The high cost of driving—is there tax relief available? (May 2011)

As gas prices across Canada look to set new records, the cost of getting to work (or getting just about anywhere) is likely a topic of conversation in nearly every home and workplace in Canada. Consumers are looking for just about any way to reduce their cost of getting around.

Does the tax system offer any relief? Yes … and no. The bad news for most employed taxpayers is that the cost of driving to work and back home, and the cost of any non-work driving is considered a personal expense, for which no deduction or credit is allowed, no matter how high the cost gets. The news for employees is not, however, all bad. Those who have a commuting alternative in the form of public transit (which includes everything from subways to suburban commuter trains to ferries) can both minimize their expenditures at the gas pump and claim the cost of travel on those transit systems on their tax returns for the year.

A tax credit for the cost of using public transit is offered by the federal government and by several of the provinces, and there is no limit on the amount which may be claimed. The federal credit is calculated as 15% of the cost of public transit, and while provincial credit amounts vary, an average would be around 7%. A taxpayer would therefore be able to claim a credit (and reduce taxes which would otherwise be payable for the year) by 22% of eligible public transit costs incurred during that year.

The public transit tax credit isn't limited to costs incurred for transit use to and from work. Costs incurred by either spouse and by any dependent children under the age of 19 who regularly purchase a weekly or monthly transit pass—for example high school or university students who use transit to get back and forth from school—can be aggregated and claimed on the return of either parent for the year. So, a family of four which incurs $600 a month in transit costs (not difficult to do where an inter-city commuter pass can cost up to $300 a month and city transit passes, even for students, can cost up to $100) can claim $7,200 in eligible transit costs per year, for which they would be able to reduce their tax bill for the year by just under $1,600.

Where public transit isn't a viable option and employees are required, as part of their terms of employment, to use their own vehicle for work-related travel—for example, someone who is required to visit clients at their own premises for the purpose of meetings or other work-related activities—tax relief is available for the related costs. If the employer is prepared to certify on a Form T2200 that the employee was ordinarily required to work away from his employer's place of business or in different places, that he or she is required to pay his or her own travelling expenses, and that no tax-free allowance is provided by the employer for such expenses, the employee can deduct actual expenses incurred (including the cost of gas) for such work-related travel. It goes without saying that the employee must, in order to claim that deduction, keep a record of work-related travel done as well as records of travel-related expenses incurred.

The rules governing the taxation of employee automobile allowances and available deductions for employment-related automobile use can be complicated. But, given the recent run-up in the cost of gasoline, it's likely worth ensuring that every possible dollar of eligible expenses incurred as a result of employment-related car use is claimed.