA also clarifies that if you use more than one motor vehicle for your business, you must keep a separate record for each vehicle that shows the total and business kilometres you drive, as well as the cost to run and maintain each vehicle. Calculate each vehicle's expenses separately, CRA instructs.