

## Income Tax Information for Automobile Salespeople

The following information may be useful to you if you are an automobile salesperson earning commission income. It will provide you with an overview of the tax rules regarding employment expenses and will help you determine what expenses you can deduct for income tax purposes.

### **Under what conditions may I deduct the employment expenses I paid to earn commission income?**

In order to deduct the employment expenses you paid to earn commission income, you have to meet all of the following conditions:

**(1) Under your contract of employment, you were required to pay your own expenses.**

*Normally, this condition requires that there be an express written requirement within the terms of your contract of employment. However, such a requirement for the payment of expenses may also exist where you can establish that it was tacitly understood by both you and your employer that you were to pay for your own expenses and that these expenses were, in fact, necessary under the circumstances to fulfill the duties of your employment.*

**(2) You were ordinarily required to carry on the duties of your employment away from your employer's place of business.**

*In order to meet this requirement, you have to clearly demonstrate that the time you spend away from your employer's showroom is essential to your success as a salesperson and that failure to spend time away from your employer's showroom will result in an inability to sell enough cars to maintain your employment.*

*To support this requirement, you should maintain a record of the number of vehicles you sold or leased in the year, the number of vehicles your employer expects you to sell or lease to maintain your employment, and the number of sales or lease arrangements that result from your activities away from the showroom.*

**(3) You were paid in whole or in part by commissions based on the volume of sales you made or the number of contracts you negotiated.**

**(4) You did not receive a non-taxable allowance for travelling expenses.**

*Generally, an allowance is non-taxable as long as it is a reasonable amount. For example, an allowance for a motor vehicle is usually non-taxable when it is based solely on a reasonable per kilometre rate.*

### **What expenses can I deduct?**

As an employee, you may be entitled to deduct certain employment expenses you paid to earn commission income. The total of your expenses, except for interest and capital cost allowance on your vehicle, cannot be more than the commission income you received in the year.

Generally, you can deduct any reasonable expenses you incur for the purpose of earning your commission income. This includes expenses such as advertising, promotion, automobile expenses, lead/bird dog fees, and 50% of any reasonable entertainment expenses for clients.

You can also deduct any goods and services tax (GST) and provincial sales tax you paid on these expenses.

### **What expenses cannot be deducted?**

You **cannot** deduct any expenses you incur for personal use or to acquire capital property. In addition, you **cannot** deduct any standby charges for the personal use of an employer's automobile (reported in box 34 of your T4 slip) or any amount you paid your employer that results in the reduction of the standby charge.

### **Do I need to fill out any forms to deduct my expenses?**

If you meet all of the above-mentioned conditions, you must have your employer complete and sign Form T2200, *Declaration of Conditions of Employment*, certifying that the employment conditions have been met for the year in question. Although this form is not required to be filed with your income tax return, it should be kept with your records in the event that it is required to support your claim.

**What records do I need to keep?**

In accordance with the *Income Tax Act*, you must keep receipts and vouchers to substantiate your expense claims. The receipts should clearly show your name and address, the date of the transaction, the amount you paid, and a description of the goods or services purchased.

In addition you must also keep a record showing the name of your customers, when and where any entertaining was done, and the cost of each related customer expense.

**What about records for my automobile expenses?**

If you are claiming automobile expenses relating to the use of your vehicle at work, you must maintain a log book indicating the total kilometers you drove in the year and the kilometers you drove to earn employment income. The log book should also contain the date, destination, and the distance traveled for each trip. Make sure that you record the odometer reading of the vehicle at the beginning and end of each year.

**What happens if I file an incomplete tax return?**

In order to ensure fairness in the tax system, all taxpayers have to pay their share of taxes. If an individual knowingly makes a false statement on their tax return, they may be subject to penalties. We are aiming to reduce the cost of revenue collection and increase the fairness of the tax system by achieving the highest degree of voluntary compliance in all business sectors, including the automobile sales industry. In this regard, we will continue with our policy of balancing assistance and information services with responsible enforcement activities.

**What if I decide I want to correct an incomplete tax return from a previous year?**

Revenue Canada has a voluntary disclosure program through which taxpayers can come forward and correct any deficiencies in their past tax affairs. If a taxpayer gave incomplete or false information on an earlier tax return and then voluntarily discloses information pertaining to that return, the taxpayer will be allowed to settle the liability by paying the tax and interest due, without penalties or prosecution.

A disclosure is not considered to be voluntary if it arises as a result of a Revenue Canada audit, investigation, or other enforcement action. An individual can make a voluntary disclosure by contacting a Revenue Canada tax office. Taxpayers do not have to have all the information ready to submit when they first contact the Department.

**How can I receive more information?**

For more information about deductible expenses, please contact your local Revenue Canada Tax Services Office. You can find the telephone number in the government section of your telephone book.

This document was prepared in order to provide some general guidelines only. The following Revenue Canada publications will provide more detailed information to help you prepare your income tax return:

- *Employment Expenses* guide;
- Form T777, *Statement of Employment Expenses*;
- Form T2200, *Declaration of Conditions of Employment*;
- Interpretation Bulletin IT-518, *Food, Beverages and Entertainment Expenses*;
- Interpretation Bulletin IT-522, *Vehicle and Other Traveling Expenses — Employees*; and
- Information Circular IC-85-1R2, *Voluntary Disclosures*.