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Temporary Adjustments to the Automobile Standby Charge for the 2020 and 2021 Taxation Years Due to COVID-19

From: [Department of Finance Canada](#)

Backgrounder

December 21, 2020

The *Income Tax Act* and *Income Tax Regulations* include a series of rules that determine automobile-related benefits when an employee uses an employer-provided automobile for personal use. Automobile benefits are captured by the standby charge and operating expense benefit, which respectively reflect employer-paid capital and operating expenses.

The standby charge reflects the benefit to an employee of having the employer provide an automobile that may be used for personal use and in effect covers the applicable depreciation and financing costs. The regular standby charge is set at two per cent per month of the original cost of the automobile to the employer or two-thirds of the lease payment. However, a reduced standby charge, which adjusts the regular standby charge based on personal kilometres

driven, is available when the automobile is driven primarily for business purposes and kilometres for personal use are not more than 1,667 per 30-day period, or a total of 20,004 kilometres a year. Specifically, the regular standby charge is adjusted by a factor equivalent to annual personal kilometres divided by the product obtained by multiplying 1,667 kilometres by the number of months the automobile is available to the employee.

The operating expense benefit sets an employee's taxable benefit arising from their employer paying costs relating to the personal portion of automobile operating expenses, such as insurance, maintenance, and fuel. The general prescribed flat rate for 2021 will be 27 cents per kilometre. For taxpayers who are employed principally in selling or leasing automobiles, the prescribed flat rate will be 24 cents per kilometre. If an employee's use of the automobile is primarily for business purposes, before the end of the taxation year the employee may elect to have the operating expense benefit calculated as 50 per cent of the standby charge rather than using the per-kilometre prescribed flat rate. An employer must calculate the operating expense benefit if an employee does not reimburse, or only partially reimburses, the employer for operating expenses related to personal use of an employer-provided automobile.

Business lockdowns, reduced business activity, and other changes to our daily and business lives throughout the pandemic, may result in an employee's business or personal mileage being reduced compared to a normal year. If employees have used the automobile

substantially less for business purposes during the pandemic, they may no longer qualify for the reduced standby charge for tax purposes, even though their personal driving use might be similar or less than last year.

To address this, the government proposes to allow employees to use their 2019 automobile usage to determine whether they use the automobile primarily for business purposes in order to access the reduced standby charge in 2020 and 2021. Only employees with an automobile provided by the same employer as in 2019 would be eligible for this option.

- For example, an employee who drove 8,000 kilometres for business purposes and 10,000 kilometres for personal purposes in 2020, but who drove 11,000 kilometres for business purposes and 9,000 kilometres for personal purposes in 2019, would be able to calculate the reduced standby charge for 2020. The employee's standby charge for 2020 would be calculated using the employee's personal kilometres driven in 2020 (i.e., the regular standby charge would be adjusted by the factor $10,000/20,004$).

The same changes would apply in respect of the option to calculate the operating expense benefit as 50 per cent of the standby charge. Additionally, it is proposed that for 2020 and 2021, employees eligible for the optional calculation of the operating expense benefit, based on their 2019 automobile usage, would be entitled to the proposed treatment without having to notify their employer. Instead, an employee's operating expense benefit would be the

lesser of either the operating expense benefit determined using the per-kilometre prescribed rate or the optional calculation. Employees unable to meet the business use requirement must calculate the operating expense benefit according to the per-kilometre prescribed rate.

The automobile standby charge and operating expense benefit may also give rise to Goods and Services Tax/Harmonized Sales Tax (GST/HST) obligations that are based on the income tax rules. Under the GST/HST rules, employers must remit GST/HST for automobile expense benefits provided to employees that are taxable benefits for income tax purposes. These GST/HST obligations remain unchanged and will continue to be based on the amount of automobile expense benefits determined under the income tax rules.

These measures would be effective for the 2020 and 2021 taxation years.

The estimated cumulative fiscal cost of these temporary adjustments is \$31 million as shown below:

Table 1
Estimated fiscal cost
(\$ million)

	2019- 20	2020- 21	2021- 22	2022- 23	2023- 24	2024- 25	6-year Total
Cost	0	18	13	0	0	0	31

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Date modified:

2020-12-21