

**LIMITS AND RATES GOVERNING THE USE OF AN AUTOMOBILE FOR 2021
AND HARMONIZATION WITH THE RELIEF MEASURES ANNOUNCED IN
THE DECEMBER 21, 2020 FEDERAL GOVERNMENT NEWS RELEASE**

On December 21, 2020, the Department of Finance Canada announced in a news release the limits governing the deductibility of automobile expenses and the rates used to calculate the value of the taxable benefits relating to the use of an automobile that will apply for 2021.¹

At that time, legislative proposals were also presented to stipulate the temporary rules applicable to the determination of the value of the taxable benefit pertaining to an automobile for 2020 and 2021.²

□ Limits and rates governing the use of an automobile

The Department of Finance Canada has announced that most of the limits and rates that applied in 2020 will continue to apply in 2021. However, the general rate prescribed to determine the value of the taxable benefit that an employee receives in respect of the personal portion of the cost of operating an automobile paid by the employer will be reduced by 1 cent to 27 cents per kilometre. For individuals whose main employment consists in selling or leasing automobiles, the rate will be reduced by 1 cent to 24 cents per kilometre.

In keeping with the principle of substantial harmonization of tax legislation regarding automobiles, the various limits and rates governing the deductibility of automobile expenses and the calculation of the value of taxable benefits relating to the use of an automobile contained in Québec's tax legislation and regulations will be, for 2021, the same as those applicable under the federal tax system.

The limits and rates are presented in an appendix.

¹ Department of Finance Canada, *Government Announces the 2021 Automobile Deduction Limits and Expense Benefit Rates for Businesses and Temporary Adjustments to the Automobile Standby Charge Due to COVID-19*, December 21, 2020 [online] [<https://www.canada.ca/en/department-finance/news/2020/12/government-announces-the-2021-automobile-deduction-limits-and-expense-benefit-rates-for-businesses-and-temporary-adjustments-to-the-automobile-standby-charge.html>].

² Department of Finance Canada, *Temporary Adjustments to the Automobile Standby Charge for the 2020 and 2021 Taxation Years Due to COVID-19*, December 21, 2020 [online] [<https://www.canada.ca/en/department-finance/news/2020/12/temporary-adjustments-to-the-automobile-standby-charge-for-the-2020-and-2021-taxation-years-due-to-covid-19.html>].

□ Temporary rules applicable to the determination of the value of the taxable benefit relating to an automobile for 2020 and 2021

When an employer provides an employee with an automobile that the employee uses for personal purposes, the employer must calculate a benefit relating to the standby charge and a benefit relating to the automobile's operating expenses and add them to the employee's remuneration.

To calculate the benefit relating to the standby charge, an employer can use a simplified or a detailed method. Essentially, the detailed method differs from the simplified method in that it offers the possibility of calculating a reduction of the value of the standby charge provided that all the following conditions are met:

- the employer requires that the employee use the automobile to perform his duties;
- the employee uses the automobile more than 50% of the time in the performance of his duties;
- the number of kilometres that the employee travels for personal purposes does not exceed 1 667 per 30-day period or a total of 20 004 in the year.

To calculate the benefit relating to the operating expenses, aside from the basic method, a simplified method is made available to the employer. Under the simplified method, the benefit is calculated by considering half the benefit relating to the standby charge determined beforehand, while the basic method calculates the benefit by applying a prescribed rate per kilometre to the number of kilometres that the employee travels for personal purposes.

The simplified method can be used when the following conditions are met:

- the employee uses the automobile more than 50% of the time in the performance of his duties;
- the employee has notified the employer in writing, before the end of the year, that he intends to use the simplified calculation method.

Owing to the COVID-19 pandemic, some businesses have considerably reduced their commercial operations in 2020, which may have reduced the number of kilometres that employees travelled in performing their duties in relation to a normal year.

This situation may influence the calculation of the benefit relating to the standby charge as determined by the detailed calculation method by limiting access to the reduction of the value of the standby charge, given that some employees will not have used, more than 50% of the time, the automobile provided by their employer in the performance of their duties.

In order to remedy this situation, the Department of Finance Canada is proposing, for 2020 and 2021, that employers consider the level of use of the automobile observed in 2019 to determine if the automobile is used by the employee mainly in the performance of his duties. This approach will establish, for 2020 and 2021, eligibility for:

- the reduction of the value of the standby charge stipulated in the calculation of the benefit relating to the standby charge according to the detailed method;
- the simplified method to calculate the benefit relating to operating expenses. In this respect, it is proposed that the employees concerned be entitled to this option without having to notify their employer.

For greater clarity, only employees who use an automobile provided by the same employer as in 2019 can take advantage of these temporary rules. Moreover, the calculation of the benefit relating to the automobile for 2020 and 2021 will be made using data specific to the two taxation years.

At the same time, the Department of Finance Canada has proposed a measure aimed at corporations resulting from a merger that allows them to be considered as the same employer as the companies replaced, for the application of these temporary relief measures pertaining to the use of an automobile provided by an employer.

Considering that the Québec taxation system is essentially harmonized with the federal taxation system as regards the calculation of the taxable benefit relating to an automobile that an employer makes available to his employee, Québec tax legislation will be amended to incorporate therein, by adapting them to its general principles, the amendments made to the federal tax legislation concerning the relief measures announced on December 21, 2020.

The amendments to the Québec taxation system will only be adopted after federal legislation is assented to that follows upon such legislative proposals, bearing in mind the technical amendments that may be made thereto prior to the assent or adoption. Additionally, they will be applicable on the same dates as those adopted for the application of the federal legislative proposals with which they are being harmonized.

Lastly, it is important to note that, as the Department of Finance Canada clarified with regard to the goods and services tax and the harmonized sales tax (GST/HST), obligations concerning the Québec sales taxes (QST) that may stem from the determination of the value of the taxable benefit relating to an automobile for 2020 and 2021 remain unchanged since they will continue to be based on the amount of the benefits for automobile expenses determined according to the rules governing income tax.

For information concerning the matters dealt with in this information bulletin, contact the Secteur du droit fiscal, de l'optimisation des revenus et des politiques locales et autochtones at 418 691-2236.

The English and French versions of this bulletin are available on the Ministère des Finances website at www.finances.gouv.qc.ca.

APPENDIX

Limits governing the deductibility of automobile expenses and rates for benefits relating to the use of an automobile for 2021

Automobile expenses or value of certain taxable benefits	Limit or rate
Amount deductible from allowances paid by an employer to an employee according to distance travelled with the employee's automobile	
– For the first 5 000 kilometres:	as of January 1, 2021, the limit will remain at \$0.59/km. ⁽¹⁾
– For additional kilometres:	as of January 1, 2021, the limit will remain at \$0.53/km. ⁽¹⁾
Value of the benefit relating to operating expenses of an automobile that an employee uses for personal purposes, where the automobile is supplied by the employer	
– If the job consists mainly in selling or leasing automobiles during the taxation year:	as of January 1, 2021, the rate will decrease from at \$0.25/km to \$0.24/km.
– In other cases:	as of January 1, 2021, the rate will decrease from at \$0.28/km to \$ 0.27/km.
Maximum capital cost of non zero-emission passenger vehicles for the purposes of the capital cost allowance:	for vehicles acquired after 2020, the maximum capital cost will remain at \$30 000. ⁽²⁾
Maximum capital cost of eligible zero-emission passenger vehicles ⁽³⁾ for the purposes of the capital cost allowance:	for vehicles acquired after 2020, the maximum capital cost will remain at \$55 000. ⁽²⁾
Interest expenses eligible as a deduction:	for vehicles acquired after 2020, the limit will remain at \$300/month.
Leasing charges eligible as a deduction:	for leases entered after 2020, the limit will remain at \$800/month. ⁽²⁾

(1) The limit will continue to be 4 cents higher per kilometre in Yukon, the Northwest Territories, and Nunavut, to reflect the higher cost of maintaining and operating a vehicle in those territories. Accordingly, it will remain at \$0.63 per kilometre for the first 5 000 kilometres and at \$0.57 for each additional kilometre.

(2) This is the cost before applicable sales taxes are taken into account.

(3) Eligible zero-emission passenger vehicles include plug-in hybrids with a battery capacity of at least 7 kWh and vehicles that are fully-electric or fully powered by hydrogen.