CRA & IRS Change Tax Rules As It Pertains To Cellphone Expenses For Employers & Employees

Forbes Technology Council Features mobilityView - Four Tips To Help Businesses Keep Effective Mobile Use Records Before Tax Time (CRA & IRS)

TORONTO, ONTARIO, CANADA, November 16, 2019 /EINPresswire.com/ -- Four Tips To Help Businesses Keep Effective Mobile Use Records Before Tax Time
Forbes Technology Council

The tax landscape in the business sector frequently changes in North America, and many companies are completely oblivious to the announced changes and the impact of these changes. Changes may be prompted in part because governments at all levels (including municipalities and counties and federal governments) are struggling with massive budget deficits and debts. As an example of important tax regulations, in the United States and in Canada, businesses need to be aware of the tax code as it pertains to the tax treatment and deductibility of a cellphone, from corporate taxes in the U.S. and from the employee taxable benefit perspective in Canada.

The IRS in the U.S. is taking a slightly different approach from Canada in that it is focusing on companies rather than individuals and emphasizes that the company must be tax compliant. This could result in a more efficient tax collection process. In general, you can deduct only the business portion of any business expense, including business use of your home or car and anything else you may use for business. Therefore, it's helpful to require employees to maintain a "mileage book" for the car and cellphone, as well as details about your wireless subscription plan, so that you can present it to the IRS. To remain compliant with the IRS's cellphone policy, you should document business and personal usage for every call, text message and packet of data. A company can't deduct 100% of the cellphone from corporate taxes. Only the documented and substantiated business portion of the cellphone may be deducted.

For many companies in Canada and the U.S., the first inkling of a problem is when a company is audited or employees are suddenly faced with a surprisingly large tax demand. Ultimately an employee is responsible for the accuracy of their tax filing, but all typically trust their employers to ensure that their tax forms are properly filled out. It turns out many Canadian and U.S. corporations I've worked with are unaware of the tax code around cellphones. This could open the door to lawsuits like the BYOD one in California. Employees may demand that their employers reimburse them for their phone use.

Like the IRS's policy, the Canada Revenue Association's (CRA) policy for employers doesn't say not to worry about cellphones, either: The onus is on employers to provide documentation about the percentage of the device usage attributed to work, as well as the fair market value (FMV) of the device. The CRA states explicitly that "if part of the use of the cell phone or Internet service is personal, you have to include the value of the personal use in your employee's income as a taxable benefit. The value of the benefit is based on the FMV of the service, minus any amounts your employee reimburses you." The CRA is being unambiguously clear: At a minimum, the CRA expects employers to calculate the personal usage of cellphones and the associated FMV.

The CRA also says, “You, as the employer, are responsible for determining the percentage of employment use and the FMV. You have to be prepared to justify your position if we ask you to do so."

The Canadian government is also focusing on the HST (the Canadian national sales tax) portion of operating expenses. HST is relevant for employers and their HST input tax credit (ITC). Only the percentage use of the HST that is associated with commercial (business) purposes may be claimed.

As the CEO of a company that offers a mobile cost management solution, I'm familiar with what it takes to navigate these requirements. Here are some tips for keeping your records up to date:

• Ask your employees to keep a log of business usage (calls, text messages and data). Think of smartphone usage like car mileage for a car that is used for business purposes; you need to keep a log.

• Start to keep historical records. In the U.S., authorities can ask to go back several years in an audit situation.

• Because a significant portion of smartphone expenses can come from data, find a way to indicate what usage is business versus personal. This cannot typically be done manually from your wireless bill for data, as many wireless service providers do not provide this level of detail, but you can use your wireless bill to track voice calls and text messages. To track your data usage, either use a data tracker app or use the app that comes with iOS or Android to view your data consumption per app. Just remember to note the consumption of the app before you use it for work purposes and then note your consumption after use. The difference will give you your business use.

• Find a mobile cost management solution for individual devices or corporate device fleets that can automatically work out the business portion of all your calls, text messages, wireless data and Wi-Fi usage. Today, many businesses use Telephony Expense Management (TEM) solutions such as vCom's and Valicom's and mobile cost management solutions such as my company's.

I know many businesses that have been speaking to wireless service providers for a solution to this problem, but no solution has been forthcoming.

https://www.linkedin.com/feed/update/urn:li:activity:6597914091359137792

T Damstra
mobilityView
+1 416-846-3877
email us here
Visit us on social media:
LinkedIn
