



Tax Court Confirms That Even a Yacht Can Sometimes Be a Valid Business Expense

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A business may engage in a multitude of marketing endeavours. Some of these marketing endeavours may be more exciting than others, such as purchasing and using a company yacht or a company retreat. These expenses may not always have an apparent valid business purpose. However, if the expense is further to legitimate marketing, even if the marketing is done poorly or unsuccessfully, the business may claim the expense. The business owner must be prepared to establish that it was a proper expense. Further, if the business owner personally benefits, they must properly report this shareholder benefit. Of course, as the Canada Revenue Agency may be doubtful as to the validity of these sort of exciting business expenses, business owners should be prepared to confirm the expense's validity, potentially before the Tax Court of Canada.

In the matter of *Jackman v. The Queen*, the taxpayers were the shareholders of a company that owned and operated a marina in Vancouver. Their business involved docking boats, operating a store, and providing float plane and helicopter rides. Further to marketing their business, the company purchased a 36-foot yacht. The primary use of the yacht was for entertaining current and potential clients and travelling to boat shows, further to marketing the business. The taxpayers occasionally used the yacht for personal purposes. In light of the occasional personal use, the taxpayers reported a personal benefit of \$18,000 in regards to the yacht. In review, the Canada Revenue Agency determined that

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the yacht was not a valid business expense and, accordingly, reassessed the taxpayers on the basis that their personal use was not properly reported.

On appeal, the Tax Court of Canada held that the yacht was purchased and used for a bona fide business purpose and that the personal benefit did not exceed the \$18,000 reported. The Court acknowledged that, it is to be expected that the CRA "might want to review the use of an expensive pleasure craft". However, the Court stressed that the CRA is not to "second-guess a business's marketing strategy or efforts, even if they turn out to be unsuccessful in generating revenue". Whether a business owner was good at or even enjoys the marketing efforts, does not matter in determining if the business expense is bona fide. In rendering its decision, the Court expressed its disappointment in the Minister proceeding to trial and further stressed that it was not surprising that a boating business would conduct its marketing activities at boating events and venues and would use a yacht for such purposes.

Given the above, it is important for business owners to be mindful of the expenses they claim and the potential interest it may trigger from the CRA. When the CRA is reviewing the business expense, the burden is on the taxpayer to prove the business purposes, and any limited personal use has been properly accounted for.

For more information or to discuss any current tax disputes regarding business expenses, [please contact our firm.](#)

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