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PERSONAL FINANCE

First-time car buyer? Here's what you should be budgeting for

Experts weigh in on what vehicle ownership entails, including maintenance and unexpected expenses.

Purchasing a car for the first time can be both exciting and overwhelming at the same time. Thinking about the type of car, colour, and features you want are all fun decisions. But it's important to leverage the financial expertise of CPAs and other professionals to shed light on both the expected and unexpected costs of car ownership to help you make an informed decision.

How to get started

When you start to shop for a car, there are a few initial decisions to make, including new or used and electric or gas powered. Another choice is whether to buy or lease.

"If you talk about the difference, at the end of the day, purchasing is about ownership," says CPA Ryan Hillstead, a partner with Grant Thornton LLP in Regina.

Regardless of whether you lease or own your next vehicle, or if it's new or used, gas or electric, you'll need to set aside a monthly budget for ongoing costs.

Fuel costs and insurance

One of the most obvious operating costs for a gas-powered vehicle is fuel. "Gasoline is quite an expensive and volatile commodity," says Hillstead.

"Prices are obviously changing compared to a year ago," says Kristine D'Arbelles, director, public affairs with the Canadian Automobile Association (CAA) in Ottawa. "Using compact cars as an example, driving 20,000-km a year, right now gas prices can add up to $2,000 a year on average."

There are online tools available, such as CAA's **Driving Costs Calculator**, that can help you determine your likely monthly costs, based on the make and model of the car and mileage, including gas, depreciation, maintenance, licence and registration, and insurance.

Insurance is mandatory and can vary widely depending on the make and model of automobile and jurisdiction. Expect to pay at the very minimum $1,200 a year. If leasing a car, there may be additional coverage requirements, says Hillstead. “For example, my normal insurance policy doesn’t cover off certain things such as windshields. That might require a bit of extra insurance,” he says.

Add to that licence and registration fees which average around $120 a year.

Maintenance

“Maintenance can be all over the place,” says D’Arbelles. “The yearly average is about $1,000 for a compact car for scheduled maintenance such as oil changes, filter replacements, tire changes and wipers.”

Maintenance costs will be higher with a pre-owned vehicle, says David Robins, principal automotive analyst and head of Canadian Vehicle Valuations at Canadian Black Book in Mississauga. “With a used car, you are usually going to be higher up in the maintenance cycle, as some items, like brake pads and rotors, will be wearing out sooner and need replacement.”

If you are leasing a car, some of the maintenance costs may be covered under the lease agreement and you can ask for clarity about that at the time of purchase. While that may be the case, mileage penalties for going over the allotted allowance can be heavy, cautions CPA Lloyd Monteith of Monteith Enterprises Limited in London, Ont.

Hillstead notes that, often monthly lease payments will be less than other financing plans. “It’s a bit cheaper from a cash flow standpoint. But you don’t get the equity at the end.”

One thing to keep in mind with hybrid and electric vehicles (EVs) is that, while the sticker price may be higher, fuel and scheduled maintenance costs could be lower, given that they don’t require gas or oil and filter changes. “Instead of spending $2,000 a year on fuel, you’re probably spending less than a couple of hundred [dollars] for the electric bill, depending on where you are charging your car,” says D’Arbelles.

Hillstead says he paid about a five-per-cent premium for his hybrid vehicle. “Like any accountant, I did my calculations to find the break-even point. It ended up being about four years.”

Depending on the province, there may also be **government incentives** that can mitigate the costs. Federal point of sale incentives for EVs, for example, range from $2,500 to $5,000.

Buyers of electric vehicles should consider an EV charging station for the home, says Robins. Depending on what **level of charging station** you opt for, these run around $1,500 on average, plus installation.

Miscellaneous costs

“The biggest cost in car ownership is actually depreciation,” says Robins. He notes that the majority of depreciation takes place over the first five years of ownership.

“The next five years, the depreciation factor is far lower. That means the longer you can keep a car running on the road in good condition, the less you will end up spending.”

Depending on your usage and location, parking fees can be anywhere from zero if you live in a rural community, to a few hundred dollars a month in urban environments where parking is at a premium.

Also, be sure to factor in seasonal tire changes as well as interest on money borrowed, if you financed your vehicle purchase.

Build in a buffer

Regardless of what type of vehicle and payment option you go with, remember to do as much research as you can and ask lots of questions. And, most importantly, plan for the unexpected and leave a bit of a cushion in your monthly budget. It’s the best way to ensure you drive happy.

Budget projections

Looking for more budgeting tips? Read CPA Canada's helpful book, ***A Canadian's Guide to Money-Smart Living***.

PERSONAL FINANCE

Turn those tough financial talks into united lifelong goals

CPAs weigh in on how to keep your finances aligned for the long-term as a couple.

Talking about money with your partner can be difficult, no matter how often you do it. To make it easier, we spoke with CPAs for insights into how couples can make their financial conversations more impactful at different stages of their relationship.

Courtship: Find common ground

When first broaching the topic of finances, tread lightly, recommend experts.

"Like any conversation, when you're getting to know someone, take it gradually," says CPA Michael Deepwell, principal of Vancouver-based Lamp Financial Inc. "You may hit the tip of an iceberg at the beginning but, later, you can go deeper into the discussion."

What you first discuss, adds Stefanie Ricchio, founder of The Modern Accountant, will depend on your age and stage in life.

"In your 20s, you have the luxury of time and don't necessarily need to get into specifics," she says. "While, in your 30s, you can't wait a year or two to have defining-moment conversations to figure out if what you want financially is the same."

Regardless of age, couples should offload baggage, including habits and outlooks picked up through our upbringing and early spending behaviour. According to a **2021 study** by Meridian Credit Union Ltd., 55 per cent of Canadians agree that their childhood experiences with money still impact them today.

"It's things that we don't even know that are so ingrained in our financial expectations," says Deepwell. "Until we start seeing a different way, we don't know what's possible."

Once those details are divulged, broader financial and life goals can be shared.

"You need to figure out your game plan as a couple and that's more than just numbers," says Deepwell. "It's a mindset where you think of the possibilities, discuss your priorities and then make it a reality."

Long-term commitment: Prepare for the expected and unexpected

As a relationship gets more serious, regular check-ins are necessary to keep goals aligned and make adjustments as you move through and plan for life's different stages, particularly retirement.

Those check-ins help prepare you for big events. Planned events such as travel, marriage, buying property or childbirth are easier to plan for over the unexpected such as job loss, incapacity or death, all of which require quick reaction, while dealing with shock and despair.

- **Webinar: Love and money: How to discuss money with your partner**

Deepwell recommends exploring "what if" scenarios to prepare as best as possible and ensure you're aligned. "This gets you thinking about what you would do if something does happen, so it's not as jarring and there is some foundation for making tough decisions."

Ricchio adds the need for both parties to be knowledgeable participants in the household finances. "Understanding your financial position together is paramount, particularly in times of stress when unexpected routes have to be taken," she says.

At any stage: Lay it out on the table

The hallmark for any successful financial relationship is transparency. From the first conversation about money, both parties should be open to eventually sharing all aspects of their financial position including income, debt, assets and savings, and any aspirations for their financial future.

- **Podcast: Mastering Money: Financial conversations with loved ones (Season 5)**

For the long-term, transparency involves all of that and much more, including whether you choose to fully integrate finances with shared accounts and credit cards, as well as discussing every financial decision you make, from purchases, to loans, to investments.

"It boils down to being open and honest, and finding equity," says Ricchio. "If both parties feel that the financial responsibilities are split equitably, it works. If not, it's an opportunity to come together and discuss how you can achieve a better balance."

Starting points

Initiating a discussion about finances might feel awkward and uncomfortable, but it doesn't have to be. From CPA Canada's book, ***Love and money: Conversations to have before you get married***, here are four suggestions for talking about money with your partner:

1. **Make space for a meaningful conversation:** Pick a time and place where you can both devote your full attention to the discussion – that means turning off distractions, like a cell phone – and choosing a time of day when you can fully concentrate.
2. **Act in a way you want your partner to act:** If you don't like to be interrupted while speaking, your partner probably feels the same way, so try to focus on listening to their whole idea before chiming in.
3. **Ask questions:** To make sure you understand your partner's views, ask open-ended and probing questions.
4. **Be willing to compromise:** This is the bedrock of every healthy relationship and is especially true when talking about shared finances.

Keep the dialogue going

Pick up a copy of CPA Canada's ***Love and money: conversations to have before you get married*** for more financial insights. Plus, check out our webinar about ***building lifelong financial plans***.

TAX

How to make sure a charitable fundraiser is within tax rules

When raising money for a cause you care about, there's much to be done in advance of hosting the event.

If you're planning a fundraising event where tax receipts will be given, there are many complexities to be aware of.

From the Canadian Revenue Agency's (CRA) perspective, for example, fundraising events, just like charitable status, must align with an intricate set of rules that the third-party fundraiser and the charity they work with must follow. Here's a breakdown of some of the key things to know before planning an event.

1. Work with the charity

Firstly, as a **third-party fundraiser** organizer (which, for the purpose of this article, excludes informal fundraising efforts, such as crowdfunding and social media campaigns), you must reach out to the charity you want to support beforehand for consent to organize the event, says Toronto lawyer Mark Blumberg, partner with Blumberg Segal LLP. Then you work closely with them to ensure adherence to existing fundraising and donation policies, he adds. A written agreement should also be considered, suggests **the CRA**, with clear conditions outlining the fundraising arrangement.

"Third-party fundraising can be brilliant for charities because another person is doing most of the work," he says. "But organizers should talk to the charity beforehand, [to] understand their fundraising practices and the work and information required, so things are agreed upon ahead of time."

A charity must be registered with the CRA in order to provide donation tax receipts says CPA Stan Swartz, president of Toronto-based Infomoney Solutions Inc. **Many non-profits** in Canada are not registered charities (80,000 to 100,000 of them, in fact). To make sure the organization you plan to support is officially registered, visit the **CRA's website to do a quick search**.

2. Calculate the total advantage

When issuing donation receipts, whatever guests receive at the fundraising event – be it food, beverages, green fees, cart rental, golf balls, door prizes and/or complimentary gifts – must be factored in. Referred to as an **advantage**, this means that the amount donated, less the total value of what is received, will be the amount on a receipt issued to participants. Door prizes are valued at their retail value, totalled up and then prorated based on the number of event tickets sold (as opposed to being treated as an advantage only to those who won a prize). Other advantages are based on the **value of what was actually received** by each participant, as outlined by **the CRA**.

Rules for raffles are dependent upon how the fundraiser is organized. If included in the event fee, then raffled off prizes are treated similarly to door prizes and their value must be taken into account when issuing receipts. However, if a raffle is conducted separately, by selling raffle tickets at the event for example, it is treated like a lottery. According to the CRA, the purchase of a lottery ticket is not a gift. Therefore, the cost of the raffle tickets is not a donation for the ticket purchaser and subsequent prizes do not have to be considered when calculating the advantage for event participants.

Fortunately, there is a *de minimis* rule that applies, meaning the total of all advantages received are considered to have a "nominal value." Under the rules, this means the total advantage is not more than $75 or 10 per cent of the fair market value (FMV) of the gift, whichever is less. In such a case, the charity is absolved from having to subtract these advantages when issuing receipts, according to the CRA.

Keep in mind, Blumberg says, that, if the advantage a donor receives is **more than 80 per cent** of the value of their donation, they are not eligible for a receipt.

"It's a very organized system and there is particular information a charity needs to work it all out," he says.

3. Treat non-cash gifts appropriately

In the case of donated property or non-cash gifts, such as those sold during an auction, a receipt can be provided to the donor of the item equal to its FMV. The winning bidder can also be issued a receipt, equal to the amount paid for the item less the FMV of the item, subject to the advantage rule.

The FMV, Swartz says, can be tricky to determine for certain items, such as artwork, which would need to be appraised by a qualified individual to determine the most accurate FMV. Other items, such as a TV for example, are easier to value by simply sourcing the retail cost.

As mentioned, the advantage rule applies to an auction as well. Consequently, a donation receipt for an auctioned item is only issuable to the bidder if the winning bid amount paid exceeds **80 per cent** of the value of that item, adds CPA Michael Espinoza, senior manager, national tax office, Grant Thornton LLP.

"You can think of it as a minimum threshold to determine whether the bidder actually intended on making a donation," he says.

Lastly, donated services – including time, skills or efforts contributed free of charge to help organize a fundraising event, for example – do not qualify for receipts, as they're not considered "property" **by the CRA's gifts of services policy**. However, if an individual provides a service, the service is paid for by the charity and then that same individual returns the payment as a gift, a receipt can be issued since two distinct transactions have taken place.

4. Bottom line, follow the rules

Whether receipts are issued for a virtual or in-person event you are organizing – be it a dinner, golf tournament or auction – remember that only the charity (not you, as the organizer) can issue them, Espinoza reminds us.

"Ensuring accurate receipting of gifts is always important for charities as inaccurate or fraudulent receipting could result in revocation of charitable status," he says.

While this article provides an overview of the rules to be followed, make sure you cover all your bases by using the **CRA's website for reference.**

"Whatever you do, do it within the tax rules available, ask the right questions and stay aligned with the examples on the CRA site," says Swartz.

Go with a pro

This article includes a general summary of detailed tax rules. Need specific tax advice? Hire a Chartered Professional Accountant (CPA) and get the best working for you.

TAX

Self-employed? Talk to a CPA long before filing your taxes

Don't wait until tax time to begin readying information.

Tax time can be tricky for almost anyone, but this can be especially true for those who work for themselves. Turning to a CPA when filing – or better yet, in the months before – can help reduce the inevitable headache and possibly the amount of money owed in late fees or missed deductions through several well-prepared steps.

1. Streamlining the approach

CPA Bob Gore, founder of Robert Gore & Associates Chartered Professional Accountants, says a common error is the "ready, aim, fire" approach that some people take with their business. "The most significant problem," he says, "is what I would call organization and structure, where people jump right out of the gate and assume they need to **organize their business** in a particular way."

To start, Gore recommends connecting with a CPA who can direct you to the required forms for self-employed business income, such as the **T2125, *Statement of Business or Professional Activities***. In turn, the owner will need to provide their CPA with a better understanding of their actual business. Doing so allows their accountant to better advise them on tracking expenses, whether to register for a GST or HST account – as well as assist with your registration, if possible, and more.

2. Setting aside money for tax payment

For those moving from being a salaried employee to self-employed, saving for quarterly tax payments can be overlooked (after being accustomed to having automatic EI and CPP deductions).

After the first year, "If you owe more than $3,000 in income tax, the CRA wants you to make quarterly **instalments**," says FCPA Colleen Gibb, co-founder of accounting firm Gibb-Widdis, noting this can create a cash-flow challenge.

When collecting GST/HST from clients, Gore reminds that this money must be set aside since it has to **be paid to the CRA.**

Accountants, she says, can help prepare a budget and ensure enough is set aside to avoid cash-flow challenges. "I find most people can cope very well if they know what they're going to owe."

It is important that your tax return is filed on time and tax payments are not late to ensure **interest and penalties** do not arise.

3. Getting a GST or HST account

When you're self-employed, you may not need a **business number** – at least not to start. If you do need a business number, you'll need to determine if you need to register for programs such as GST or HST. Across Canada, a **GST or HST number** is only required once a business makes $30,000 annually. Below that threshold, registration is not compulsory.

However, Gore says that missing the opportunity to register is a common error because "the HST they're paying on their expenses is just a cost rather than a potentially recoverable item," such as through **input tax credits**, he says. To avoid this, an accountant can review a self-employed person's business and advise on the need to obtain a business number and register for GST/HST, as well as how to set that up.

4. Tracking expenditures

Remembering to record expenses in real time can be tricky for many people.

"The biggest key is making sure that you can account for all the transactions on your bank statement or credit card and have all the invoices," says FCPA Bruce Ball, vice-president of taxation at CPA Canada.

Acquiring this habit will simplify tax preparation and alleviate the painstaking attempt to recover each business purchase made throughout the year.

Keeping business expenses separate from personal finances is another step to streamline records.

"Use a separate bank account for the business and designate one charge card for it," says Gibb. "If you are audited, the CRA will only look at that bank account and those credit card statements."

5. Understanding claimable expenses

While creating a system to track expenses is important, understanding which expenses can be claimed is also key for businesses.

Here, a CPA can help convert pre-existing life expenses – such as **home office** and vehicle expenses – to business expenses to maximize the claimable amount. Gore says this can be recorded in a basic Excel spreadsheet or through software such as Quicken Home and Business, depending on the individual's comfort level.

"The critical thing is to get yourself organized and be aware that you need to keep track of it all for purposes of being able to claim costs for business rather than personal spending," he says.

Of all claimable costs, entertainment fees have the most restrictions. "Only 50 per cent of those expenses are deductible," says Gibb.

She advises that people write down who they dined with on the back of the receipt and file that away, as the CRA will not accept a credit card statement for this claim.

Benefits exceed the costs

While some people may be hesitant to ask for guidance long before tax season, the benefits cannot be overlooked.

"Even spending an hour talking to a CPA will pay dividends," says Gibb. "Now you'll know what to expect, what to set aside when the things are due and what to watch for."

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