Documenting the use of a vehicle

⚠ Important notice

Information on calculating taxable benefits for employer-provided vehicles is available under Automobile and motor vehicle benefits. Information on motor vehicle expense deductions for salaried employees is available under Allowable motor vehicle expenses.

This document explains the ways in which a person who uses a vehicle in a business can keep track of business travel.

When a vehicle is used partially for business purposes and partially for other purposes, the expenses relating to its use must be apportioned. Only those expenses relating to the business travel or commercial activity are considered eligible for a business deduction and for input tax credits on GST/HST. The proration in such cases is done based on the distances driven. To support a deduction or claim, the person must know and be able to demonstrate the distance travelled for business purposes and commercial activities.

The *Income Tax Act* and the *Excise Tax Act* do not set out specific documentary requirements for recording the usage of a vehicle. The general rule is that the person must retain records that would enable an objective determination of the person's tax payable.

Full logbook

The best evidence to support the use of a vehicle is an accurate logbook of business travel maintained for the entire year, showing for each business trip, the destination, the reason for the trip and the distance covered.

Alternative records

The fact that a viable business exists is usually a strong indicator that a person incurred vehicle expenses, because it is extremely difficult to carry on a business without doing at least some driving. Claims for a very low amount of business use do not require extensive records to demonstrate business travel. As the percentage of business use and the related expense claims increase, more documentation, as discussed below, is expected to be available.

For many persons, the books and records they already retain as part of their normal business operations may be indicative of the presence of and the extent of business driving. An appointment diary indicating what addresses were visited and why, or a log of service calls might be sufficient.

Purchase or sales invoices may indicate that items were picked up or delivered by the taxpayer. Examples of other evidence that may be taken into consideration may include:

- whether the person has another vehicle for personal travel,
- the type of vehicle,
- the nature of the business and the business travel likely required,
- who else drives the vehicle (e.g., family),
- how the vehicle is insured, and
- indications of other personal travel.

CRA auditors will generally consider the usage of a vehicle in the context of the entire operation of that particular business. A proposal to disallow a portion of a claim for vehicle expenses would only occur where the claimed travel seems out of proportion in that overall context and is not supported by sufficient evidence as described here. However, it should be noted that individuals will be responsible for providing sufficient evidence to demonstrate the accuracy of their claims for business distances driven throughout the year.

Logbook for a sample period

The CRA would be prepared to afford considerable weight to a logbook maintained for a sample period as evidence of a full year's usage of a vehicle if it meets the following criteria.

- The taxpayer has previously filled out and retained a logbook covering a full 12-month period that was typical for the business (the “base year”). The 12-month period is not required to be a calendar year.
- A logbook for a sample period of at least one continuous three-month period in each subsequent year has been maintained (the “sample year period”).
- The distances travelled and the business use of the vehicle during the three-month sample period is within 10 percentage points of the corresponding figures for the same three-month period in the base year (the “base year period”).
- The calculated annual business use of the vehicle in a subsequent year does not go up or down by more than 10 percentage points in comparison to the base year.

The business use of the vehicle in the subsequent year 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 for this calculation is as follows:

(Sample year period % ÷ Base year period %) × Base year annual % = Calculated annual business use

Where the calculated annual business use in a later year goes up or down by more than 10%, the base year is not an appropriate indicator of annual usage in that later year. In such a case, the sample period logbook would only be reliable for the three-month period it had been maintained. For the remainder of the year, the business use of the vehicle would need to be determined based on an actual record of travel or alternative records, as discussed above. In these circumstances, the taxpayer should consider establishing a new base year by maintaining a logbook for a new 12-month period.

Example

An individual has completed a logbook for a full 12-month period, which showed a business use percentage in each quarter of 52/46/39/67 and an annual business use of the vehicle as 49% (this percentage is based on annual distance, and not the average of the percentages for the four quarters). In a subsequent year, a logbook was maintained for a three-month sample period during April, May and June, which showed the business use as 51%. In the base year, the percentage of business use of the vehicle for the months April, May and June was 46%. The business use of the vehicle would be calculated as follows:

(51% ÷ 46%) × 49% = 54%

In this case, the CRA would accept, in the absence of contradictory evidence, the calculated annual business use of the vehicle for the subsequent year as 54%. (I.e., the calculated annual business use is within 10% of the annual business use in the base year – it is not lower than 39% or higher than 59%.)

Even though records and supporting documents are only required to be kept for a period of six 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 six years from the end of the tax year for which it is last used to establish business use.

Year of acquisition of a vehicle

The business use of a vehicle in the year it is bought or leased can also have implications as to how the vehicle is defined and limitations on amounts that can be claimed for certain expenses. Individuals should take extra care to document its use in that year. Further information is provided on the CRA's website at http://www.cra-arc.gc.ca/tx/bsnss/tpcs/slprtnr/bsnssxpnss/mtr/typ-eng.html.

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