Understanding the Taxable Benefit on Your Executive Vehicle from VEMA

Prepared by

VEMA
Vehicle and Equipment Management Agency

For Use by Vehicle Coordinators and Executive Vehicle Drivers
For the 2020 Calendar Year

Applicability of this Brochure

This brochure primarily covers taxable benefit considerations for Executive Vehicles from VEMA. Considerations on the eligibility for, and the selection and operation of, such vehicles may be found in the brochure, "Executive Vehicle Guide".

The General Manual of Administration defines an employee as "any person receiving a salary or other remuneration in return for services rendered to the Provincial Government in connection with government business, but excluding persons performing a service for a fee which includes expenses". The Executive Vehicle Guide suggests that Executive Vehicles are those vehicles assigned to and/or driven by the Lieutenant Governor, the Premier, Ministers and their Equivalents, and Deputy Ministers and their Equivalents. The holders of these positions are throughout this brochure therefore referred to as employees of their employer, the Province.

Calculation Methods

Canada Revenue Agency (CRA)'s Income Tax Act (the Act) provides that an employee is taxed on the value of benefits of "any kind whatever" that the employee enjoys. An employer-provided vehicle is probably the most commonly encountered form of benefit. The Act is quite clear in the calculation of the benefit, and provides little room for interpretation.

There are two methods for calculating a vehicle taxable benefit.

1. The **lease payment method** (based on the lease payments made by the employer for the year to an "at arms length" leasing entity).
2. The **capital cost method** (the one currently used by the Province of Manitoba). In 1998, CRA determined that, while Fleet Vehicles Agency (a former Special Operating Agency now amalgamated into VEMA) is a Special Operating Agency and somewhat removed from the rest of government, the assets (vehicles) are in fact "owned" by the Province and therefore we should continue to calculate the taxable benefit based on the capital cost method.

Vehicle Classifications

CRA classifies vehicles for taxable benefit purposes into "automobiles" and vehicles that are "not an automobile". Common examples of vehicles that are not an automobile are trucks and vans that are primarily work vehicles, used substantially for the transport of goods, equipment and passengers for business purposes. Different methods and rates are used to calculate taxable benefits for vehicles that are not an automobile.

This brochure assumes that all Executive Vehicles are **automobiles** for taxable benefit purposes.

Two Types of Benefits for Automobiles

The Act recognizes that there are two separate benefits relating to the personal use of an employer-owned automobile:

1. The first benefit is the **standby charge**. The standby charge relates to the capital cost of the vehicle and arises whenever an automobile is "made available" to an employee.

   When is an automobile considered available? Generally, a vehicle is considered available whenever an employee has access to or control over it. It is unnecessary for the employee to use the automobile and it is usually irrelevant whether the automobile is of a sort that the employee would even want to use. Availability ends only when all keys and the vehicle are returned by the employee to the control of his or her employer.

2. The second benefit relates to operating costs. The **operating cost benefit** relates to the benefit received by the employee because the employer pays for fuel, oil, repairs and maintenance, insurance and other general operating costs for both business and personal use.

The automobile T4 is based on the aggregate of the above two amounts, and decreased by any payments the employee makes to the employer during the calendar year.

Currently, the General Manual of Administration provides that regular Manitoba government employees who are permitted to drive personal as well as business distance on their assigned vehicles are required to have $29.98 + GST deducted from their pay cheques biweekly (or $3.00 + GST daily) for which they can drive up to 500 personal kilometres per month (or 22 personal kilometres per day) without further excess distance charges being imposed.

No payments are required by employees who are assigned Executive Vehicles, with one exception.

The **one exception** to the general rule is that payments are required at the appropriate surcharge rate, as set out in the General Manual of Administration, for the personal use of a government vehicle driven in connection with campaigning for elections and by-elections. All such distance is considered personal distance, and should be reported as such. Payments for this personal distance may be submitted to your Department's Vehicle Coordinator, and will be applied by VEMA against the calculated taxable benefit.

CRA defines **"personal kilometres"** as any driving for purposes other than business by the employee or persons related to the employee. This definition includes vacation travel, driving for personal business (including driving in connection with elections and by-elections), and travel between home and work, even if the employer insists that the employee drive the vehicle home. It is not considered personal kilometres if the employee is required to travel directly from home to a point of call other than the employer's usual place of business (or to a point of call on the way home from the employer's usual place of business).

Reporting Personal and Business Distance

All distance driven on your assigned vehicle(s) should be reported monthly to VEMA. A distance report for this purpose may be obtained from your Department's Vehicle Coordinator.

The distance report permits you, on a monthly basis, to report both your personal and business distance, together with the number of days during the month that the vehicle was available to you. Some drivers of Executive Vehicles report this way.

The majority of the drivers of Executive Vehicles, however, choose to **"self declare"** on an annual basis. To self declare, provide VEMA with the following information within 10 working days following the calendar year end: Signed notification (fax or memo format) of the number of days the assigned vehicle was available, and the personal and business kilometers accumulated during the previous calendar year.

Additional details on distance reporting requirements are provided in the "Executive Vehicle Guide".

The Taxable Benefit Calculation

Standby Charge

The Act states that the standby charge is calculated as 2% of the **cost** of the automobile for every 30 day period in a year where the automobile is available to the employee.

If a $25,000 vehicle is available to an employee for 365 days (which equates to 12-30 day periods), the **standby charge** would be:

$25,000 x .02 x 12 = **$6,000.00.**

To calculate the number of 30 day periods, the Act states that the total days available are divided by 30. If the quotient is:

- Not a whole number and exceeds one, it is rounded to the nearest whole number.
- Equidistant from two consecutive whole numbers, it is rounded to the lower of the two numbers.
- Less than one, use the decimal number.

Reduced Standby Charge

The Act provides for a reduced standby charge when more than 50% of the distance travelled by the vehicle while it is available for use is business related. (In 2002 and prior years, it was required that at least 90% be business distance to qualify for a reduction.) The reduced standby charge is not available if personal use kilometres exceed 1,667 for each 30 day period the vehicle is available—where personal use exceeds 1,667 kilometres per month (20,004 kilometres annually), the normal standby charge applies.

The reduced standby charge follows the normal standby charge calculation with one additional variable—the Benefit Reduction Ratio (BRR).

The BRR is calculated by dividing the number of personal kilometres driven by the number of 30 day periods of availability multiplied by 1,667.

Let's assume in the previous example that the employee qualifies for the BRR, with personal kilometres amounting to 9,000 of 25,000 total kilometres driven.

The **BRR** is then:

9,000 / (12 x 1,667) = 0.4499.

The **reduced standby charge** is calculated as:

$25,000 x .02 x 12 x 0.4499 = **$2,699.40.**

Quite a difference from the normal standby charge calculation!!!

Operating Cost Benefit

Generally speaking, the operating cost benefit is the lesser of one-half of the standby charge, or personal kilometres driven multiplied by a cent per kilometre amount (as prescribed by CRA). For 2020, the per kilometre rate as prescribed by CRA is 28 cents.

Using the data from the above example for the reduced standby charge, the **operating cost benefit** is the lesser of:

$2,699.40 x 50% = $1,349.70 OR 9,000 kilometres x 0.28 = $2,520.00

In this case, $1,349.70 is the figure used for the operating cost benefit.

Numbers for Employee's T4

The standby charge and operating cost benefit combine to become the **aggregate T4**:

$2,699.40 + 1,349.70 = **$4,049.10.**

The aggregate T4 is reduced by payments made by the employee. Let's assume that 3,000 of the 9,000 personal kilometres were driven in connection with a by-election, and that the class of vehicle surcharge rate according to the General Manual of Administration is 23.3 cents per kilometre plus GST. The **net T4** becomes:

$4,049.10 – 732.00 in payments to the Department = **$3,317.10** reported as employment income in Box 34 on the T4 slip.

Items for Consideration

- The Act states that the **capital cost** of the vehicle is used in the standby charge calculation. This is the **price paid, not the depreciated value of the vehicle**. In addition, the Act was amended in 1997 to provide for the standby charge calculation as though the employer pays both GST and PST on the vehicle, whether such taxes are paid or not.

- **Where an older model year vehicle has been exchanged for a new model year vehicle, expect the T4 amount to rise considerably.** Vehicle prices at VEMA have risen from an average of $13,400 in 1993 to $34,500 in 2018, an increase of approximately 257%.

- For vehicles that are automobiles for taxable benefit purposes, there is **a significant reduction in the calculated benefit where personal distance is less than 50% of total distance**. Consider the calculation difference between 49% and 51% personal distance in the example provided below.

- **Reducing days of availability by a relatively small number of days often does not affect the number of 30 day periods a vehicle is available.** For example, 365 days is 12-30 day periods, so is 360 days, as is 355 days, and 350 days, and 346 days. 345 days, however, becomes 11-30 day periods.

- Days of availability has a lesser effect on the standby charge calculation when the individual qualifies for the Reduced Standby Charge. The **Reduced Standby Charge is not available when the driver has more than 1,667 personal kilometres per month (20,004 per year).**

- The cost to the driver is not the taxable benefit amount. His or her cost is the income tax attracted at the driver's marginal rate of tax (the top marginal rate of tax in Manitoba in 2020 is 46.4%). For that cost, **the driver does not have to make car payments, absorb the decrease in value as the vehicle depreciates, or pay for fuel, repairs and maintenance, and insurance.**

Calculation Example at Various Personal/Business Distance Ratios

- The automobile is driven 30,000 kilometers per year.
- The automobile is available to the driver for 365 days in the year.
- The capital cost including taxes amounts to $30,000.
- No payments are made by the driver in connection with personal distance driven.

	Personal Distance Compared to Total Distance			
Calculation information	**10% 3,000 kms**	**30% 9,000 kms**	**49% 14,700 kms**	**51% 15,300 kms**
Standby charge - capital cost ($30,000) x 2% x 12 x (personal kms/ 20,004) - reduced where personal distance is less than 50%	$ 1,079.78	$ 3,239.35	$ 5,290.94	$ 7,200.00
Operating cost benefit – lesser of ½ of the standby charge (except 51%) OR personal kms x 28 cents	539.89	1,619.68	2,645.47	4,284.00
Payments made by driver	-	-	-	-
Taxable benefit for T4 slip purposes	**$ 1,619.67**	**$ 4,859.03**	**$ 7,936.41**	**$11,484.00**

Important Reminder to Drivers

On a monthly basis, detailed distance reports are to be prepared and signed by you, showing a record of all distance incurred. On an annual basis, unless you have reported this information monthly, your written self-declaration requires you to segregate business and personal use, together with the number of days during the year that the vehicle was made available to you.

You should be aware that you are directly responsible for accurately and completely recording all distance incurred. Should your distance reports or self-declaration information be challenged by CRA during an investigation, it is you as the driver who will be held accountable for verifying all information provided, as their questions and information requirements relate to a personal income tax issue.

Notes or Questions to Ask