

Why are kilometer logs so important?

I've been asked why kilometer logs are so important and why I give them away all the time and every year to my clients.

The answer: It's a huge tax savings and can be a real problem if you don't have them. It is a requirement by the Canada Revenue Agency (CRA) that you have a kilometer log if you are claiming vehicle expenses.

If you don't keep a kilometer log then you guess how much you use your vehicle for business in a year you are losing money.

Why – guessing in an audit situation will cost you. If you say 90%, most times this can be dropped to 50% to 70% with no proof or taken away all together. So what is the cost?

Average cost to run a vehicle if it's newer can be approximately: \$10,000 per year. This is for gas, oil, repairs, registration and insurance. Therefore you are losing business expense up to \$10,000 if it's taken away and maybe up to \$4000 if you can use it.

If you are reimbursing yourself for the kilometers even at the low rate of \$0.34/km – the cost to you in expenses is \$1260 to \$6800 on 20,000 kilometers a year (what most insurance companies record as kilometers per year).

I think it's worth the 5 to 8 seconds it takes to record the kilometers! Think of it as I spend 5 seconds a day of my time and save on taxes.

So you forget to do it – here are some tips to help you remember.

1. Keep the log in a place where you see it daily in your vehicle.
2. Put a sticky on your dash reminding you to do it.
3. Keep the log in your daily journal/schedule where you write what you do for the day.
4. Write the kilometers right in your journal/schedule.

Here's another reason:

I have had clients, who travel a lot for their business, have kilometer reimbursements up to \$12,000 in a year. This is tax free money as you are reimbursing an expense – why would you not give yourself tax free money?

REMEMBER:

One important factor to remember regarding vehicle expenses – you can claim the actual expenses of the vehicle in the business using a percentage use by kilometer (see below how this works) **OR** you can reimburse for kilometers driven at a reasonable rate – **NOT BOTH**.

Reasonable kilometer rates can be looked up on the CRA website www.cra.gc.ca – they are different for different provinces or territories of Canada and change yearly.

How to know the percentage use:

Total kilometers driven in a year: 15678

Total kilometers driven for business in a year: 6211

Percentage: $6211/15678 \times 100 = 39.6\%$

So 39.6% of all vehicles expenses – gas, oil, repairs, maintenance, registration and insurance – can be claimed as a business expense.