



CESTNICK

TAX MATTERS

Understand how to claim tax relief when using your car in your work

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My daughter is looking to buy a car, and she asked for my opinion on a used Lada she found online. “Dad, I found a car that’s really cute, and it’s super cheap” she said. “Sarah, that car is not going to last” I told her. “But dad, I did some research and found out that 87 per cent of these cars that were ever made are still on the road.” I thought about that for a minute. “Yeah, and the rest are the ones that made it home” I said.

Now, maybe I’m not being fair to Lada. I don’t know what type of car you’re driving today, but here’s an important question: Are you getting any tax relief for the costs you’re incurring? Let’s talk about how you can turn your vehicle into tax savings every year.

The rules

If you own a vehicle, you’ll be able to claim related expenses in three situations: (1) you’re self-employed and use your car in your business, (2) you’re a partner and drive your car for partnership business, or (3) you’re an employee and use your car in your work.

If you want to claim expenses you’ll have to track your kilometres driven for work, and your total kilometres driven. It’s a bit of a pain, but the Canada Revenue Agency is strict about this. The good news? There are apps you can use to track each drive, like MileIQ, Driversnote, Everlance, or others. It can be as easy as swiping right for a business trip or left for a personal one. The taxman also expects you to make note of the purpose of every business trip you make, and trips from home to your office don’t count as work kilometres.

If you’re an employee, there are a couple of other requirements: Your employer must ordinarily require you to work away from your employer’s place of business, or in different places. And you must be required under your employment contract to pay your own automobile expenses and cannot have received a tax-free automobile allowance from your employer. Finally, your employer will have to sign Form T2200 (Declaration of Conditions of Employment), which you should keep on file in the case the taxman wants to see it.

If your employer provides a reasonable allowance for your car use, it's typically tax-free to you – and you won't be able to deduct expenses. But if the allowance is unreasonably low, you can choose to include it in your income and then claim actual expenses if you meet the conditions I've mentioned. An allowance is considered to be reasonable if it's calculated based on kilometres driven and doesn't exceed 73 cents a kilometre for the first 5,000 kilometres and 67 cents thereafter (add 4 cents in Yukon, Nunavut, and Northwest Territories). These rates are for 2026.

The expenses

You should keep a record of all your car expenses. Make sure you include gas, oil changes, repairs and maintenance, car washes, automobile club dues, insurance, licence or registration fees, and charging fees for zero-emission vehicles.

You can also claim a portion of your lease costs, up to certain limits. A formula restricts you to deducting only the portion of the lease payments that relates to the first \$39,000 (for 2026; \$38,000 for 2025) of the car's cost, plus sales tax, and also provides a restriction of up to \$1,100 per month, plus sales tax (for both 2025 and 2026).

You can also claim interest on a car loan, to a maximum of \$350 per month (for both 2025 and 2026) if you purchased the vehicle.

Let's not forget about capital cost allowance (CCA) – which is depreciation for tax purposes. You can effectively deduct the cost of the vehicle to a maximum of \$39,000 (for 2026; \$38,000 for 2025) plus sales taxes, over a few years through the CCA system.

There are some special rules that could allow you to deduct CCA on your vehicle more quickly. For example, Bill C-15 received royal assent on March 26, and it contained legislation for something called the accelerated investment incentive (AII). This incentive will increase the amount of CCA you can claim in the first year of owning a vehicle; this incentive will be phased out starting in 2030. And if you buy a zero-emission vehicle before 2028 (or you purchased one after March 18, 2019) you may be able to deduct CCA at an accelerated rate.

Keep in mind, all these costs must be prorated for the percentage of your driving that is related to work. So, if you put 30,000 kilometres on your car in a year and 10,000 of those relate to work, you'll be able to deduct one-third of those costs I've mentioned above.

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