Tax Considerations

The Canada Revenue Agency determines the rate for the deductions on the cost of your car whether you purchase or lease. Leasing costs for a vehicle are deductible but are subject to limits. Lease payment deductions are restricted to $800 per month plus taxes. Again the same depreciation principal applies. If a lease contract is entered into earlier in the year, it will result in more payments and a higher deduction for the year.

If you have a loan for a vehicle purchase, you will be eligible to deduct the interest paid on the loan amount up to $300 per month of interest charges. If you purchase a vehicle (new or used), for $30000 or less before taxes, you can deduct 15% of the cost in the year you purchase it and 30% of the declining balance for every year after that.

You are eligible to deduct vehicle expenses from either your business or employment income (based on the amount you use the vehicle for business.) You must keep detailed records of the kilometers and vehicle usage for business/employment purposes. Failure to keep a logbook can and often does result in full denial of the deduction.

The final tax write off is limited to business use of the vehicle. If you use the vehicle 80% of the time for business, only 80% of the monthly lease or of the annual depreciation plus interest is deductible. Again, the timing of the purchase is important as a purchase on December 31 of any year is the same deduction as a purchase on January 1 of the same year.

If you purchase or lease a vehicle for more than $30,000, you cannot make a claim on the excess amount paid.

Another option is to have your company purchase a vehicle for your use. You may want to discuss with your accountant if this alternative would work for your corporation. You would have to pay the tax for the personal use of the car, so again, it is important to keep detailed records and require about the taxable benefits **before** you go for this alternative.

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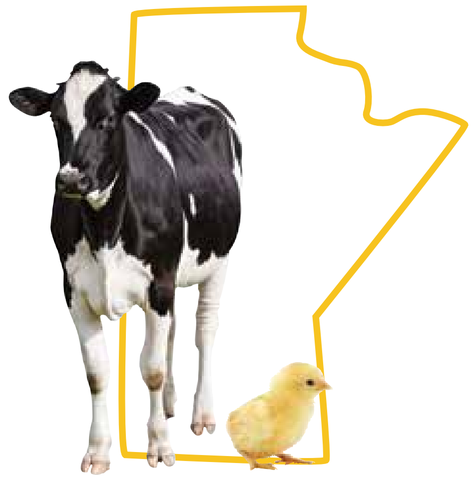

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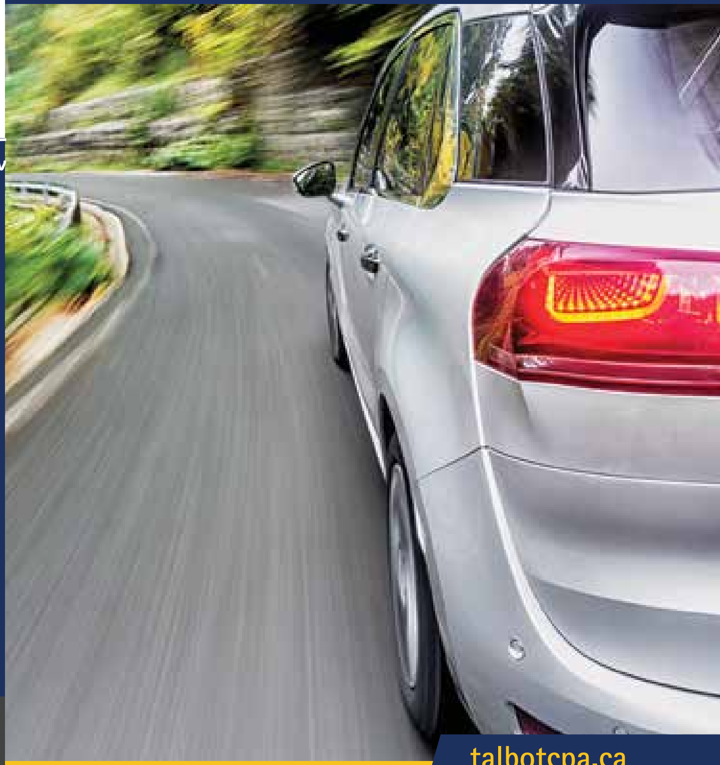

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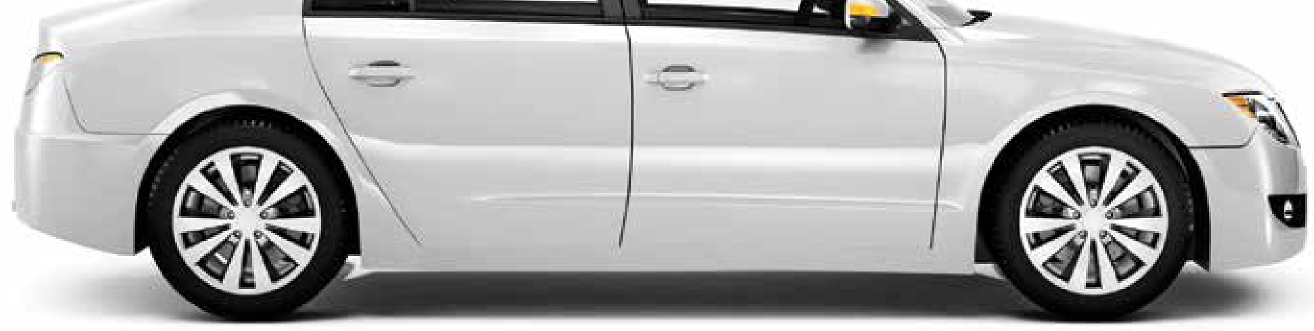


Leasing

If you don't have the financing available to purchase a new vehicle, but can handle monthly payments, leasing may be a good option. Leasing is enticing to consumers because they have the option to drive a newer vehicle with lower monthly payments.

A leased vehicle is usually covered by a warranty for repairs for the term of the lease and you don't have to worry about selling the vehicle when your lease is up. Your lease agreement may have the option to lock in the price you'd have to pay at lease-end if you would like to keep the vehicle.

Disadvantages of Leasing

- Leased vehicles are not considered an asset
- Continual car payments
- Mileage limits – can be expensive if exceeded
- End of lease may require extra payments for excessive "wear and tear"
- Penalties if you cancel your lease before the end of term

Purchasing

If you have the financing available or can secure a bank loan, you may want to consider purchasing your new vehicle. When you purchase, you gain an asset with no limit on the kilometers you drive.

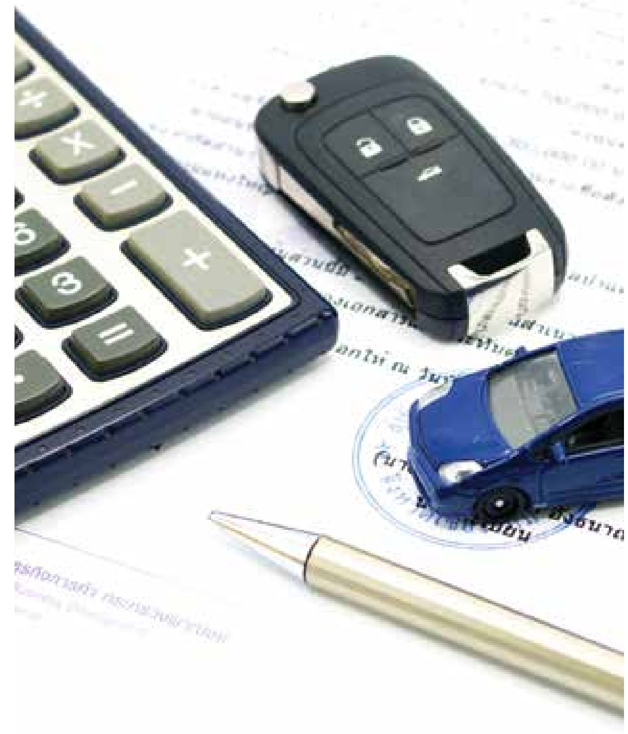
Disadvantages of Purchasing

- Bank loan payments or bigger monthly payments, (if financed)
- Repairs can be costly once vehicle warranty has ended

Summary

The lease or purchase decision is a financial decision. Leasing is not necessarily better for tax purposes, as you may have been led to believe.

Tax rules change from time to time. Therefore, a current analysis must always be undertaken.



For more information, talk to one of our team members at Talbot & Associates to help you decide which direction you should pursue. We have the knowledge and expertise to help you make the best financial decision.