

REIMBURSING MILEAGE



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Did you know that employees may be reimbursed for the use of their personal vehicles for work-related activities? In this article, Gilbert Langerak discusses some guidelines and practical considerations for charities that wish to make mileage reimbursements to their employees.

The Canada Revenue Agency (CRA) has an administrative policy that allows for reimbursements to be paid to employees for the use of their personal vehicles on their employer's business. For charities, this can also include volunteers if allowed by policy and budget capacity. These reimbursements can be provided on a tax-exempt basis if certain CRA rules are followed.

CRA Administrative Rules

To be tax-exempt, CRA requires that mileage reimbursements be reasonable.

Reasonableness is determined by

- maintaining a full logbook for kilometers driven on ministry business; and
- ensuring CRA prescribed rates are not exceeded.

CRA notes that the logbook must document "each business trip, the destination, the



reason for the trip and the distance covered."¹

For 2016, CRA's prescribed rates were

- 54 cents per kilometre for the first 5,000 kilometres in a year;
- 48 cents per kilometre for any excess;
- 4 cents more in the Yukon, Northwest Territories, and Nunavut.

CRA sets the rates for the upcoming year

near or on December 31.²

Because mileage payments are reimbursements, they are not taxable. However, if the total paid to an employee exceeds the CRA prescribed rates multiplied by the ministry kilometres driven in the year, the entire amount must be processed through payroll as a taxable benefit, subject to statutory deductions (i.e., CPP contributions, EI premiums, and income tax withholdings). This stringent rule likely exists to discourage insufficient record keeping and claim abuses.

An alternative, to avoid the taxable benefit, is for the employee to pay back the excess prior to calendar year-end or, at the latest, before T4 slips are issued for the year. In an overpayment situation that results in a taxable benefit, an employee may be able to deduct some vehicle expenses in his/her income tax filings if the employer provides a completed T2200 form.³ Please note that it's not acceptable for the employer to simply add the overpayment to the employee's T4 slip as additional income. If the charity is audited, there must be a clear trail to show CRA that the employee paid back the excess on a timely basis.

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General Comments

Requiring an employee to complete a mileage reimbursement claim periodically (e.g., monthly, quarterly) is a helpful control mechanism. The claimed kilometres should be verified to the logbook.

In certain circumstances, a rate greater than the prescribed rates may be "reasonable" (e.g., driving in a foreign country where capital and/or operating costs for a vehicle are much higher than in Canada). Organizations paying more than the CRA prescribed rates for such reasons should carefully document their justification for doing so.

Additional Comments and Best Practices

1. The employer must be satisfied that a logbook is being properly maintained. The logbook should be provided to the employer after the year-end for a final reconciliation to the reimbursement payments made in the year.
2. Ministry mileage does not include driving to/from a church or ministry office.⁴ However, a trip that includes an occasional stop for a business purpose could result in some reimbursable

mileage (e.g., going from an office supply store to work).

3. Subject to organizational policies, volunteers may be reimbursed for mileage accumulated on ministry activities. However, this could cause liability issues that must be discussed with your ministry's insurance provider.
4. Driving a high-cost or luxury vehicle does not justify a higher rate, even though the cost of owning/operating one may be higher than CRA's prescribed rates.
5. Kilometres driven that are more than the amount reimbursed by the employer may be carried forward to the next year if the employer's policy allows. If not, a T2200 form tax deduction submission may be applicable (see point 7 below).
6. Registered Canadian charities that pay mileage within CRA's prescribed rates may claim a Public Service Bodies Rebate for GST or HST deemed included in those reimbursements. To determine GST, the formula is 5/105 of the amount reimbursed. The HST formula is the HST rate divided by (100 plus the HST rate). For example, if HST is 13%, the factor is 13/113. Once the GST or HST amount

is determined, the appropriate rebate rate(s) can be applied.


7. Please note that CRA's prescribed rates are maximums for tax purposes. Charities with budgetary constraints may pay less. If the payment is "unreasonable" (i.e., below the costs of operating the employee's vehicle), the employee may be able to use a T2200 form to claim a tax deduction for the portion of their vehicle costs not covered by the employer's reimbursement.
8. Whatever reimbursement rate is chosen, it should be applied consistently.

Endnotes

- 1 Canada Revenue Agency, "Documenting the use of a vehicle," last modified July 6, 2011, www.cra-arc.gc.ca/whtsnw/lgbk-eng.html.
- 2 Canada Revenue Agency, "Automobile allowance rates," last modified December 31, 2015, www.cra-arc.gc.ca/tx/bsnss/tpcs/pyrll/bnfts/tmbll/wnc/rts-eng.html
- 3 Canada Revenue Agency, "T2200 Declaration of Conditions of Employment," last modified January 5, 2016, www.cra-arc.gc.ca/E/pbg/tf/t2200/README.html
- 4 Canada Revenue Agency, "T4044 Employment Expenses 2015 - Includes forms T777, TL2, T2200, and GST370," Chapter 5, last modified January 5, 2016, www.cra-arc.gc.ca/E/pub/tg/t4044/

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