

Understanding Your Vehicle Taxable Benefit

Prepared by



For Use by Vehicle Coordinators and Drivers for the 2023 Calendar Year

Understanding Your Vehicle Taxable Benefit

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. Not surprisingly, when dealing with vehicle benefits, the Act is quite clear in the calculation of the benefit, and provides little room for interpretation.

Calculation Methods

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 vehicle benefit based on the capital cost method.

Two Types of Benefits for Vehicles that are considered to be "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, Manitoba government employees may 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.

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, 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 company's usual place of business (or to a point of call on the way home from the company's usual place of business).

The Calculation for Vehicles that are considered to be “Automobiles”

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:

$$\$25,000 \times .02 \times 12 = \mathbf{\$6,000.00.}$$

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 6,000 of 25,000 total kilometres driven.

The **BRR** is then:

$$6,000 / (12 \times 1,667) = 0.2999.$$

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

$$\$25,000 \times .02 \times 12 \times 0.2999 = \mathbf{\$1,799.40.}$$

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

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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 2023, the per kilometre rate has been increased to 33 cents.

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

$$\$1,799.40 \times 50\% = \$899.70 \quad \text{OR} \quad 6,000 \text{ kilometres} \times 0.33 = \$1,980.00$$

In this case, \$899.70 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**:

$$\$1,799.40 + 899.70 = \mathbf{\$2,699.10}.$$

The aggregate T4 is reduced by payments made by the employee, whether they are payroll deductions or the submission of personal cheques or money orders to the employer. Using the \$29.98 + GST biweekly amount from the General Manual of Administration, a government employee who has a vehicle available for 12 months would have \$818.48 deducted.

The **net T4** becomes:

$$\$2,699.10 - 818.48 = \mathbf{\$1,880.62}.$$

Where a Vehicle is "Not an Automobile" for Taxable Benefit Purposes

Common examples are trucks and vans that are primarily work vehicles, used substantially for the transport of goods, equipment or passengers for business purposes.

The rules on the classification of a vehicle as "not an automobile" for taxable benefit purposes are complicated. They depend on the primary purpose of the vehicle, and on the work sites and home base for the vehicle. The primary purpose of a vehicle may vary from job to job, and from year to year. The employee's department makes an annual designation (usually after the fact) as to whether an assigned vehicle is or is not an automobile for taxable benefit purposes. In cases where it is considered to not be an automobile, and personal distance is incurred, a benefit is still deemed to be conferred on the employee. In 2023, that charge is a **prescribed 68 cents per kilometre on the first 5,000 personal kilometres, and 62 cents thereafter**.

Using the information in the previous example, the benefit becomes:

$$(\$5,000 \text{ personal kilometers} \times 0.68 = \$3,400.00) + (1,000 \text{ personal kilometers} \times 0.62 = \$620.00) = \$4,020.00, \text{ less payments of } \$818.48 = \mathbf{\text{a net T4 of } \$3,201.52}.$$

In this example, the driver is better off with his or her assigned vehicle designated as an automobile for taxable benefit purposes.

Home at Night Policy for “Not an Automobile” Units that Qualify

There is a special vehicle taxable benefit rate for trucks and vans that qualify under Canada Revenue Agency’s “Motor Vehicle Home at Night Policy”. For 2022, that rate per personal kilometer has been increased to 33 cents from 29 in 2023.


To qualify for this special rate, the vehicle has to meet the various tests to be classified as “not an automobile”. In addition, the department must also tell the employee in writing that he or she cannot make any personal use of the vehicle other than travelling between work and home.


The department has to have valid business reasons for making the employee take the vehicle home at night, such as:


- It would not be safe to leave tools and equipment at the department’s premises or on a worksite overnight; or
- The employee is on call to respond to emergencies, and the vehicle is provided to enable the employee to respond more effectively to those emergencies.


The vehicle must be specifically designed or suited for the department’s business and is essential in the performance of the employee’s duties. Just transporting the employee to a work location does not meet the condition of “essential in the performance of employment duties”.


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 have risen from an average of \$13,400 in 1993 to \$54,972 in 2023, an increase of approximately 410%.

 **Keeping personal kilometres at 10% to 15%** of the total kilometres driven substantially reduces a T4; it **does not, however, always eliminate a T4**.

 **Even though a driver makes all required bi-weekly payroll deductions and excess distance surcharges, there may still be a taxable benefit T4.** That’s because the deductions and surcharges are those required by the General Manual of Administration, and they have not been updated since 1990. Taxable benefit calculations by Canada Revenue Agency are based on 2023 prices. Costs of vehicles, gasoline, insurance, and repairs and maintenance are significantly higher in 2023 than they were in 1990.

 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 each of the examples on pages 6 and 7.

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VEMA 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, as is 346 days. 345 days, however, becomes 11-30 day periods.

VEMA 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).**

VEMA Having a vehicle designated as "not an automobile" used to just about always provide a T4 with a lower calculated benefit. As the per kilometre rates for such vehicles continue to increase, however, that's no longer the case. Consider the example on page 4.

VEMA The cost to the driver is not the taxable benefit amount. His or her cost is the sum of the bi-weekly payroll deductions, excess distance surcharges, and the income tax attracted at the driver's marginal rate of tax. 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 Examples for a Half Ton Truck and an Intermediate Sedan

- Each vehicle is driven 30,000 kilometers per year through 365 days of availability.
- Capital cost amounts including taxes are \$35,000 for the half ton truck and \$25,000 for the intermediate sedan.
- Biweekly payroll deductions are \$818.48 for 2023 including GST. Excess distance charges are in accordance with the General Manual of Administration rates (see Charges, AH-31-02) plus GST.

Half Ton Truck (Class 3 in General Manual of Administration)

Calculation information	Personal Distance Compared to Total Distance			
	10% 3,000 kms	30% 9,000 kms	49% 14,700 kms	51% 15,300 kms
Automobiles				
Standby charge - capital cost (\$35,000) x 2% x 12 x (personal kms/ 20,004) - reduced where personal distance is less than 50%	\$ 1,259.75	\$ 3,779.24	\$ 6,172.77	\$ 8,400.00
Operating cost benefit – lesser of ½ of the standby charge OR personal kms x 33 cents	629.88	1,889.62	3,086.39	4,200.00
Payments made by driver	(818.48)	(1,498.88)	(2,791.64)	(2,927.72)
Taxable benefit for T4 slip purposes as an automobile	\$ 1,071.15	\$ 4,169.98	\$ 6,467.52	\$ 9,672.28
Not an Automobile				
Benefit calculation - Personal kms x 68 cents through 5,000 personal kms, 62 cents thereafter	\$ 2,040.00	\$ 5,880.00	\$ 9,414.00	\$ 9,786.00
Payments made by driver	(818.48)	(1,498.88)	(2,791.64)	(2,927.72)
Taxable benefit for T4 slip purposes as a non-automobile	\$ 1,221.52	\$ 4,381.12	\$ 6,622.36	\$ 6,858.28

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Half Ton Truck (Class 3 in General Manual of Administration)

Calculation information	Personal Distance Compared to Total Distance			
	10% 3,000 kms	30% 9,000 kms	49% 14,700 kms	51% 15,300 kms
	Not an Automobile (Motor Vehicle Home at Night)			
Benefit calculation – Personal kms x 33 cents	\$ 990.00	\$ 2,970.00	\$ 4,851.00	\$ 5,049.00
Payments made by driver	(818.48)	(1,498.88)	(2,791.64)	(2,927.72)
Taxable benefit for T4 slip purposes as a non-automobile home at night unit	\$ 171.52	\$ 1,471.12	\$ 2,059.36	\$ 2,121.28

Intermediate Sedan (Class 1 in General Manual of Administration)

Calculation information	Personal Distance Compared to Total Distance			
	10% 3,000 kms	30% 9,000 kms	49% 14,700 kms	51% 15,300 kms
	Automobiles			
Standby charge - capital cost (\$25,000) x 2% x 12 x (personal kms/ 20,004) - reduced where personal distance is less than 50%	\$ 899.82	\$ 2,699.46	\$ 4,409.12	\$ 6,000.00
Operating cost benefit – lesser of ½ of the standby charge (except 51%) OR personal kms x 33 cents	449.91	1,349.73	2,204.56	5,049.00
Payments made by driver	(818.48)	(1,353.98)	(2,371.43)	(2,478.53)
Taxable benefit for T4 slip purposes as an automobile	\$ 531.25	\$ 2,695.21	\$ 4,242.25	\$ 8,570.47
	Not an Automobile			
Benefit calculation - Personal kms x 68 cents through 5,000 personal kms, 62 cents thereafter	Sedans, by definition, can only be classified as automobiles.			
Taxable benefit for T4 slip purposes as a non-automobile	\$ N/A	\$ N/A	\$ N/A	\$ N/A

Important Reminder to Drivers

On a monthly basis, detailed distance reports are to be prepared and signed by you, showing daily records of all distance incurred. These reports must segregate business and personal use, and must be approved/authorized in writing by your immediate supervisor.

You should be aware that you are directly responsible for accurately and completely recording all distance incurred. Should your distance reports 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.

