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Employers' Guide

# Taxable Benefits

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La version française de ce guide de l'employeur est intitulée *Avantages imposables*.

# Table of contents

	Page		Page
What's new .....	4	Professional membership dues .....	23
<b>Clarification</b> .....	4	Recreational facilities and club dues .....	23
<b>Chapter 1 – Before you start</b> .....	5	Registered retirement savings plans (RRSPs).....	23
Is this guide for you? .....	5	Security options.....	24
What are your responsibilities? .....	5	Social events.....	25
<b>Chapter 2 – Automobile and motor vehicle benefits and allowances</b> .....	6	Spouse or common-law partner's travelling expenses ..	25
Automobile and motor vehicle benefits .....	6	Subsidized school services .....	25
Calculating automobile benefits .....	7	Tool reimbursement or allowance .....	26
Benefit for motor vehicles not defined as an automobile .....	9	Transit passes.....	26
Payroll deductions for automobile or motor vehicle benefits .....	9	Transportation to and from the job.....	26
Reporting automobile or motor vehicle benefits on the T4 slip .....	9	Travelling allowance.....	27
Tools to help you calculate the automobile benefit.....	9	Tuition fees, scholarships, and bursaries .....	27
Automobile and motor vehicle allowances.....	10	Uniforms and special clothing.....	28
<b>Chapter 3 – Other benefits and allowances</b> .....	11	Wage-loss replacement plans or income maintenance plans .....	28
Board, lodging, and transportation at special work sites and remote work locations .....	12	<b>Chapter 4 – Housing and travel assistance benefits paid in a prescribed zone</b> .....	28
Cellular phone service .....	13	Accommodation or utilities provided by the employer.....	28
Child care expenses .....	13	Board, lodging, and transportation at a special work site.....	29
Counselling services.....	13	Travel assistance benefits .....	30
Disability-related employment benefits .....	14	<b>Chapter 5 – Remitting GST/HST on employee benefits</b> .....	31
Discounts on merchandise and commissions on sales ..	14	Employee benefits.....	31
Educational allowances for children.....	14	Situations where you are not considered to have collected GST/HST .....	31
Gifts and awards.....	14	When are you considered to have collected GST/HST? .....	31
Group term life insurance policies – Employer-paid premiums .....	15	How do you calculate the amount of GST/HST you are considered to have collected?.....	32
Housing – Rent-free and low-rent.....	15	Input tax credits (ITCs).....	33
Interest-free and low-interest loans.....	17	Property acquired before 1991 or from a non-registrant.....	33
Internet.....	19	Summary .....	34
Meals .....	19	Examples .....	34
Medical expenses .....	19	<b>Benefits chart</b> .....	36
Moving expenses and relocation benefits .....	19		
Municipal officer's expense allowance .....	21		
Parking .....	22		
Premiums under a private health services plan .....	22		
Premiums under provincial hospitalization, medical care insurance, and certain Government of Canada plans.....	22		

## What's new

### GST/HST rate reduction

Effective July 1, 2006, the goods and services tax (GST) and the federal portion of the harmonized sales tax (HST) have been reduced. For information, see Chapter 5.

### My Business Account

My Business Account, the CRA's new online service, provides convenient and secure access to a growing range of personalized business account information and services. In fall 2007, My Business Account will also offer access for authorized third parties and a full range of business account options. Visit [www.cra.gc.ca/mybusinessaccount](http://www.cra.gc.ca/mybusinessaccount) to find out more about this exciting addition to our suite of electronic services for business.

### Automobile Benefits Online Calculator

Effective January 2007, the Automobile Benefits Online Calculator will not be available through *Tables on Diskette* (TOD). However, it is available at [www.cra.gc.ca/autobenefits-calculator](http://www.cra.gc.ca/autobenefits-calculator).

### Tax credit for public transit passes

Under proposed legislation, individuals will be entitled to a non-refundable tax credit for public transit passes bought for travel that occurs after June 30, 2006.

An employer-paid transit pass is eligible for the non-refundable tax credit as long as the amount of the monthly (or longer duration) pass is included in the employee's income as a taxable benefit.

### Tradesperson's tools expenses

Under proposed legislation, employed tradespersons (including apprentice mechanics) may be able to deduct part of the cost of eligible tools they purchased after May 1, 2006, to earn employment income as a tradesperson.

Employers will be required to complete Form T2200, *Declaration of Conditions of Employment*, to certify that the employee must acquire these tools as a condition of, and for use in, his or her employment.

## Clarification

### Gifts and Awards

For Employment Insurance (EI) purposes only, near-cash taxable benefits are treated the same as non-cash benefits. Therefore, they are not insurable. Do not deduct EI premiums.

# Chapter 1 – Before you start

## Is this guide for you?

Use this guide if you are an employer providing benefits or allowances to your employees, such as:

- automobile benefits;
- housing, board, and lodging;
- gifts and awards;
- interest-free or low-interest loans;
- group term life insurance policies; or
- tuition fees.

The instructions in this guide mainly apply to employers. However, we also provide certain guidelines for trustees, administrators, corporate directors, and third-party payers providing benefits to employees of another employer.

## What are your responsibilities?

There are many types of benefits and allowances that you may have to include in an employee's income. The benefit can either be paid to your employee in cash (such as a meal allowance) or provided to the employee in a manner other than cash (such as a parking space or a gift.) Whether or not they are taxable depends on the type of benefit or allowance and the reason an employee or officer receives it.

## Payroll deductions

When you pay or provide a taxable benefit or allowance to your employee in addition to salary and wages, you have to include the value of the benefit in the employee's income. This applies to all cash and non-cash benefits or allowances that are taxable.

To determine the total amount subject to payroll deductions, you must add the taxable benefit/allowance to the employee's income each pay period and withhold deductions in the normal manner.

For tax purposes, if a non-cash benefit is of such a large value that withholding of income tax will cause undue hardship, you can spread the withholding over the balance of the year.

If the benefit or allowance is taxable, it is also pensionable. Deduct Canada Pension Plan (CPP) contributions and income tax.

If the taxable benefit is paid in cash, it is insurable. Deduct Employment Insurance (EI) premiums. If it is a non-cash benefit, it is not insurable. Do not deduct EI premiums.

However, if the **employment** is not insurable under the *Employment Insurance Act*, taxable benefits and allowances paid in cash are not insurable and are not subject to EI premiums.

## Payroll deductions – Non-cash benefits

When an employee receives a non-cash benefit, you have to determine the value of the benefit and include it in the employee's income.

If a non-cash taxable benefit is the **only** form of remuneration your employee receives, there is no remuneration to withhold deductions from. In this case, you do not have to withhold CPP or income tax on the amount of the benefit even if the value of the benefit is pensionable and taxable. You also do not have to remit your share of CPP.

Non-cash benefits are not insurable for (EI) purposes, **except** for the value of board and lodging an employee enjoys in a period during which you pay the employee cash earnings.

## Reporting benefits and allowances

At the end of the year, or when the person is no longer your employee, you must report the amount of the taxable benefit or allowance plus the GST/HST that applies on a T4 slip in box 14, "Employment income," and in the "Other information" area at the bottom of the employee's slip. Unless we tell you differently, always use code **40** in the "Other information" area.

If you are a third-party payer providing taxable benefits to employees of another employer, you must report them on a T4A slip in box 28, "Other income."

If a benefit or allowance described in this guide is non-pensionable, non-insurable, and non-taxable, do not report it on an information slip.

## Goods and services tax/harmonized sales tax

The taxable benefits you include in the employment income of your employees for income tax purposes normally include an amount for goods and services tax/harmonized sales tax (GST/HST) and provincial sales tax (PST).

The benefit should include the tax payable by you or the tax you reimburse to your employees, as well as the tax that would have been payable if you were not exempt from paying the tax because of the type of employer you are or the nature of the use of the property or service.

You must include GST/HST in the value of the taxable benefits you provide to employees, based on the gross amount of the benefits, without taking into account any amounts the employee reimbursed you for those benefits.

On July 1, 2006, the GST rate was reduced from 7% to 6% and the HST rate was reduced from 15% to 14%.

However, this does not apply to:

- cash remuneration (such as salary, wages, and allowances); and
- a taxable benefit that is an **exempt supply** or a **zero-rated supply** as defined in the *Excise Tax Act*.

For more information on exempt or zero-rated supplies, see Guide RC4022, *General Information for GST/HST Registrants*.

In this guide, see the specific benefit or allowance you provide to your employees to find out if GST/HST applies.

When we refer to GST/HST in this guide, remember that you still have to include the PST and any other taxes in the value of the benefit, where it applies. Calculate GST before any PST.

If you are a GST/HST registrant, you may have to remit the GST/HST relating to the taxable benefits you provide to your employees. For more information, see Chapter 5.

## Benefits chart

The Benefits chart at the end of this guide indicates if you should deduct CPP contributions and EI premiums on the **taxable** amounts, and which codes to use to report the taxable amounts on the employee's T4 slip. The chart also indicates whether to include GST/HST in the value of the benefit for income tax purposes.

## Employee's allowable employment expenses

It is the employees' responsibility to claim allowable employment expenses on their individual returns and to maintain records to support the claim.

If your employee wants to deduct employment expenses from his or her income, you must complete and sign Form T2200, *Declaration of Conditions of Employment*, to certify that your employees met the required conditions during the year. They do not have to file this form with their return. However, they have to keep it in case we ask to see it later.

For more information on allowable expenses, see Guide T4044, *Employment Expenses*.

## Chapter 2 – Automobile and motor vehicle benefits and allowances

In this chapter, when we refer to the term "vehicle" we mean both "automobiles" and "motor vehicles not defined as an automobile."

### Keeping records

You and your employees should keep records on the usage of the vehicle so that you can properly identify the business and personal use amounts of the total kilometres driven in a calendar year by an employee or a person related to the employee. The records may contain information relating to the business destination such as the date, the name and address of the client, and the distance travelled between home and the client's place of business. For more information, see Guide RC4409, *Keeping Records*.

### Automobile and motor vehicle benefits

An employee may use one of your vehicles for purposes other than business. The personal use of the vehicle is considered a taxable benefit to the employee.

An employee may use his or her personal vehicle to carry out his or her employment duties and receive an allowance for the business use of his or her vehicle. The reimbursement for this use may be a taxable allowance.

For more information, see "Automobile and motor vehicle allowances" on page 10.

If the vehicle you provide to your employee is not included in the definition of automobile as described below, see "Benefit for motor vehicles not defined as an automobile" on page 9.

### Automobile

An automobile is a motor vehicle that is designed or adapted mainly to carry individuals on highways and streets, and has a seating capacity of not more than the driver and eight passengers.

An automobile **does not** include:

- an ambulance;
- clearly marked police or fire emergency-response vehicles;
- clearly marked emergency medical response vehicles that are used to carry emergency medical equipment and one or more emergency medical attendants or paramedics;
- a motor vehicle bought to use mainly as a taxi, a bus used in a business of transporting passengers, or a hearse in a funeral business;
- a motor vehicle you bought to sell, rent, or lease in a motor vehicle sales, rental, or leasing business, except for benefits arising from personal use of an automobile;
- a motor vehicle (except a hearse) you bought to use in a funeral business to transport passengers, except for benefits arising from personal use of an automobile; or
- a van, pick-up truck, or similar vehicle that:
  - can seat no more than the driver and two passengers, and in the year it is acquired or leased is used primarily to transport goods or equipment in the course of business; or
  - in the year it is acquired or leased, is used 90% or more of the time to transport goods, equipment, or passengers in the course of business.

#### Note

If the back part or trunk of a van, pick-up truck, or similar vehicle has been permanently altered and can no longer be used as a passenger vehicle, it is no longer considered an automobile.

- pick-up trucks that are acquired or leased in the tax year that:
  - are used primarily to transport goods, equipment, or passengers in the course of earning or producing income; **and**
  - are used at a remote work location **or** at a special work site that is at least 30 kilometres away from any community having a population of at least 40,000.

### Personal driving

The personal driving of an employer's vehicle is a taxable benefit to the employee.

Personal driving is any driving by an employee, or a person related to the employee, for purposes not related to his or her employment.

This includes:

- vacation trips;
- driving to conduct personal activities; and
- travel between home and work (even if you insist that the employee drive the vehicle home). For details, see “Transportation to and from the job” on page 26.

We do not consider it to be personal driving if you require or allow the employee to travel directly from home to a point of call (such as a salesperson visiting customers) other than your place of business to which the employee regularly reports, or to return home from that point.

## Calculating automobile benefits

The benefit for an automobile you provide for the year is generally the total of the following amounts:

- a standby charge for the year; and
- an operating expense benefit for the year;

minus

- any reimbursements employees make in the year for benefits you otherwise include in their income for the standby charge or the operating expenses.

## Calculating a standby charge

The standby charge represents the benefit employees enjoy when your automobile is available for their personal use.

If the employee does not use the automobile for personal driving, there is **no** taxable benefit, even if the automobile was available to the employee for the entire year. This applies as long as you require the employee to use the automobile in the course of his or her employment.

You calculate the standby charge differently depending on whether you **own** or **lease** the automobile. Both calculations are included below.

### Automobile you own

Base the standby charge on:

- 2% of the automobile’s cost to you;
- the number of 30-day periods in the year the automobile was available to the employee;
- the personal driving done while the automobile was available to the employee; and
- the amount of any payment (reimbursement) you received from the employee for the standby charge.

### Your automobile costs

The cost of your automobile for determining the standby charge is the total of the following two amounts:

- the cost of the automobile when you bought it, including options, accessories, and GST and PST, or HST, **but not including** any reduction for trade-in; and
- the cost of additions (including GST and PST, or HST) you made to the automobile after you bought it (that you add to the capital cost of the automobile for depreciation).

Specialized equipment you add to the automobile to meet the requirements of a disabled person or for employment such as cellular phones, two-way radios, heavy-duty suspension, and power winches is not considered to be part of the automobile’s cost for purposes of calculating the standby charge.

### Availability

A vehicle is available to employees if they have access to or control over the vehicle. Access ends when an employee returns all the vehicle’s keys.

### Fleet operations

You may operate a fleet or pool of automobiles from which an employee uses several automobiles during the year. If you assign an automobile to an employee from a fleet or pool on a long-term or exclusive basis, you have to base the standby charge on the automobile you have assigned to the employee.

However, if the fleet is mostly the same or if you group it into a few similar groups, you can calculate the standby charge based on the average cost of the group from which you provide the automobile. You and the employee must agree to this.

### Automobile you lease

Base the standby charge on:

- two-thirds of the cost of your automobile lease less the amount payable to the lessor for insuring against loss, damage, or liability resulting from use of the automobile;
- the number of 30-day periods in the year that the automobile was available to the employee;
- the personal driving done while the automobile was available to the employee; and
- the amount of any payment (reimbursement) you received from the employee for the standby charge.

### Your leasing costs

Leasing costs of your automobile in determining the standby charge include:

- the rental cost for the automobile; and
- any associated costs, such as maintenance contracts, excess mileage charges, terminal charges less terminal credits, and the GST and PST, or HST, that you pay to the lessor under the leasing contract.

Leasing costs do not include liability and collision insurance costs.

### Lump-sum lease payments

Lump-sum amounts you pay the lessor at the beginning or end of a lease that are not a payment to buy the automobile will affect the standby charge for the automobile.

Prorate the lump-sum payment you make **at the beginning** of a lease over the life of the lease.

If you make a lump-sum payment **at the end** of a lease, we consider it to be a **terminal charge**. This means your lease costs should have been higher and the standby charge for

the automobile has been understated. In this situation, you can use one of the following methods:

- add the terminal charge to the lease costs in the year you end the lease; or
- prorate the payment over the term of the lease and amend the T4 or T4A slip of the employee who used the automobile, as long as he or she agrees and can still request an income tax adjustment for the years in question.

Each employee can then write to any tax services office or tax centre and ask us to adjust his or her returns for those years.

A lump-sum payment you receive **from the lessor at the end of a lease** is considered to be a **terminal credit**. When this happens, the standby charge for the automobile has been overstated since the lease costs should have been lower. In this situation, you can use one of the following methods:

- deduct the terminal credit from the lease costs in the year you end the lease; or
- amend the T4 or T4A slip of the employee who used the automobile and provide a letter explaining the reduction, as long as the employee agrees and can still request an income tax adjustment for the years in question.

Each employee can then write to any tax services office or tax centre and ask us to adjust his or her returns for those years.

Whichever method you use when you make or receive a lump-sum payment at the end of the lease, include GST/HST.

### Employees who sell or lease automobiles

You can modify the calculation of the standby charge for individuals you employ to sell or lease automobiles if:

- the individual is employed mainly to sell or lease automobiles;
- an automobile you own was made available to that individual or to someone related to that individual; and
- you acquired at least one automobile during the year.

You can choose the rate of 1.5% instead of 2% for the automobile's cost to you and calculate your automobile cost as the greater of the following two amounts:

- the average cost of **all** automobiles you acquired to sell or lease in the year; or
- the average cost of **all new** automobiles you acquired to sell or lease in the year.

### Reducing the standby charge

For 2003 and later tax years, you can reduce the standby charge if the automobile is used more than 50% of the time for business purposes and the kilometres for personal use do not exceed 1,667 per 30-day period for a total of 20,004 kilometres per year.

### Partnerships

You have to include a standby charge in the income of a partner or an employee of a partner if a partnership makes an automobile available for personal use to:

- a partner or a person related to the partner; or
- an employee of a partner or a person related to an employee of a partner.

### Calculating an operating expense benefit

When you or a person related to you provides an automobile to an employee and pays for the operating expenses related to personal use (including GST and PST, or HST), this payment represents a taxable benefit to the employee.

Operating expenses include:

- gasoline and oil;
- maintenance charges and repair expenses, less insurance proceeds; and
- licences and insurance.

Operating expenses **do not** include:

- interest;
- capital cost allowance for an automobile you own;
- lease costs for a leased automobile; or
- parking costs.

If you pay any amount of operating expenses, you have to determine the operating expense benefit by using either the optional or fixed-rate calculation.

### Reimbursement for operating expenses

If the employee reimburses you in the year or no later than 45 days after the end of the year for **all** operating expenses (including GST and PST, or HST) attributable to personal use, you do not have to calculate an operating expense benefit for the year.

If the employee reimburses you for **part** of the automobile's operating expenses in the year or no later than 45 days after the end of the year, deduct the payment from the fixed-rate calculation of the benefit.

### Optional calculation

You can choose the optional method to calculate the automobile's operating expense benefit if:

- you include a standby charge in your employee's income;
- your employee uses the automobile more than 50% of the time in the course of his or her office or employment; and
- your employee notifies you in writing before the end of the tax year to use this method.

If your employee meets these three conditions, calculate the operating expense benefit of the automobile at **1/2 of the standby charge** before deducting any payments (reimbursements) your employee or a person related to your employee makes. In some cases, this optional



calculation may result in a higher benefit amount than the fixed-rate calculation.

### Fixed-rate calculation

The fixed rate for 2006 is 22¢ per kilometre of personal use (including GST and PST, or HST).

If the employee's main source of employment is selling or leasing automobiles, the fixed rate for 2006 is 19¢ per kilometre of personal use (including GST and PST, or HST).

### Example

In 2006, you provided your employee with an automobile. She drove 30,000 kilometres during the year, with 10,000 kilometres for personal use.

You paid \$3,000 in costs associated with maintenance, licences, and insurance.

Calculate the part of the operating expenses that relates to her personal use of the automobile as follows:

$$\frac{10,000 \text{ km}}{30,000 \text{ km}} \times \$3,000 = \$1,000$$

If she reimbursed you for the **total** amount of \$1,000 in the year or no later than 45 days after the end of the year, you do not have to calculate an operating expense benefit for her.

However, if she reimbursed you for **only** \$800 of the expenses you paid in the year or no later than 45 days after the end of the year, the operating expense benefit is \$1,400, calculated as follows:

$$10,000 \text{ km} \times 22¢ = \$2,200$$

$$\$2,200 - \$800 = \$1,400$$

### Note

When you use the fixed-rate calculation, you still have to keep records of this benefit.

## Benefit for motor vehicles not defined as an automobile

A motor vehicle is an automotive vehicle designed or adapted for use on highways and streets. It does not include a trolley bus or a vehicle designed or adapted for use only on rails.

If the vehicle you provide to your employee is not included in the definition of automobile, there is **no** standby charge or operating expense benefit for the availability of the motor vehicle. However, a taxable benefit would still apply for any personal use of the motor vehicle. You would have to reasonably estimate the fair market value of the benefit, including GST/HST.

See page 6 for a list of vehicles not defined as an automobile.

For more information, see Interpretation Bulletin IT-63, *Benefits, Including Standby Charge for an Automobile, From the Personal Use of a Motor Vehicle Supplied by an Employer – After 1992*.

## Payroll deductions for automobile or motor vehicle benefits

If the benefit is taxable, it is also pensionable. Deduct CPP contributions and income tax.

The benefit for personal use of an automobile or a motor vehicle not defined as an automobile is a non-cash benefit and is not insurable. Do not deduct EI premiums.

## Reporting automobile or motor vehicle benefits on the T4 slip

Report the value of the benefit including the GST/HST that applies in box 14, "Employment income," and in the "Other information" area under code 34 at the bottom of the employee's T4 slip.

### Shareholder's benefit

The automobile or motor vehicle benefit to the shareholder of a corporation (or a person related to the shareholder) has to be included in the income of the shareholder.

Report the benefit on a T4 slip when:

- the individual is both a shareholder and an employee and you provide the vehicle to the individual (or a person related to that individual) in his or her capacity as an employee.

Report the benefit in box 28 of a T4A slip when:

- the shareholder is not an employee; or
- the individual is both a shareholder and an employee and you provide the vehicle to the individual in his or her capacity as a shareholder.

## Tools to help you calculate the automobile benefit

You can use any of the tools below to determine the following amounts:

- the estimated automobile benefit for withholding purposes; and
- the taxable benefit that you have to report on the T4 or T4A slip.

### Automobile Benefits Online Calculator

The calculator is available at [www.cra.gc.ca/autobenefitscalculator](http://www.cra.gc.ca/autobenefitscalculator).

### Note

Effective January 2007, the Automobile Benefits Online Calculator will not be available through *Tables on Diskette* (TOD).

### Worksheet

You can get Form RC18, *Calculating Automobile Benefits for 2006*, from our Web site at [www.cra.gc.ca/forms](http://www.cra.gc.ca/forms) or by calling 1-800-959-2221.

## Automobile and motor vehicle allowances

An allowance means any payment that employees receive from an employer for using their own vehicle in connection with or in the course of their office or employment. This payment is in addition to their salary or wages, without having to account for its use. An allowance is taxable unless it is based on a reasonable per-kilometre allowance.

Employees receiving an allowance may be able to claim allowable expenses on their individual return. See “Employee’s allowable employment expenses” on page 6.

This section explains common forms of automobile and motor vehicle allowances.

### Reasonable per-kilometre allowance

If the allowance paid to your employees is based on a per-kilometre rate that we consider reasonable, it is **not taxable**. Do not deduct income tax, CPP contributions, or EI premiums.

When your employees complete their returns, they do not include this allowance in income.

We consider an allowance to be reasonable only if **all** the following conditions apply:

- the allowance is based only on the number of business kilometres driven in a year;
- the rate per kilometre is reasonable; and
- you did not reimburse the employee for expenses related to the same use, except in situations where you reimburse an employee for toll or ferry charges or supplementary business insurance if you have determined the allowance without including these reimbursements.

The type of vehicle and the driving conditions usually determine whether we consider an allowance to be reasonable. The per-kilometre rates that we usually consider reasonable are the amounts prescribed in section 7306 of the *Income Tax Regulations*. Although these rates represent the maximum amount that you can deduct as business expenses, you can use them as a guideline to determine if the allowance paid to your employee is reasonable.

### Reasonable allowance rates

For 2006, they are:

- 50¢ per kilometre for the first 5,000 kilometres; and
- 44¢ per kilometre thereafter.

In the Northwest Territories, Yukon, and Nunavut, there is an additional 4¢ per kilometre for travel.

### Per-kilometre allowance rates that we do not consider reasonable

If the allowance paid to your employee is based on a per-kilometre rate that we do not consider reasonable because it is either too high or too low, it is a taxable benefit and should be included in the employee’s income.

### Note

If the allowance paid to your employee is unreasonably low, you may not have to include it in his or her income. This administrative policy applies only if the employee does not claim allowable expenses when he or she completes his or her individual return.

### Flat-rate allowance

If the allowance paid to your employee is based on a flat rate that is not related to the number of kilometres driven, it is a taxable benefit and should be included in the employee’s income.

### Combination of flat-rate and reasonable per-kilometre allowances

If the allowance you pay to your employee is a combination of flat-rate and reasonable per-kilometre allowances that cover the **same use** for the vehicle, the total combined allowance is a taxable benefit and should be included in the employee’s income.

#### Example 1

You pay an allowance to your employee as follows:

- a flat per-diem rate to offset the employee’s fixed expenses for each day the vehicle is required; and
- a reasonable per-kilometre rate for each kilometre driven to offset the operating expenses.

The flat per-diem rate compensates the employee for some of the “same use” on which the reasonable per-kilometre allowance is based, that is, the fixed expenses incurred by the employee to operate the vehicle.

The combined amount is considered one allowance and therefore taxable, since it is not based solely on the number of kilometres the vehicle is used for employment purposes.

#### Example 2

You pay an allowance to your employee as follows:

- a reasonable per-kilometre rate for employment-related travel outside the employment district; and
- a flat-rate per month for travel inside the employment district.

Since the flat-rate allowance does not cover any of the same use of the vehicle on which the reasonable per-kilometre allowance is based, the allowances are considered separately.

The reasonable per-kilometre allowance paid for travel outside the district is **not included in income**. The amount based on a flat-rate paid for travel inside the district is **taxable**, since it is not based solely on the number of kilometres for which the vehicle is used in connection with the employment.

Only the total of the monthly flat-rate allowance must be reported in box 14, “Employment income,” and in the “Other information” area under code 40 at the bottom of the employee’s T4 slip.

## Reimbursement or advance for travel expenses

A **reimbursement** is a payment you make to your employees as a repayment for amounts they spent (such as gas and repairs) while conducting your business. Generally, the employee completes a claim or expense report detailing the amounts spent. Do not include a reasonable reimbursement, which becomes part of your business expenses, in the employee's income.

An **advance** is an amount you give to employees for expenses they will incur on your business. An **accountable advance** is an advance where your employee must account for their expenses by producing vouchers and return any amount they did not spend.

Usually, a reimbursement or an accountable advance for travel expenses is not income for the employee receiving it unless it represents payment of the employee's personal expenses.

## Averaging allowances

To comply with the rules on reasonable per-kilometre allowances, employees must file expense claims with you on an ongoing basis, starting at the beginning of the year.

A flat-rate or lump-sum allowance that is not based on the number of kilometres driven cannot be averaged at the end of the year to determine a reasonable per-kilometre rate and then be excluded from the employee's income.

We understand the administrative problems that can result from this. As a result, we are giving you an alternative. If you make accountable advances to employees for vehicle expenses, you do not have to include them in the employee's income if **all** the following conditions are met:

- there is a pre-established per-kilometre rate that is not more than a reasonable amount;
- the rate and the advances are reasonable under the circumstances;
- you document this method in the employee's record; and
- no other provision of the *Income Tax Act* requires you to include the advances in the employee's income.

Employees have to account for the business kilometres they travelled and any advances they received. They must do so on the date their employment ends in the year, or by the calendar year end, whichever is earlier.

**At that time, you have to pay any amounts you owe the employee and the employee must repay any amount over actual expenses.** You cannot simply report the excess advances on the employee's T4 slip.

For more information on vehicle allowances, see Interpretation Bulletin IT-522, *Vehicle, Travel and Sales Expenses of Employees*.

The automobile and motor vehicle allowance is not subject to GST/HST.

## Payroll deductions for automobile or motor vehicle allowances

If the allowance is taxable, it is also pensionable and insurable. Deduct CPP contributions, EI premiums, and income tax.

### Reducing tax deductions at source on automobile or motor vehicle allowances

In many cases, allowances that are not based solely on a reasonable per-kilometre rate can later be substantially offset by the employees' expense deductions on their individual returns. In these situations, employees can ask to reduce the remuneration on which you have to deduct income tax by sending a completed Form T1213, *Request to Reduce Tax Deductions at Source*, or a written request to any tax services office along with the following information:

- the type of employment for which the employee will receive the allowance;
- an estimate of the total vehicle allowances the employee will receive in the year;
- an estimate of the business kilometres the employee will drive in the year;
- an estimate of the employee's vehicle expenses for the year; and
- the amount for which the employee is requesting the waiver.

If you have a number of employees in the same situation, you can get a bulk waiver for the group. This way, every employee does not have to make an individual request.

## Reporting automobile or motor vehicle allowances on the T4 slip

If you paid your employee an allowance that we consider to be taxable, you must enter the yearly total of this allowance in box 14, "Employment income," and in the "Other information" area under code **40** at the bottom of the employee's T4 slip. Do not report any amount that we do not consider to be taxable.

## Chapter 3 – Other benefits and allowances

### Board and lodging

#### Exception to the rules

If you provide meals, accommodation, and transportation to an employee who works at a special work site or a remote location, see "Board, lodging, and transportation at special work sites and remote work locations" on page 12.

If you give free board, lodging, or both to an employee, the employee receives a taxable benefit. As a result, you must add to the employee's remuneration the fair market value of the meals and accommodation you provide. Report this amount in box 14, "Employment income," and in the "Other information" area under code **30** at the bottom of the employee's T4 slip.

If you provide subsidized board and lodging to an employee, determine the value of the benefit's board portion as described in "Subsidized meals" on page 19. The benefit's lodging part is the fair market value of the accommodation **minus** any amount the employee paid. Report the benefits in box 14, "Employment income," and in the "Other information" area under code **30** at the bottom of the employee's T4 slip.

### Payroll deductions

If the benefit is taxable, it is also pensionable. Deduct CPP contributions and income tax.

This non-cash benefit is insurable if it is received in addition to cash earnings in the pay period. In this case, deduct EI premiums.

If no cash earnings are paid during the pay period, it is not insurable. Do not deduct EI premiums.

## Board, lodging, and transportation at special work sites and remote work locations

An individual can meet the requirements of both a remote work location and a special work site. However, this benefit can only be excluded from income **once**.

### Special work sites

Generally, a special work site is an area where temporary duties are performed by an employee who maintains a self-contained domestic establishment at another location as his or her principal place of residence. Because of the distance between the two areas, the employee is not expected to return daily from the work site to his or her principal place of residence.

Usually, GST/HST applies on meals and accommodations you provide to an employee. In certain cases, such as long-term residential accommodation of one month or more, no GST/HST applies. Where GST/HST applies, include it in the value of the benefit.

### Board and lodging

You can exclude from income the value of board and lodging that you provided to an employee who works at a **special work site** or the reasonable allowance the employee received if he or she worked away from home and all of the following conditions were met:

- a) the employee must have worked at a special work site where the duties performed were of a temporary nature;
- b) the employee maintained at another location a self-contained domestic establishment as his or her principal place of residence:
  - that, throughout the period, was available for the employee's occupancy, and the employee did not rent it to any other person; and
  - to which, because of distance, we could not reasonably expect the employee to have returned daily from the special work site; and

- c) the board and lodging you provided or the reasonable allowance the employee received must have been for a period of at least 36 hours. This period can include time spent travelling between the employee's principal place of residence and a special work site. Also, the employee's duties required him or her to be away from the employee's principal place of residence or to be at the special work site.

### Transportation

An employee can exclude from income the value of free or subsidized transportation between the special work site and the employee's principal place of residence, or a reasonable allowance received for his or her transportation expenses, for a period described in c). This only applies if the employee received board and lodging, or a reasonable allowance for board and lodging, from you for that period.

### Form TD4, Declaration of Exemption – Employment at Special Work Site

If an employee meets **all** of the conditions in a), b), and c), you and the employee should complete Form TD4, *Declaration of Exemption – Employment at Special Work Site*. This allows you to exclude the benefit or allowance from the employee's income. If you complete Form TD4, do not include the amounts in box 14, "Employment income," or in the "Other information" area under code **30** at the bottom of the employee's T4 slip. After you complete Form TD4 with the employee, keep it with your payroll records.

If the employee does not meet all of the above conditions, do not complete Form TD4. Treat the amounts as the employee's income. Make the necessary deductions and report the amounts on the employee's T4 slip. This also applies to any part of an allowance for meals, accommodation, and transportation that is more than a reasonable amount.

#### Note

If the special work site is in a prescribed zone, see "Board, lodging, and transportation at a special work site" on page 29.

### Remote work locations

We usually consider a work location to be remote when it is 80 kilometres or more from the nearest established community with a population of at least 1,000 people.

A location is not considered an established community if it lacks essential services or such services are not available within a reasonable commuting distance (such as basic food store, basic clothing store with merchandise in stock [not a mail-order outlet], access to housing, certain medical help, and certain educational facilities).

### Board and lodging

You can exclude from income the value of board and lodging that you provide to an employee who works at a **remote work location**, or the allowance the employee receives, if the following conditions are met:

- the employee could not reasonably be expected to set up and maintain a self-contained domestic establishment

because of the remoteness of the location and the distance from any established community;

- you have not provided a self-contained establishment for the employee; and
- the reasonable allowances were for a period of at least 36 hours when:
  - the employee’s duties required the employee to be away from the principal place of residence; or
  - the employee had to be at the remote work location.

### Transportation

You can exclude from income the value of free or subsidized transportation. A reasonable allowance for transportation expenses may also be excluded.

To qualify, the transportation allowance paid to an employee must be for a period of at least 36 hours when:

- the employee had to be away from his or her principal place of residence; or
- the employee had to be at the remote work location.

You must have paid the allowance for transportation between the remote work location and any location in Canada. If the remote work location is outside Canada, the allowance for transportation between that location and any location in Canada, or another location also outside Canada, qualifies.

**We do not need** Form TD4, *Declaration of Exemption – Employment at Special Work Site*, when there is an exemption for board, lodging, or transportation allowances you pay to employees who work at a remote work location. If you need help determining whether a location qualifies as remote, contact any tax services office or tax centre.

When you provide board, lodging, and transportation under the above conditions, you do not have to report the equivalent value or any GST/HST that applies as remuneration to the employee on the T4 slip.

### Payroll deductions

If you exclude a benefit for board, lodging, and transportation at a special work site or remote work location, it is not pensionable and not insurable. Do not deduct CPP contributions, EI premiums, or income tax.

### Cellular phone service

If you provide your employee with a cellular phone, the service is not taxable as long as the primary purpose is to help the employee carry out his or her duties.

If part of the phone use is personal, the value of the personal use should be included in the employee’s income.

You must include any GST/HST that applies to the value of this benefit.

### Payroll deductions

If the benefit is taxable, it is also pensionable. Deduct CPP contributions and income tax.

If the taxable benefit is paid in cash, it is insurable. Deduct EI premiums. If it is a non-cash benefit, it is not insurable. Do not deduct EI premiums.

### Child care expenses

Child care is not taxable if **all** of the following conditions are met:

- the services are provided at the employer’s place of business;
- the services are managed directly by the employer;
- the services are provided to all of the employees at minimal or no cost; and
- the services are not available to the general public, only employees.

If all of the above conditions are **not** met, there is a taxable benefit to the employee.

If you make the facilities available to non-employees for a higher rate than what you charge your own employees, the difference in rates is considered a taxable benefit to the employee.

When you subsidize a facility operated by a third party in exchange for subsidized rates for your employees, the amount of the subsidy is considered a taxable benefit to the employee.

You must include any GST/HST that applies in the value of this benefit.

### Payroll deductions

If the benefit is taxable, it is also pensionable. Deduct CPP contributions and income tax.

If the taxable benefit is paid in cash, it is insurable. Deduct EI premiums. If it is a non-cash benefit, it is not insurable. Do not deduct EI premiums.

### Counselling services

The fees you pay to provide services such as financial counselling or income tax preparation for an employee are usually considered a taxable benefit. This applies whether you pay the fees directly or indirectly.

Employee counselling services are not taxable if they relate to:

- the wellness or mental or physical health (such as tobacco, drug, and alcohol abuse, stress management, and employee assistance programs) of an employee or a person related to an employee (this does not include amounts for using recreational or sporting facilities and club dues);
- an employee’s re-employment; or
- an employee’s retirement.

You must include any GST/HST that applies in the value of this benefit.

### Payroll deductions

If the benefit is taxable, it is also pensionable. Deduct CPP contributions and income tax.

If the taxable benefit is paid in cash, it is insurable. Deduct EI premiums. If it is a non-cash benefit, it is not insurable. Do not deduct EI premiums.

## Disability-related employment benefits

Benefits you provide to employees who have a disability are generally not taxable.

Reasonable transportation costs between an employee's home and work location (including parking near that location) are not taxable if you pay them to or for an employee who:

- is legally blind; or
- has a severe and prolonged mobility impairment, which markedly restricts the individual's ability to perform a basic activity of daily living.

These transportation costs can include an allowance for taxis or specially designed public transit and parking that you provide or subsidize for these employees.

You may have employees with severe and prolonged mental or physical impairments. If you provide reasonable benefits for attendants to help these employees perform their duties of employment, these benefits are not taxable to the employee. The benefits can include readers for persons who are blind, signers for persons who are deaf, and coaches for persons who are intellectually impaired.

You must include any GST/HST that applies in the value of this benefit.

### Payroll deductions

If the benefit is taxable, it is also pensionable. Deduct CPP contributions and income tax.

If the taxable benefit is paid in cash, it is insurable. Deduct EI premiums. If it is a non-cash benefit, it is not insurable. Do not deduct EI premiums.

## Discounts on merchandise and commissions on sales

If you sell merchandise to your employees at a **discount**, the benefit they get from this is not usually considered a taxable benefit.

However, this does not apply:

- to a special arrangement you make with an employee or a group of employees to buy merchandise at a discount;
- to an arrangement that allows an employee to buy merchandise (other than old or soiled merchandise) for less than your cost; or
- when there is a reciprocal arrangement between two or more employers so that employees of one employer can buy merchandise at a discount from another employer.

If you determine the discount is taxable or you sell merchandise to employees at **below cost**, the taxable

benefit is the difference between the fair market value of the goods and the price the employees pay.

If a taxable benefit arises under any discount arrangement and it is not for an exempt or zero-rated supply, include GST/HST in the value of the benefit.

**Commissions** that sales employees receive on merchandise they buy for personal use are not a taxable benefit. Similarly, when life insurance salespeople acquire life insurance policies, the commissions they receive are not taxable as long as they own the policies and have to make the required premium payments.

### Payroll deductions

If the benefit is taxable, it is also pensionable. Deduct CPP contributions and income tax.

If the taxable benefit is paid in cash, it is insurable. Deduct EI premiums. If it is a non-cash benefit, it is not insurable. Do not deduct EI premiums.

## Educational allowances for children

If you pay any amounts to an employee as an educational allowance for the employee's child, you have to include these amounts in the employee's income for the year.

However, the educational allowance **may not be taxable** if **all** of the following conditions are met:

- the education provided is in the official language of Canada primarily used by the employee;
- the school is the closest suitable one available in that official language;
- the child is in full-time attendance at the school; and
- the subsidy provided by you is reasonable.

Do not include GST/HST in the value of this allowance.

### Payroll deductions

If the allowance is taxable, it is also pensionable and insurable. Deduct CPP contributions, EI premiums, and income tax.

## Gifts and awards

A gift or award that you give an employee is a taxable benefit from employment, whether it is cash, near-cash, or non-cash. A near-cash item is one that can be easily converted to cash such as a gift certificate, gift card, gold nuggets, securities, or stocks.

### Clarification

For EI purposes only, near-cash taxable benefits are treated the same as non-cash taxable benefits. Therefore, they are not insurable. Do not deduct EI premiums.

### Example 1

You give your employee a gift card or gift certificate with a value of \$100 to a department store. The employee can use this to choose whatever merchandise or service the store offers. The gift card or gift certificate is additional

remuneration and therefore a taxable benefit to the employee because there is an element of choice.

### Example 2

You give your employee tickets to a specific event on a specific date and time. This is not a taxable benefit to the employee since there is no element of choice.

Cash and near-cash gifts or awards are always a taxable benefit to the employee. Non-cash gifts or non-cash awards, on the other hand, may not be considered a taxable benefit under certain circumstances. See the following section for more information.

### Non-cash gifts for a special occasion

The policy allows you to give each employee up to two non-cash gifts per year, tax-free. For the following policy to apply, the gift must be for a special occasion such as Christmas, Hanukkah, a birthday, a wedding, or the birth of a child.

### Non-cash awards for employment related accomplishments

The policy allows you to give each employee up to two non-cash awards per year, tax-free. For the following policy to apply, the award must be given for an employment-related accomplishment such as long or outstanding service, employees' suggestions, or meeting or exceeding safety standards.

If you give your employee a non-cash award for any other reason, this policy does not apply and you must include the fair market value of the award in the employee's income.

### Policy for non-cash gifts and awards

The policy limits the cost of non-cash gifts to \$500, including taxes **and** non-cash awards to \$500, including taxes.

If you give one **non-cash** gift or award per year and the total cost is more than \$500, you have to include the **fair market value** of the gift or award in the employee's income.

If you give more than one non-cash gift or award per year and the total cost is more than \$500, we allow you to exclude the cost of up to two non-cash gifts or awards from the employee's income, as long as the total cost of the excluded gift(s) or award(s) is not more than \$500. You have to include the **fair market value** of the remaining gift(s) or award(s) in the employee's income.

If you give more than one non-cash gift or award per year and the total cost is \$500 or less, we allow you to exclude the cost of any two of the gifts or awards from the employee's income. You have to include the **fair market value** of the remaining gifts or awards in the employee's income.

If the benefit is all in cash, do not include GST/HST. However, if all or part of the taxable benefit is non-cash, and it is not for an exempt or zero-rated supply, include GST/HST in the value of that part of the benefit.

For more information, see [www.cra.gc.ca/gifts](http://www.cra.gc.ca/gifts).

### Payroll deductions

If the benefit is taxable, it is also pensionable. Deduct CPP contributions and income tax.

If the taxable benefit is paid in cash, it is insurable. Deduct EI premiums. If it is a non-cash benefit, it is not insurable. Do not deduct EI premiums.

### Awards from a manufacturer

If a manufacturer of items or goods gives cash awards or non-cash awards **to the dealer** of the items or goods, the manufacturer does not have to report the awards on an information slip.

However, if the dealer passes on cash awards to an employee, the dealer has to report the cash payment in box 14, "Employment income," and in the "Other information" area under code **40** at the bottom of the employee's T4 slip. If the dealer passes on non-cash awards to an employee, the above-noted policy will apply.

If a manufacturer gives a cash award or a non-cash award **directly to the employee** of a dealer or other sales organization, the manufacturer has to report the value of the award as a benefit in box 28, "Other income," on a T4A slip.

### Group term life insurance policies – Employer-paid premiums

This section applies to current, former and retired employees.

#### Note

Premiums an employer pays for employees' group life insurance that is not group term insurance or **optional** dependant life insurance are a taxable benefit.

A **group term life insurance policy** is a group life insurance policy where the only amounts payable by the insurer are policy dividends, experience rating refunds, and amounts payable on the death or disability of an employee, former employee, retired employee or their covered dependants.

**Term insurance** is any life insurance under a group term life insurance policy other than insurance for which a lump-sum premium has become payable or has been paid. Life insurance for current employees would usually be term insurance, although it is sometimes provided for retired employees as well.

A **lump-sum premium** is a premium for insurance on an individual's life where all or part of the premium is for insurance for a period that extends more than 13 months after the payment of the premium (or more than 13 months after the time the premium became payable, if it is paid after it became payable).

### Calculating the benefit

Use this calculation if the premiums are paid regularly and the premium rate for each individual is not dependent on age or sex:

- the premiums payable for term insurance on the individual's life; and

- the total of all sales taxes and excise taxes that apply to the individual's insurance coverage;

#### minus

- the premiums and any taxes the employee paid either directly or through reimbursements to you.

#### Note

Policy premiums for accidental death and dismemberment coverage are not included in calculating the taxable benefit.

In any other situation, a detailed calculation is required. For information, call 1-800-959-5525.

Do not include GST/HST in the value of this benefit.

#### Payroll deductions

If the benefit is taxable, it is also pensionable. Deduct CPP contributions and income tax.

However, it is not insurable since it is a non-cash benefit. Do not deduct EI premiums.

#### Reporting the benefit

Report the benefit for **current employees** on a T4 slip. Include the amount of the benefit in box 14, "Employment income," and in the "Other information" area under code **40** at the bottom of the employee's T4 slip.

Report the benefit for **former or retired employees** on a T4A slip. Include the amount of the benefit in box 28, "Other income." The \$500 reporting threshold for T4A slips, which is described in Guide RC4157, *Deducting Income Tax on Pension and Other Income, and Filing the T4A Slip and Summary*, will not apply.

Multi-employer plan administrators or trustees who provide taxable benefits from group term life insurance to employees, former employees or retirees under such a plan have to prepare a T4A slip **only** if the benefit is more than \$25. They have to enter the group term life insurance benefits under code **19** and in box 28, "Other income," of the T4A slip.

#### Notes

In Ontario, the 8% provincial sales tax affects the taxable benefit for some insurance premiums that employers pay.

Quebec employers have to calculate a taxable benefit on the total amount of group life insurance premiums that they pay for their employees, including the 9% insurance levy that the province imposes on insurance premiums that the employer pays.

#### Housing – Rent-free and low-rent

If you provide an employee, including an apartment block superintendent, with a house, apartment, or similar accommodation rent-free or for less than the fair market value of such accommodation, there is a taxable benefit to the employee.

Amounts that you pay for your employees for utilities (such as phone, hydro, and natural gas) are also a taxable benefit.

You have to estimate a reasonable amount for the benefit. It is usually the fair market value for the same type of accommodation **minus** any rent the employee paid.

If you give your employee cash for rent or utilities, the value of the housing benefit is the amount of the cash payment. This is the amount that you include in the employee's income.

The value of the accommodation is usually not subject to GST/HST if the employee occupies it for **at least** one month.

Report the taxable benefit in box 14, "Employment income," and in the "Other information" area under code **30** at the bottom of the employee's T4 slip.

#### Note

If the dwelling you provide to the employee is in a prescribed zone, see "Accommodation or utilities provided by the employer" on page 28.

#### Payroll deductions

If the benefit is taxable, it is also pensionable. Deduct CPP contributions and income tax.

If this benefit is paid in cash, it is insurable. If it is a non-cash benefit it is insurable if it is received in addition to cash earnings in the pay period. In this case, deduct EI premiums. If no cash earnings are paid during the pay period, it is not insurable. Do not deduct EI premiums.

#### Clergy residence deduction

If by virtue of his or her employment, an employee receives an amount in respect of his or her living accommodation, such as a rent-free or low-rent residence or other accommodation or amounts received for his or her own residence, you have to estimate the value of the benefit and report it on the employee's T4 slip in box 14, "Employment income," and in the "Other information" area under code **30** at the bottom of the employee's T4 slip.

An employee is a member of the clergy, a regular minister, or a member of a religious order if he or she is in charge of, or ministers to, a diocese, parish, or congregation. This also applies to an employee who is engaged exclusively in fulltime administrative service by appointment of a religious order or denomination.

To claim a deduction from income for his or her residence, an employee has to complete Parts A and C of Form T1223, *Clergy Residence Deduction*. You have to complete Part B and sign the form to certify that this employee has met the required conditions. The employee does not have to file the form with his or her return, but must keep it in case we ask to see it later.

If the employee tells you in writing that he or she will claim a deduction from income for the residence or other accommodation, do not include the rent and utilities portion of the benefit in income when you calculate the income tax deductions required. Although the rent and utilities portion can be excluded from income for the purposes of tax deductions, you still have to report it on the T4 slip.



For more information, see Interpretation Bulletin IT-141, *Clergy Residence Deduction*.

## Special circumstances that reduce the value of a housing benefit

The following two factors may reduce the value of a housing benefit you provide to your employee:

### ■ Suitability of size

Your employee may have to occupy a dwelling larger than he or she needs (for example, a single person in a three-bedroom house). To determine the taxable housing benefit, you can reduce the value of the accommodation to equal the value of accommodation that is appropriate to your employee's needs (in this case, a one- or two-bedroom apartment or house).

#### Note

If the dwelling you provide is smaller than what your employee needs, we cannot allow any reduction in value.

### ■ Loss of privacy and quiet enjoyment

If the dwelling you provide to your employee contains things like equipment, public access, or storage facilities that infringe on your employee's privacy or quiet enjoyment of the dwelling, you can reduce the value of the housing benefit. The reduction has to reasonably relate to the degree of disturbance that affects your employee.

These two factors apply in the above order. If both circumstances apply to a dwelling, you should first reduce the value of the dwelling to equal the value of accommodation that suits your employee's needs. Then, you should apply any reduction for loss of privacy and quiet enjoyment to that reduced value. For more information, contact any tax services office.

## Interest-free and low-interest loans

You have to include in income any benefit that an individual receives as a result of an interest-free or low-interest loan because of **an office, employment, or shareholding**.

The benefit is the amount of interest that the individual would have paid on the loan for the year at the prescribed rates (see "Prescribed rates of interest" on page 19) **minus** the amount of interest that he or she actually paid on the loan in the year, or no later than 30 days after the end of the year.

Special rules apply to certain loans and to home-relocation loans. See "Home-relocation loan" and "Exceptions" on page 18.

Include the employee's benefit in box 14, "Employment income," and in the "Other information" area under code **36** at the bottom of the T4 slip.

Include the shareholder's benefit in box 28, "Other income," of a T4A slip.

Do not include GST/HST in the value of these benefits.

## Payroll deductions

If the benefit is taxable, it is also pensionable. Deduct CPP contributions and income tax.

However, it is not insurable since it is a non-cash benefit. Do not deduct EI premiums.

## Loans received because of employment

An employee receives a taxable benefit if he or she receives a loan because of an office or employment or intended office or employment. We consider a loan received after February 23, 1998, to be received because of employment if it is reasonable to conclude that the loan would not have been received, or the conditions of the loan would have been different, had there been no employment or intended employment.

The loan can be received by the employee or by another person. A loan includes any other indebtedness such as the unpaid purchase price of goods or services.

The taxable benefit the employee receives in the tax year is the total of the following two amounts:

- a) the interest on each loan and debt calculated at the prescribed rate for the periods in the year during which it was outstanding; and
- b) the interest on the loan or debt that was paid or payable for the year by you, the employer (for this purpose, an **employer** is a person or partnership that employed or intended to employ the individual and also includes a person related to the person or partnership);

**minus** the total of the following two amounts:

- c) the interest for the year that any person or partnership paid on each loan or debt no later than 30 days after the end of the year; and
- d) any part of the amount in b) that the employee pays back to the employer no later than 30 days after the end of the year.

#### Note

Sometimes these rules do not apply. For more information, see "Exceptions" on page 18.

For information about similar taxable benefits resulting from loans received because of services performed by a corporation that carries on a personal services business, see Interpretation Bulletin IT-421, *Benefits to Individuals, Corporations and Shareholders From Loans or Debt*.

### Example of calculating the taxable benefit

Joshua is your employee. He borrowed \$150,000 from you at the beginning of the year. The prescribed rate of interest for the loan for is 3% for the first, second, and fourth quarters, and 2% for the third quarter. Joshua paid you \$2,000 interest on the loan no later than 30 days after the end of the year. During the year, a company related to you paid \$1,000 interest on the loan for Joshua. Before the end of the same year, Joshua repaid the \$1,000 to the company.

Calculate the benefit to include in his income as follows:

a) Prescribed rate × loan amount for the year:	
3% × \$150,000 × 3/4 = \$3,375	
2% × \$150,000 × 1/4 = \$750.....	\$4,125
<b>plus</b>	
b) Amount paid by a third party .....	<u>1,000</u>
	\$5,125
<b>minus</b>	
c) Interest paid (\$2,000 + \$1,000) = .....	\$3,000
d) Amount Joshua repaid .....	<u>1,000</u> <u>4,000</u>
<b>Joshua's taxable benefit.....</b>	<b><u>\$1,125</u></b>

### Loans received because of shareholdings

Loans received because of shareholdings are considered taxable benefits when the following conditions are met:

- the loan is received by a person or partnership (except when the person is a corporation resident in Canada or the partnership is one in which each partner is a corporation resident in Canada);
- this person or partnership is:
  - a shareholder of a corporation;
  - connected with a shareholder of a corporation; or
  - a member of a partnership or beneficiary of a trust that was a shareholder of a corporation; and
- because of these shareholdings, the person or partnership receives a loan from or incurs a debt to that corporation, a related corporation, or a partnership of which that corporation or any related corporation was a member.

If these conditions are met, the person or partnership (for example, a shareholder) received a benefit in the tax year that is equal to:

- the interest on each loan and debt calculated at the prescribed rate for the period in the year during which it was outstanding;

**minus**

- the interest for the year that any party (for example, the person or partnership) paid on each loan or debt in the year, or no later than 30 days after the end of the year.

**Note**

A **person** includes an individual, a corporation, or a trust.

### Home-purchase loan

A loan for a home purchase is any part of a loan to an employee that was used to get or repay another loan to get a dwelling to house that employee or a person related to that employee. This also applies to a shareholder or a person related to a shareholder.

To calculate the benefit for home-purchase loan, see “Loans received because of employment” on page 17.

The amount of interest you calculate as a benefit should not be more than the interest that would have been charged at the prescribed rate in effect when the employee made the loan or incurred the debt.

If the term of repayment for a home-purchase loan is more than five years, the balance owing at the end of five years (from the day the loan was made) is considered a new loan. Treat the outstanding balance as a new loan on that date. To determine the benefit, use the prescribed rate in effect at that time.

### Home-relocation loan

If you provide an employee or an employee’s spouse or common-law partner with an interest-free or low-interest loan because the employee relocated to take up employment, see “Home-relocation loans” on page 21.

### Exceptions

There is no benefit to borrowers for loans they received because of an office, employment, or shareholding when one of the following occurs:

- The interest rate on the loan or debt equals, or is more than, the rate that two parties who deal with each other at arm’s length would have agreed on when the debt arose. This is the rate that would apply on a commercial loan received other than through an office, employment, or shareholding. This exception does not apply if someone other than the borrower pays any part of the interest from the loan or debt.
- You include all or part of the loan (for example, a loan or debt forgiven in whole or in part) in the income of a person or partnership.

### Reporting the benefit

If an **employee** receives a loan or incurs a debt because of employment, report the benefit in box 14, “Employment income,” and in the “Other information” area under code **36** at the bottom of the employee’s T4 slip.

If a person or partnership that was a **shareholder** (or was related to a shareholder) receives a loan or incurs a debt, you generally have to report the benefit on a T4A slip. Enter the amount in box 28, “Other income,” on the borrower’s T4A slip. In the footnotes area, enter: “Box 28, Benefit under subsection 80.4(2) \$\_\_\_\_\_.” In box 38, enter code **17**.

### Deductibility of deemed interest benefit

The taxable benefit you include in an individual’s income is the borrower’s interest expense for the year. If the borrower uses the funds to earn income from business, property, or employment, the borrower may be able to deduct this interest from income. You still have to include the full benefit in the earnings you report on the T4 or T4A slips.

## Prescribed rates of interest

The following chart shows the prescribed rates of interest for 2005 and 2006.

Quarterly rates		
Quarter	2005	2006
1st	3%	3%
2nd	3%	4%
3rd	3%	4%
4th	3%	5%

To get the current prescribed rates of interest, visit our Web site at [www.cra.gc.ca/interestrates](http://www.cra.gc.ca/interestrates).

## Internet

If you provide your employee with Internet service at home, the service is not taxable as long as you are the primary beneficiary of the service.

If the employee is the primary beneficiary, the cost of the service including connection fees should be included in the employee's income as a taxable benefit.

You must include any GST/HST that applies in the value of this benefit.

### Payroll deductions

If the benefit is taxable, it is also pensionable. Deduct CPP contributions and income tax.

If the taxable benefit is paid in cash, it is insurable. Deduct EI premiums. If it is a non-cash benefit, it is not insurable. Do not deduct EI premiums.

## Meals

### Overtime meals or allowances

If you provide overtime meals, or a reasonable allowance for overtime meals, there is no taxable benefit if:

- the employee works three or more hours of overtime right after his or her scheduled hours of work; **and**
- the overtime is infrequent and occasional in nature (less than three times a week).

If overtime occurs on a frequent basis (more than twice a week), we consider the overtime meal allowances to be a taxable benefit since they start to take on the characteristics of additional remuneration.

You must include any GST/HST that applies in the value of this benefit.

### Payroll deductions

If the benefit is taxable, it is also pensionable. Deduct CPP contributions and income tax.

If the taxable benefit is paid in cash, it is insurable. Deduct EI premiums. If it is a non-cash benefit, it is not insurable. Do not deduct EI premiums.

## Subsidized meals

If you provide subsidized meals to an employee (for example, in an employee dining room or cafeteria), these meals are **not** considered a taxable benefit if the employee pays a reasonable charge. A reasonable charge is one that covers the cost of the food, its preparation, and service.

If the charge is not reasonable, the value of the benefit is the cost of the meals **minus** any payment the employee makes. Include the taxable benefit in box 14, "Employment income," and in the "Other information" area under code **30** at the bottom of the employee's T4 slip.

If GST/HST applies on subsidized meals, include it in the value of the benefit. You have to include that amount in the employee's income without considering any amounts he or she reimbursed you.

### Payroll deductions

If the benefit is taxable, it is also pensionable. Deduct CPP contributions and income tax.

However, since it is a non-cash benefit, it is not insurable. Do not deduct EI premiums.

## Medical expenses

If you pay for or provide an amount to pay for an employee's medical expenses in a tax year, these amounts are considered to be a taxable benefit to the employee.

Generally, there is no GST/HST to include in the value of this benefit. However, some medical expenses that qualify for the medical expense tax credit may be subject to GST/HST. In such a case, include GST/HST in the value of the benefit. If you have any questions about how GST/HST applies, contact any tax services office or tax centre.

For more information on qualifying medical expenses, see Interpretation Bulletins IT-519, *Medical Expense and Disability Tax Credits and Attendant Care Expense Deduction*, and IT-85, *Health and Welfare Trusts for Employees*.

### Payroll deductions

If the benefit is taxable, it is also pensionable. Deduct CPP contributions and income tax.

If the taxable benefit is paid in cash, it is insurable. Deduct EI premiums. If it is a non-cash benefit, it is not insurable. Do not deduct EI premiums.

## Moving expenses and relocation benefits

When you transfer employees from one of your places of business to another, the amount you pay or reimburse employees for certain moving expenses is not a taxable benefit. This includes any amounts you incurred to move employees, the employees' families, and their household effects. This also applies when employees accept employment at different locations from the locations of their former residences.

Also, if you pay certain expenses to move employees, their families, and their household effects out of a remote work

location when they have completed their employment duties there, the amount you pay is not a taxable benefit.

If you paid your employees allowances for incidental moving expenses that they do not have to account for, see “Non-accountable allowances” on page 21.

### **Moving expenses paid by employer that are not a taxable benefit**

The following expenses **are not** a taxable benefit to your employees if you paid or reimbursed them:

- the cost of house-hunting trips to the new location, which includes child- and pet-care expenses while the employee is away;
- travelling costs (including a reasonable amount spent for meals and lodging) while the employee and members of the employee’s household were moving from the old residence to the new residence;
- the cost to the employee of transporting or storing household effects while moving from the old residence to the new residence;
- costs to move personal items such as automobiles, boats, or trailers;
- charges and fees to disconnect telephones, television aerials, water, space heaters, air conditioners, gas barbecues, automatic garage doors, and water heaters;
- fees to cancel leases;
- the cost to the employee of selling the old residence (including advertising, notarial or legal fees, real estate commission, and mortgage discharge penalties);
- charges to connect and install utilities, appliances, and fixtures that existed at the old residence;
- adjustments and alterations to existing furniture and fixtures to arrange them in the new residence, which include plumbing and electrical changes in the new residence;
- automobile licences, inspections, and drivers’ permit fees, if the employee owned these items at the former location;
- legal fees and land transfer tax to buy the new residence;
- the cost to revise legal documents to reflect the new address;
- reasonable temporary living expenses while waiting to occupy the new, permanent accommodation;
- long-distance telephone charges that relate to selling the old residence; and
- amounts you paid or reimbursed for property taxes, heat, hydro, insurance, and grounds maintenance costs to keep up the old residence after the move, when all reasonable efforts to sell it have not been successful.

### **Moving expenses paid by employer that are a taxable benefit**

If you pay or reimburse moving costs that we do not list above, the amounts are generally considered a taxable benefit to the employee.

If you do not reimburse, or only partly reimburse, employees for moving expenses, the employees may be able to claim some of the moving expenses as a deduction from income when they file their individual return.

For more information on the deduction for moving expenses that is available to your employees, see Interpretation Bulletin IT-178, *Moving Expenses*, and Form T1-M, *Moving Expenses Deduction*.

### **Housing loss**

If you pay or reimburse your employee for a housing loss, the amount is a taxable benefit to the employee. However, there is an exception for amounts paid in respect of an **eligible housing loss**. Generally, in these situations, only one-half of the amount that is more than \$15,000 is taxable.

#### **Note**

If you compensated your employee with more than one payment spread over two years, you will need to include an amount on his or her T4 slips for both years. See example 2 below to determine how to calculate the taxable benefit.

#### **Example 1**

In March 2006, you compensated Clara, your employee, for a \$40,000 loss she incurred on the sale of her house. The loss was an eligible housing loss. Clara started to work at her new workplace in June 2006.

The taxable benefit you will report on Clara’s 2006 T4 slip will be \$12,500, calculated as follows:

$$\frac{1}{2} \times (\$40,000 - \$15,000)$$

#### **Example 2**

In June 2005, you agreed to compensate Paul, your employee, for any eligible housing loss that he incurred on the sale of his house. Paul started to work at his new work location on December 1, 2005.

Paul’s eligible housing loss amounted to \$65,000. You paid out the compensation in two payments: \$30,000 in September 2005 and \$35,000 in February 2006.

Paul’s taxable benefit in 2005 was \$7,500 (one-half of the amount paid in 2005 that is more than \$15,000).

Paul’s taxable benefit in 2006 is \$17,500. This is calculated as follows:

- one-half of the total of amounts paid in 2005 and 2006 that is more than \$15,000  
( $\frac{1}{2} \times [\$65,000 - \$15,000] = \$25,000$ );

#### **minus**

- the amount included in income in 2005 (\$7,500).

For more information on moving expenses, see Interpretation Bulletin IT-470, *Employee’s Fringe Benefits*.

You must include any GST/HST that applies in the value of this benefit.

### Payroll deductions

If the benefit is taxable, it is also pensionable. Deduct CPP contributions and income tax.

If the taxable benefit is paid in cash, it is insurable. Deduct EI premiums. If it is a non-cash benefit, it is not insurable. Do not deduct EI premiums.

### Non-accountable allowances

Allowances that employees do not have to account for are called non-accountable allowances. We consider a non-accountable allowance for incidental relocation or moving expenses of **\$650 or less** to be a reimbursement of expenses that employees incurred because of the move. Therefore, this type of allowance is not taxable. For us to consider it as a reimbursement for incidental expenses, employees have to certify in writing that they incurred expenses for at least the amount of the allowance, up to a maximum of \$650.

Do not report the amount of the reimbursement. Report any part of the non-accountable allowance that is **more than \$650** in box 14, "Employment income," and in the "Other information" area under code **40** at the bottom of the employee's T4 slip.

Do not include GST/HST in the value of these allowances.

### Examples

- If your employee received a non-accountable allowance of \$625 and certifies that he or she incurred expenses for the amount of the allowance, the employee will not be taxed on the amount received. Do not include this amount on the employee's T4 slip.
- If your employee received a non-accountable allowance of \$750, and he or she can certify the expenses, the employee will be taxed on \$100 only, which is the part of the amount that is more than \$650. Include the \$100 on a T4 slip in box 14, "Employment income," and in the "Other information" area under code **40** at the bottom of the employee's T4 slip.

### Home-relocation loans

A home-relocation loan is a loan you give to an employee or an employee's spouse or common-law partner when he or she meets **all** the following conditions:

- the employee or the employee's spouse or common-law partner moves to start work at a new location in Canada;
- the employee or the employee's spouse or common-law partner uses the loan to buy a new residence that is at least 40 kilometres closer to the new work location than the previous home;
- the employee or the employee's spouse or common-law partner receives the loan because of the employee's employment;
- the employee designates the loan as a home-relocation loan; and

- the loan is used to acquire a dwelling or a share of the capital stock of a cooperative housing corporation acquired for the sole purpose of acquiring the right to inhabit a dwelling owned by the corporation. The dwelling must be for the habitation of the employee and be his or her new residence.

To calculate the benefit for the home-relocation loan, see "Loans received because of employment" on page 17.

Include the amount of the taxable benefit in box 14, "Employment income," and in the "Other information" area under code **36** at the bottom of the employee's T4 slip.

The amount of interest you calculate as a benefit should not be more than the interest that would have been charged at the prescribed rate in effect when the employee made the loan or incurred the debt.

If the term of repayment for the home-relocation loan is more than five years, the balance owing at the end of five years (from the day the loan was made) is considered a new loan. Treat the outstanding balance as a new loan on that date. To determine the benefit, use the prescribed rate in effect at that time.

### Calculating the employee home-relocation loan deduction

When you include in an employee's income a taxable benefit the employee received because of employment for a home-relocation loan, he or she can deduct whichever of the following amounts is less:

- the benefit calculated for the home-relocation loan using the formula found in "Loans received because of employment" on page 17;
- the interest (calculated at the prescribed rates) as if the home-relocation loan were for \$25,000; or
- the benefit that you included in the employee's income for loans received because of employment in the year.

Enter the result in the "Other information" area under code **37** at the bottom of the employee's T4 slip. This is the amount the employee can deduct on his or her return as an "Employee home-relocation loan deduction."

#### Note

The deduction for the home-relocation loan is only available for the first **five years** of the loan.

### Municipal officer's expense allowance

A municipal corporation or board may pay a non-accountable expense allowance to an elected officer to perform the duties of that office.

If the expense allowance is **more than one-third** of the officer's salary and allowances, the excess amount is a taxable benefit. Enter it in box 14, "Employment income," and in the "Other information" area under code **40** at the bottom of the employee's T4 slip.

If the expense allowance is **not more than one-third** of the officer's salary and allowances, **do not** include this amount in box 14, "Employment income," or in the "Other information" area under code **40** at the bottom of the employee's T4 slip.

In either of the above situations, you have to identify the non-taxable portion of the allowance by entering the corresponding amount in the “Other information” area under code 70 at the bottom of the employee’s T4 slip.

Do not include GST/HST in the value of this allowance.

For more information, see Interpretation Bulletin IT-292, *Taxation of Elected Officers of Incorporated Municipalities, School Boards, Municipal Commissions and Similar Bodies*.

### Payroll deductions

If the allowance is taxable, it is also pensionable. Deduct CPP contributions and income tax.

An elected municipal officer’s expense allowance is not insurable. Do not deduct EI premiums.

## Parking

Employer-provided parking generally constitutes a taxable benefit to the employee, whether or not the employer owns the lot. The amount of the benefit is based on the fair market value of the parking **minus** any payment the employee makes to use the space.

If you cannot determine the fair market value, do not add a benefit to the employee’s remuneration. This could happen in the following situations:

- a business operates from a shopping centre or industrial park where parking is available to both employees and non-employees; or
- an employer provides scramble parking (there are fewer spaces than there are employees who require parking and the spaces are available on a first-come, first-served basis).

There is no taxable benefit for employees when the two following conditions are met:

- you provide parking to your employees for business purposes; and
- employees **regularly** have to use their own automobiles or ones you usually supply to perform their duties.

To determine if an employee has received a benefit, each case must be examined based on the facts. If you are not sure if employer-provided parking is a taxable benefit, contact any tax services office.

If the employee has a disability, the parking benefit is generally not taxable. See “Disability-related employment benefits” on page 14.

You must include any GST/HST that applies in the value of this benefit.

### Payroll deductions

If the benefit is taxable, it is also pensionable. Deduct CPP contributions and income tax.

If the taxable benefit is paid in cash, it is insurable. Deduct EI premiums. If it is a non-cash benefit, it is not insurable. Do not deduct EI premiums.

## Premiums under a private health services plan

If you make contributions to a private health services plan (such as medical or dental plans) for employees, there is no taxable benefit to the employees.

### Note

Employee-paid premiums to a private health services plan are considered qualifying medical expenses and can be claimed by the employee on his or her individual return.

Include this amount on a T4 slip in the “Other information” area under code 85. Use of code 85 is optional. If you do not enter code 85, we may ask you to provide supporting documents.

For more information, see Interpretation Bulletin IT-339, *Meaning of “Private Health Services Plan.”*

### Payroll deductions

Do not deduct CPP contributions, EI premiums, or income tax from benefits you provide to employees under private health services plans.

## Premiums under provincial hospitalization, medical care insurance, and certain Government of Canada plans

You may be paying premiums or contributing to a provincial hospital or medical care insurance plan for an employee. If this is the case, the amount you pay is considered a taxable benefit to the employee. If you have to make payments to such a plan for amounts other than premiums or contributions for the employee, they are not considered a taxable benefit to the employee.

If you are the former employer of an employee who has retired, any amount you pay as a contribution to a provincial health services insurance plan for the retired employee is a taxable benefit.

Report this benefit in box 28 of a T4A slip. In the footnotes area, enter: “Box 28, Medical premium benefit: \$\_\_\_\_\_.” In box 38, enter code 18.

Any amount that the federal government pays for premiums under a hospital or medical care insurance plan for its employees and their dependants serving outside Canada is a taxable benefit. This also applies to dependants of members of the RCMP and the Canadian Forces serving outside Canada.

Do not include GST/HST in the value of this benefit.

### Payroll deductions

If the benefit is taxable, it is also pensionable. Deduct CPP contributions and income tax.

If the taxable benefit is paid in cash, it is insurable. Deduct EI premiums. If it is a non-cash benefit, it is not insurable. Do not deduct EI premiums.

## Professional membership dues

If you pay professional membership dues on behalf of your employees, there is no benefit to the employees if you are the primary beneficiary of the payment.

Whether you or the employee is the primary beneficiary is a question of fact. If you pay or reimburse professional membership dues because membership in the organization or association is a condition of employment, we consider you to be the primary beneficiary—as a result, there is no taxable benefit to the employee.

When membership is not a condition of employment, you as the employer are responsible for resolving who the primary beneficiary is. You must be prepared to justify your position if we ask you to do so.

In all situations where you pay or reimburse an employee's professional membership dues and the primary beneficiary is the employee, there is a taxable benefit to the employee.

### Note

You should advise your employees that they cannot deduct from their employment income professional dues that you have paid or reimbursed.

For more information, see our *Technical News* No. 15 and Interpretation Bulletin IT-158, *Employees' Professional Membership Dues*.

You must include any GST/HST that applies in the value of this benefit.

### Payroll deductions

If the benefit is taxable, it is also pensionable. Deduct CPP contributions and income tax.

If the taxable benefit is paid in cash, it is insurable. Deduct EI premiums. If it is a non-cash benefit, it is not insurable. Do not deduct EI premiums.

## Recreational facilities and club dues

The use of a recreational facility or club gives rise to a taxable benefit to the employee in any of the following situations:

- You pay, reimburse, or subsidize the cost of a membership at a recreational facility, such as an exercise room, swimming pool, or gymnasium.
- You pay, reimburse, or subsidize the cost of memberships to a business or professional club (that operates fitness, recreational, sports, or dining facilities for the use of their members but their primary purpose is something other than recreation).
- You pay, reimburse, or subsidize the cost of membership dues in a recreational facility of the employee's choice, up to a set maximum. In this case it is the employee who has paid for the membership, owns it, and has signed some kind of contract with the company providing the facility.
- You pay, reimburse, or subsidize the employee for expenses incurred for food and beverages at a restaurant, dining room lounge, banquet hall, or conference room of a recreational facility or club.

- You provide recreational facilities to a select group or category of employees for free or for a minimal fee while other employees have to pay the full fee. A taxable benefit is conferred to the employees who do not have to pay the full fee.

However, the use of a recreational facility or club does not give rise to a taxable benefit to the employees in any of the following situations:

- You provide an in-house recreational facility or pay an organization to provide recreational facilities and the facility or membership is available to **all** employees. This applies whether you provide the facilities free of charge or for a minimal fee.
- You make an arrangement with a facility to pay a fee for the use of the facility, and the membership is with you and not the employee.
- It can be clearly shown that membership in a club or recreational facility is **principally** for your advantage rather than the employee's.

For more information, see Interpretation Bulletins IT-470, *Employees' Fringe Benefits*, and IT-148, *Recreational Properties and Club Dues*.

You must include any GST/HST that applies in the value of this benefit.

### Payroll deductions

If the benefit is taxable, it is also pensionable. Deduct CPP contributions and income tax.

If the taxable benefit is paid in cash, it is insurable. Deduct EI premiums. If it is a non-cash benefit, it is not insurable. Do not deduct EI premiums.

## Registered retirement savings plans (RRSPs)

Contributions you make to an employee's RRSP and RRSP administration fees that you pay on behalf of your employee are considered to be a taxable benefit to the employee. However, this does not include an amount you withheld from the employee's remuneration and contributed for the employee.

If GST/HST applies to the administration fees, include it in the value of the benefit.

### Payroll deductions

Contributions you make to your employees' RRSPs are generally paid in cash and are pensionable and insurable. Deduct CPP contributions and EI premiums.

However, your contributions are considered non-cash benefits and are not insurable if:

- your employees cannot withdraw the amounts from a group RRSP until they retire or cease to be employed;
- or
- you allow the employees to withdraw RRSP funds under the Home Buyers' Plan or Lifelong Learning Plan.

Although the benefit is taxable and has to be reported on the T4 slip, you do not have to deduct income tax at source on the contributions you make to an employee's RRSPs if you have reasonable grounds to believe that the employee can deduct the contribution for the year. For details, see Chapter 6 of Guide T4001, *Employer's Guide – Payroll Deductions and Remittances*.

Administration fees that you pay directly on an employee's behalf are considered taxable and pensionable. Deduct CPP contributions and income tax. These are considered a non-cash benefit, so they are not insurable. Do not deduct EI premiums.

## Security options

When a corporation agrees to sell or issue its shares to employees, or when a mutual fund trust grants options to employees to acquire trust units, the employees may receive a taxable benefit. The taxable benefit is the difference between the fair market value of the shares or units when the employees acquire them and the amount paid, or to be paid, for them, including any amount paid for the rights to acquire the shares or units. In addition, a benefit can accrue to the employees if their rights under the agreement become vested in another person, or if they transfer or sell the rights.

The shares or trust units are considered to be acquired when legal ownership of the shares has been transferred and the vendor has entitlement to receive payment. In general, this would occur where the shares have been transferred to the employee/broker and paid for.

Include this benefit in box 14, "Employment income," and in the "Other information" area under code **38** at the bottom of the employee's T4 slip. Also, be sure to show the deductions the employee is entitled to in the "Other information" area of the T4 slip, as explained in the rest of this section.

If the employee is allowed and chooses to defer the taxable benefit until he or she disposes of the eligible security, follow the instructions under "Deferred security option benefit" included below.

For more information on security options, visit our Web site at [www.cra.gc.ca/stockoptions](http://www.cra.gc.ca/stockoptions) or see Interpretation Bulletin IT-113, *Benefits to Employees – Stock Options*.

Do not include GST/HST in the value of this benefit.

### Payroll deductions

If the benefit is taxable, it is also pensionable. Deduct CPP contributions. For the calculation of the income tax deductions, we permit you to reduce the amount of the benefit by the 50% share deductions available under paragraph 110(1)(d) or 110(1)(d.1) of the *Income Tax Act*, whichever applies.

Since this is a non-cash benefit, it is not insurable. Do not deduct EI premiums.

### Deferred security option benefit

An eligible employee who exercises an option can defer the taxable benefit of a qualifying acquisition to be included in income until whichever of the following comes first:

- the year in which he or she disposes of the securities;
- the year in which he or she dies; or
- the year in which he or she becomes a non-resident.

A **security** is a share of the capital stock of a corporation or a unit of a mutual fund trust that is a qualifying person.

To be considered a qualifying acquisition, the following conditions must be met:

- the option must be either to get eligible publicly-listed shares or units of a mutual fund trust;
- the conditions under paragraph 110(1)(d) for the shares deduction must be met (see "Paragraph 110(1)(d)" on this page); and
- the employee is not, immediately after the option is exercised, a specified shareholder of the employer, the entity granting the option, or the entity whose securities could be acquired under the option.

A **specified shareholder** is generally a person who directly or indirectly owns 10% or more of the issued shares of any class of the capital stock of the corporation or any related corporation.

For an employee to be eligible to defer the amount of the benefit, all the following conditions must be met:

- he or she must file an election, in the form of a letter, with the qualifying person before January 16 of the year following the year in which the options are exercised;
- he or she must be a resident of Canada at the time the option is exercised; and
- the specified value of the security must not be more than the **\$100,000** annual vesting limit.

A **qualifying person** is a corporation or a mutual fund trust that is an employer or the person who would be required to file an information return for the acquisition of a security.

The **\$100,000 limit** applies to the value of the security options that first become exercisable by the employee **each year** and across all security options offered by the employer. The **\$100,000 limit** cannot be carried forward year after year. The value of the security option is the fair market value of the share at the time the option is granted.

The employee can revoke his or her election before January 16 of the year following the year in which the options are exercised by filing a written revocation to the election with the person with whom the election was filed. If the election is revoked, the election is deemed never to have been made.

The employee also has to complete and file Form T1212, *Statement of Deferred Security Options Benefits*, with his or her income tax return for each year he or she has a balance of deferred stock option benefits outstanding. You have to accept the employee election to defer the benefit and accept the revocation.

Report the amount of the deferred benefit in the "Other information" area under code **53** at the bottom of the employee's T4 slip. Do not include this amount in box 14, "Employment income," or in the "Other information" area under code **38** at the bottom of the employee's the T4 slip.



## Payroll deductions

The security option benefit that is deferred for income tax purposes is pensionable. Deduct CPP contributions.

Since this is a non-cash benefit, it is not insurable. Do not deduct EI premiums.

## Paragraph 110(1)(d)

Generally, the employee receives the benefit in the same year he or she acquired the shares or units. The employee can claim a deduction under paragraph 110(1)(d) of the *Income Tax Act* if the following conditions are met:

- a qualifying person agreed to sell or issue to the employee shares of its capital stock or the capital stock of another corporation that it does not deal with at arm's length, or agreed to sell or issue units of a mutual fund trust;
- the employee dealt at arm's length with these qualifying persons right after the agreement was made;
- if the security is a share, it is a prescribed share (as defined in the *Income Tax Regulations*) and if it is a unit, it is a unit of a mutual fund trust; and
- the price of the share or unit is not less than its fair market value when the agreement was made.

The deduction the employee can claim is **one-half** of the amount of the benefit that arises because shares were acquired or when rights for shares were transferred or otherwise disposed of. Identify the amount of the deduction by entering it in the "Other information" area under code 39 at the bottom of the employee's T4 slip.

### Note

The effect of foreign exchange gains and losses is irrelevant when determining if an individual is eligible for the security option deduction.

## Paragraph 110(1)(d.1)

The employee receives the benefit in the year the employee disposes of the shares, and **not** in the year the employee acquires them, if:

- when the agreement to sell or issue shares to the employee was concluded, the issuing or selling corporation was a Canadian-controlled private corporation;
- the employee acquired shares after May 22, 1985; and
- the employee dealt at arm's length with the corporation or any other corporation involved right after the agreement was concluded.

In this case, the employee can claim a deduction under paragraph 110(1)(d.1) of the *Income Tax Act* if:

- the shares are disposed of in the year;
- the employee did not dispose of the shares within two years of acquiring them; and
- the employee did not deduct an amount under paragraph 110(1)(d) for the benefit.

The deduction the employee can claim is **one-half** of the amount of the benefit for the shares disposed of. Identify

the amount of the deduction by entering it in the "Other information" area under code 41 at the bottom of the employee's T4 slip.

### Note

Arm's length refers to parties that are not related in any way, other than as employer and employee.

## Social events

If you provide a free party or other social event to all your employees and the cost is not more than \$100 per person, we do not consider it to be a taxable benefit. Ancillary costs such as transportation home, taxi fare, and overnight accommodation are not included in the \$100 per person amount. If the cost of the party is greater than \$100 per person, the entire amount, including the ancillary cost, is a taxable benefit.

If the benefit is all cash, do not include GST/HST in it. However, if all or part of the taxable benefit is non-cash and is not an exempt or zero-rated supply, include GST/HST in the value of that part of the benefit.

For more information, see our *Technical News* No. 15 and Interpretation Bulletin IT-470, *Employees' Fringe Benefits*.

## Payroll deductions

If the benefit is taxable, it is also pensionable. Deduct CPP contributions and income tax.

If the taxable benefit is paid in cash, it is insurable. Deduct EI premiums. If it is a non-cash benefit, it is not insurable. Do not deduct EI premiums.

## Spouse or common-law partner's travelling expenses

If a spouse or common-law partner accompanies an employee on a business trip, the amount you reimburse the employee for the spouse or common-law partner's travelling expenses is a **taxable benefit** to the employee.

The reimbursement is **not** considered a taxable benefit if the spouse or common-law partner went at your request and was mostly engaged in business activities during the trip.

For more information, see Interpretation Bulletin IT-131, *Convention Expenses*.

You must include any GST/HST that applies in the value of this benefit.

## Payroll deductions

If the benefit is taxable, it is also pensionable. Deduct CPP contributions and income tax.

If the taxable benefit is paid in cash, it is insurable. Deduct EI premiums. If it is a non-cash benefit, it is not insurable. Do not deduct EI premiums.

## Subsidized school services

Subsidized school services are generally taxable. However, in remote areas, employers are often responsible for essential community services that municipalities usually provide.

If you provide free or subsidized school services in remote areas for your employees' children, the employees **do not receive** a taxable benefit. Do not deduct CPP contributions, EI premiums, or income tax on these amounts.

#### Note

This does not include an educational allowance or educational costs you pay directly to your employees, as explained in "Educational allowances for children" on page 14 or "Tuition fees, scholarships, and bursaries" on page 27.

## Tool reimbursement or allowance

If you make payments to your employees to offset the cost of tools that they require to perform their work, the amount of the payment is considered a taxable benefit and should be included in the employee's income.

Under proposed legislation, employed tradespersons (including apprentice mechanics) may be able to deduct part of the cost of eligible tools they purchased after May 1, 2006, to earn employment income as a tradesperson. Employers will be required to complete Form T2200, *Declaration of Conditions of Employment*, to certify that the employee must acquire these tools as a condition of, and for use in, his or her employment.

In addition to the new deduction mentioned above, employed apprentice mechanics may be able to deduct the cost of eligible tools purchased to earn employment income.

For more information on eligible tools for tradespeople and employed apprentice mechanics, see Guide T4044, *Employment Expenses*.

You must include any GST/HST that applies in the value of the tool reimbursement benefit.

Do not include GST/HST in the value of the tool allowance.

### Payroll deductions

A tool reimbursement is taxable and pensionable. Deduct CPP contributions and income tax. It is not insurable, so do not deduct EI premiums.

A tool allowance is taxable, pensionable and insurable. Deduct CPP contributions, EI premiums, and income tax.

## Transit passes

If you pay for or provide your employees with public transit passes, it is usually a taxable benefit to the employee. Public transit includes transit by local bus, streetcar, subway, commuter train or bus, and local ferry.

Report the benefit on a T4 slip. Include the amount in box 14, "Employment income," and in the "Other information" area under code 40.

For 2006, use of code 84 is optional. If you are using code 84, you must enter the total amounts paid in respect of transit after June 30, 2006. Include the amounts that you paid on behalf of the employee that are reported as a taxable benefit as well as the amount paid by the employee through payroll deductions.

#### Note

Individuals are entitled to a non-refundable tax credit for eligible employer-paid public transit passes bought for travel that occurs after June 30, 2006.

You must include any GST/HST that applies in the value of this benefit.

### Payroll deductions

If the benefit is taxable, it is also pensionable. Deduct CPP contributions and income tax.

If the taxable benefit is paid in cash, it is insurable. Deduct EI premiums. If it is a non-cash benefit, it is not insurable. Do not deduct EI premiums.

## Transportation to and from the job

If you provide an employee with a vehicle or an allowance for driving between home and a regular place of employment, the employee receives a taxable benefit (including any refunded expenses such as taxi fares).

Any location at or from which the employee regularly reports for work or performs the duties of employment is generally considered a regular place of employment.

For security or other reasons, there are times when public and private vehicles are neither allowed nor practical at an employment location. As a result, you may need to provide your employees with transportation from pickup points to that location. This transportation is **not** a taxable benefit. Do not deduct CPP contributions, EI premiums, or income tax from these amounts.

If you provide transportation to an employee who works at a special work site or a remote work location, see "Board, lodging, and transportation at special work sites and remote work locations" on page 12.

## Part-time employee

If you give a part-time employee a reasonable allowance or reimbursement for travelling expenses incurred by the employee going to and from a part-time job, and you and the part-time employee are dealing at arm's length, you do not have to include the amount in the employee's income. This applies to:

- Teachers and professors who work part time in a designated educational institution in Canada, providing service to you as a professor or teacher, and the location is not less than 80 kilometres from the employee's home.
- A part-time employee who had other employment or carried on a business, and he or she did the duties at a location no less than 80 kilometres from **both** the place of the employee's home **and** the place of the other employment or business.

You must include any GST/HST that applies in the value of this benefit.

### Payroll deductions

If the benefit is taxable, it is also pensionable. Deduct CPP contributions and income tax.

If the taxable benefit is paid in cash, it is insurable. Deduct EI premiums. If it is a non-cash benefit, it is not insurable. Do not deduct EI premiums.

## Travelling allowance

### Salesperson and clergy

A reasonable travel allowance for expenses other than for the use of an automobile (for example, meals, lodging, per diem allowance) is not included in the employee's income if the allowance was for expenses related to the performance of duties of the office or employment and the employee is either:

- an agent selling property or negotiating contracts on behalf of the employer; or
- a member of the clergy.

### Other employees

You have to include reasonable travel allowances in the income of employees, other than a salesperson or member of the clergy, who travel to perform the duties of the office or employment, unless the allowances are received by the employee for travelling away from the municipality and the metropolitan area where the employer's establishment is located and where the employee ordinarily works or reports.

Do not include GST/HST in the value of this benefit.

For information, see paragraph 48 in Interpretation Bulletin IT-522, *Vehicle, Travel and Sales Expenses of Employees*.

### Payroll deductions

If the allowance is taxable, it is also pensionable and insurable. Deduct CPP contributions, EI premiums, and income tax.

## Tuition fees, scholarships, and bursaries

We have developed guidelines on employer-paid educational costs to help you determine if there is a taxable benefit for your employees.

When the training is mainly for your benefit, there is no taxable benefit whether or not the training leads to a degree, diploma, or certificate. A taxable benefit arises when the training is mainly for the employee's benefit.

The guidelines consider three broad categories of training:

#### ■ Specific employment-related training

We generally consider that courses taken to maintain or upgrade employment-related skills are mainly for your benefit when it is reasonable to assume that the employee will resume his or her employment for a reasonable period of time after he or she completes the course.

For example, tuition fees and other associated costs such as books, meals, travel, and accommodation that you pay for courses leading to a degree, diploma, or certificate in a field related to your employee's current or future responsibilities in your business are not a taxable benefit.

#### ■ General employment-related training

We generally consider that other business-related courses, although not directly related to your own business, are taken mainly for your benefit.

For example, fees you pay for stress management, employment equity, first-aid, and language courses are not a taxable benefit.

#### ■ Personal interest training

We consider that courses for personal interest or technical skills not related to your business are taken mainly for the employee's benefit and, therefore, are a taxable benefit.

If the tuition fees you paid or reimbursed your employee are a taxable benefit according to these guidelines, you have to include the amount in the employee's income for the year you made the payment.

If you paid or reimbursed tuition fees to employees and there is no taxable benefit according to these guidelines, the employees are not entitled to claim the non-refundable tuition credit on their return for those fees. They cannot claim the education amount either. You should inform them of this.

Tuition fees, books, and supplies you paid or reimbursed for a person related to your employee may also be a taxable benefit for the employee for the year you made the payment.

A student, during or right after employment with you, may arrange with you to receive a scholarship or bursary from you on condition that the student returns to your employment. In this situation, the amount of the scholarship or bursary is the student's employment income.

Under proposed legislation, for 2006 and subsequent tax years, the budget proposes to fully exclude from income scholarships, fellowships, or bursaries received by an individual, as long as he or she is entitled to claim the education tax credit. These amounts must be reported on an information slip. If applicable, the individual will exclude the amount from income on his or her individual return.

If, as part of an educational institution, you provide free tuition to employees or their spouses or common-law partners or children, include the benefit's fair market value in the employees' income.

Certain tuition fees may be subject to GST/HST. If paying tuition fees results in a taxable benefit for an employee and the fees are subject to GST/HST, include GST/HST in the value of the benefit.

For more information, see our *Technical News No. 13 and Interpretation Bulletins IT-75, Scholarships, Fellowships, Bursaries, Prizes, Research Grants and Financial Assistance, IT-470, Employees' Fringe Benefits, and IT-516, Tuition Tax Credit, and Information Circular 75-23, Tuition Fees and Charitable Donations Paid to Privately Supported Secular and Religious Schools*.

### Payroll deductions

If the benefit is taxable, it is also pensionable. Deduct CPP contributions and income tax.

If the taxable benefit is paid in cash, it is insurable. Deduct EI premiums. If it is a non-cash benefit, it is not insurable. Do not deduct EI premiums.

## Uniforms and special clothing

Employees do not receive a taxable benefit when:

- you supply them with a distinctive uniform they have to wear while they carry out their employment duties; or
- you provide them with special clothing (including safety footwear) designed to protect them from hazards associated with the employment.

When you pay an accountable allowance (where receipts are required) to employees to buy uniforms or protective clothing, this amount is considered to be a reimbursement of expenses and not a taxable benefit.

If you reimburse your employees for the cost of protective clothing they bought and they did not have to support their purchases with receipts, the reimbursement is not taxable if:

- the law requires employees to wear the protective clothing on the work site;
- employees bought the protective clothing; and
- the amount of the reimbursement is reasonable.

If these three conditions are not met, the payments are a **taxable benefit**.

You must include any GST/HST that applies in the value of this benefit.

You may pay a laundry or dry cleaner to clean uniforms and clothing for your employees or you may pay a reasonable allowance to your employees (when they do not have to provide a receipt). You may also reimburse the employees for these expenses when they present a receipt. If you do either of these, the amounts you pay are **not** taxable benefits for the employees.

### Payroll deductions

If the benefit is taxable, it is also pensionable. Deduct CPP contributions and income tax.

If the taxable benefit is paid in cash, it is insurable. Deduct EI premiums. If it is a non-cash benefit, it is not insurable. Do not deduct EI premiums.

## Wage-loss replacement plans or income maintenance plans

If you pay a premium to a wage-loss replacement plan or an income maintenance plan for an employee, the premium is a taxable benefit if you pay it to a **non-group** plan that is:

- a sickness or accident insurance plan;
- a disability insurance plan; or
- an income maintenance insurance plan.

However, if you pay a premium for an employee for such plans that are **group plans**, the premium is not a taxable benefit for the employee.

Do not include GST/HST in the value of this benefit.

For more information, see Interpretation Bulletin IT-428, *Wage Loss Replacement Plans*.

### Payroll deductions

If the benefit is taxable, it is also pensionable. Deduct CPP contributions and income tax. Since this is a non-cash benefit, it is not insurable. Do not deduct EI premiums.

### Group disability benefits – Insolvent insurer

Under subsection 6(17) of the *Income Tax Act*, a **top-up disability payment** includes a payment made by an employer directly to an individual to replace all or part of the periodic payments that, because of an insurer's insolvency, are no longer being made to the individual under a disability policy for which the employer made contributions. This treatment allows the continued deduction of contributions made by the employee to be considered in determining the amount to be included in the employee's income from employment under paragraph 6(1)(f). This applies to any top-up disability payment made after August 10, 1994.

A **disability policy** is a group disability insurance policy that provides periodic payments to individuals for lost employment income.

## Chapter 4 – Housing and travel assistance benefits paid in a prescribed zone

This chapter applies to you if you meet **both** of the following conditions:

- you are an employer or a third-party payer who provides employment benefits for board, lodging, transportation, or travel assistance; and
- you provide these benefits to employees who work or live in locations that are in **prescribed zones** for purposes of the northern residents deductions.

Information Sheet T4039, *Northern Residents Deductions – Places in Prescribed Zones*, contains a list of places in prescribed northern zones and prescribed intermediate zones.

This chapter does not apply to you if your employees are at a special work site or a remote work location that is **not** in a prescribed zone. These situations are covered on page 12.

### Accommodation or utilities provided by the employer

If you provide accommodation or utilities free of charge to your employees, the method you use to determine the value of the benefit depends on whether or not the place in a prescribed zone has a developed rental market.

#### Places with developed rental markets

Some cities and towns in prescribed zones have developed rental markets. When that is the case, you base the value of any rent or utility you provide on its fair market value.

The cities and towns in prescribed zones that have developed rental markets are:

Whitehorse	Fort McMurray	Labrador City
Yellowknife	Grande Prairie	Wabush
Dawson Creek	Thompson	Fort St. John

## Places without developed rental markets

In places in prescribed zones without developed rental markets, you have to use other methods to set a value on the housing benefit. The method you use depends on whether you own the dwelling or rent it from a third party.

If you provide both rent and utilities and can calculate their cost as separate items, you have to determine their value separately. Then add both items to get the value of the housing benefit.

If your employee reimburses you for all or part of his or her rent or utilities, determine the benefit as explained below. Then subtract any amount reimbursed by your employee and include the amount that remains in his or her income.

### Dwellings you own

If you own a dwelling that you provide rent-free to your employee, report as rent whichever of the following amounts is less:

- the fair market value of the rent; or
- the ceiling amount.

If you provide utilities using equipment that you own (for example, electricity from a generator), report as utilities whichever of the following amounts is less:

- the fair market value of the utilities; or
- the ceiling amount.

### Dwellings you rent from a third party

If you rent a dwelling from a third party and provide it rent-free to your employee, report as rent whichever of the following amounts is less:

- the amount you pay the third party; or
- the ceiling amount.

Similarly, the amount you have to report for utilities is whichever of the following amounts is less:

- the amount you pay the third party; or
- the ceiling amount.

## Allowable ceiling amounts

There are allowable ceiling amounts for different types of accommodation. These ceiling amounts can help determine the value of the housing benefit that you provide in places in prescribed zones that do not have developed rental markets.

They are considered to include any GST/HST that applies, so you do not have to calculate this amount. If the amount of the housing benefit you report is based on the fair market value, you have to calculate and report any GST/HST that applies. If the total of the fair market value

plus GST/HST is more than the allowable ceiling amount, report the allowable ceiling amount as the housing benefit.

Information Sheet RC4054, *Ceiling Amounts for Housing Benefits Paid in Prescribed Zones*, lists the ceiling amounts for rent and utilities.

### Note

If more than one employee occupies the same dwelling, prorate the housing benefit for the number of occupants in the dwelling.

## Board, lodging, and transportation at a special work site

If an employee received a benefit or an allowance for working at a special work site that is excluded from income, this amount may affect his or her claim for the northern residency deduction.

If the employee worked at a special work site in a place in a prescribed zone and maintained his or her principal place of residence in a place outside of a prescribed zone, you will have to identify any exempt portion of the board and lodging benefit or allowance on the employee's T4 or T4A slip.

In the "Other information" area of the T4 slip, enter code 31 and the exempt portion that is related to work sites that are within 30 kilometres from the nearest urban area having a population of at least 40,000 persons. Do not include this in box 14, "Employment income."

If you are a third-party payer and are completing a T4A slip for the employee of another employer, enter "Special work site in a prescribed zone" and the amount of the 30km portion of the excluded benefit in the footnotes area.

You have to do this even though you did not include the excluded amount in income. This way, the employee will have all the information required to correctly calculate his or her residency deduction.

### Example

You paid your employee \$4,000 for board and lodging at a special work site that is in a prescribed zone. You and the employee completed Form TD4, *Declaration of Exemption – Employment at Special Work Site*.

Since the benefit is not included as income, you did not enter the amount of the benefit in box 14, "Employment income," or in the "Other information" area under code 30 at the bottom of the employee's T4 slip.

Of the \$4,000 you paid, \$1,200 relates to a special work site that was located 27 kilometres from a town with a population of 43,000 people (the 30-km portion).

You have to enter \$1,200 in the "Other information" area under code 31 at the bottom of the employee's T4 slip, even though it was not entered in the "Other information" area under code 30. The employee will then enter \$1,200 on his or her Form T2222, *Northern Residents Deductions*.

## Note

An amount that is not included as income for allowances at a remote work location does not affect the employee's claim for the northern residence deduction.

## Travel assistance benefits

If you provide an employee with travel assistance in a prescribed zone, the benefit is taxable unless it was for business travel. The travel assistance could be for such things as vacation, bereavement, medical, or compassionate reasons.

If employees travel using transportation that you own or charter, determine the value of the benefit by assigning a fair market value to the transportation.

When employees travel by some means other than air, the cost of travel may include automobile expenses, meals, hotel and motel accommodations, camping fees, taxi fares, and road and ferry tolls.

When you give employees travel assistance benefits other than cash or refundable tickets (such as travel warrants, vouchers, or non-refundable tickets), the employees do not receive any benefit until they or members of their household take the trip. The benefit is income for the employees in the year the trip starts, and you should report it in that year.

There are many ways of providing travel assistance benefits. You can pay employees a travel allowance before the trip, such as a certain amount per hour, or on some other periodic basis. You can also make lump-sum payments to your employees before or after the trip is taken. You should report such payments in your employees' income in the year they receive them, no matter when your employees or members of their household travel.

You have to report these benefits in box 14, "Employment income," and in the "Other information" area under code 32 at the bottom of the employee's T4 slip.

If you are a third party who supplies travel benefits to the employee of another employer, report these benefits in box 28 of a T4A slip.

An employee who qualifies for the northern residents travel deduction will use this amount to calculate his or her claim. An employee can claim two trips per year, unless the trips were for medical reasons. Therefore, you have to show the value of the medical travel benefits separately on the slip, as explained on this page.

If the travel assistance is a taxable benefit, include any GST/HST that applies in the value of the benefit. Do not include GST/HST in the value of the travel allowances.

## Medical travel assistance

Medical travel includes any trip employees or members of their households take to get medical services that are not available in the area where they live. Medical travel benefits are considered to be the cost of transportation from the place in a prescribed zone to the place where medical treatment is available. This includes the transportation cost of an attendant if the patient needs one while travelling.

You have to identify the value of medical travel benefits you provide to employees.

For a T4 slip, enter the medical portion of the travel assistance that you reported under code 32 in the "Other information" area under code 33.

For a T4A slip, enter in the footnotes area "Box 28, medical travel" and the medical portion of the travel assistance that you reported in box 28. In box 38, enter code 16.

If you do not identify which portion of the benefit was for medical travel, we will consider all travel assistance as vacation (or other) travel, and the employee will not be entitled to claim a deduction for medical travel. In addition, we will limit the deduction for the employee and the members of the household to two trips each.

## Notes

Amounts you pay or reimburse employees for medical travel or any associated cost under the terms of a private health services plan are not taxable benefits. Payments you make due to an obligation you have under a collective agreement may be considered a private health services plan. These payments must only cover expenses that qualify for the medical tax credit. If this is the case, you should not report them on employees' T4 slips.

For more information, see Interpretation Bulletins IT-339, *Meaning of "Private Health Services Plan,"* and IT-519, *Medical Expense and Disability Tax Credits and Attendant Care Expense Deduction.*

## Payroll deductions

When travel assistance benefits are in the form of non-refundable tickets or travel vouchers, you do not have to make payroll deductions. However, when you give travel assistance in the form of cash, we consider it to be a cash advance, and you have to make payroll deductions.

We may waive the requirement for you to deduct tax from the full payment received by an employee who lives in a prescribed **northern** zone (or from 50% of the payment received by an employee who lives in a prescribed **intermediate** zone) if the employee agrees in writing, when he or she receives the payment, to use it entirely for vacation or medical travel.

If the employee does not agree, you have to deduct income tax. These cash payments are pensionable and insurable whether or not you make tax deductions. This means you have to deduct CPP contributions and EI premiums whether or not we have waived the requirement to deduct tax.

## Form TD1, *Personal Tax Credits Return*

Employees who live in a prescribed zone during a continuous period of at least six months (that begins or ends in the tax year) may be entitled to claim a residency deduction when filing their return. As a result, these employees may request a reduction in payroll deductions by completing the back of Form TD1, *Personal Tax Credits Return*.

The residency deduction is equal to whichever is less:

- one-fifth (or 20%) of their net income for the year; or

- the residency amount they can claim.

#### Note

Employees cannot claim a residency amount for both the principal place of residence and the special work site for the same period, even if they are both located in prescribed zones.

For 2006, employees living in a prescribed **northern** zone can claim the total of:

- a basic residency amount of \$7.50 per day for each day they live in the prescribed northern zone; and
- an additional residency amount of \$7.50 per day for each day they live in and maintain a dwelling in that area, if during that time no one else is claiming a basic residency amount for living in the same dwelling for the same period.

For 2006, employees living in a prescribed **intermediate** zone can claim 50% of the total of the above amounts.

#### Note

Employees who receive board and lodging benefits from employment at a special work site in a prescribed zone have to reduce their residency amount by the value of the 30km portion of the benefit they receive if they maintain a principal residence that is not in a prescribed zone. The 30km portion of the excluded benefit will be shown in the “Other information” area under code 31 at the bottom of the employee’s T4 slip. See “Board, lodging, and transportation at a special work site” on page 29.

To calculate the amount of tax you should deduct if an employee is claiming a residency deduction on Form TD1:

- reduce the residency amount by 50% if the employee lives in a prescribed **intermediate** zone (if the conditions noted above apply, reduce the residency amount by the 30km portion of the excluded board and lodging benefits from employment at a special work site);
- divide the employee’s net deduction for the year (amount on the back of Form TD1 minus the above adjustments) by the number of pay periods in the year;
- subtract the result from his or her gross earnings for each pay period; and
- refer to the tax tables that apply.

## Chapter 5 – Remitting GST/HST on employee benefits

This chapter will help you familiarize yourself with the GST/HST treatment of employee benefits.

The Canada Revenue Agency is responsible for administering GST/HST.

However, as a result of an agreement between the governments of Canada and Quebec, Revenu Québec administers GST in that province. If your business is located in Quebec, contact a Revenu Québec office for information on the GST treatment of employee benefits.

## Employee benefits

Salaries, wages, commissions, and other cash remuneration (including gratuities) you pay to employees are not subject to GST/HST. However, non-monetary means of compensating employees, commonly referred to as fringe or employee taxable benefits, may be subject to GST/HST. For the most part, the GST/HST treatment of these benefits is based on their treatment under the *Income Tax Act*.

Generally, if a benefit is taxable for income tax purposes, you will be considered to have made a supply of a good or service to the employee.

If the good or service that gives rise to the taxable benefit is subject to GST/HST, you are considered to have collected GST/HST on that benefit. However, there are situations where you will not be considered to have collected GST/HST on taxable benefits given to employees. We explain these situations below.

## Situations where you are not considered to have collected GST/HST

You do not have to collect GST/HST on taxable benefits provided to employees in the following situations:

- when the goods or services that give rise to a taxable benefit are GST/HST exempt or zero-rated;
- when a taxable benefit results from an **allowance** included in the income of the employee under paragraph 6(1)(b) of the *Income Tax Act*;
- when you are restricted from claiming an input tax credit (ITC) for GST/HST you paid or owe on the goods and services which give rise to the taxable benefit (see “ITC restrictions” on page 33); and
- when the goods or services that give rise to a taxable benefit are supplied outside Canada.

### Example

You, as a registrant employer, would like to reward an employee for outstanding performance, and you have agreed to pay for the hotel accommodation and three meals a day, for one week, in London, England. An amount will be included in the income of the employee as a taxable benefit. However, you will not be considered to have collected tax with respect to the “benefit” provided to the employee since the supplies were made outside of Canada.

In addition, if the taxable benefit is for the standby charge or operating expense benefit of an automobile or aircraft, you do not have to collect GST/HST on this benefit in the following situations:

- you are an **individual or partnership** and the passenger vehicle or the aircraft that you have **bought** is used less than 90% in the commercial activities of the business;
- you are **not an individual, a partnership, or a financial institution** and the passenger vehicle or aircraft that you **bought** is used 50% or less in the commercial activities of the business;
- you are a **financial institution** and elect to treat the passenger vehicle or aircraft you **lease or have bought** as



being used exclusively in non-commercial activities of the business (see Notes); or

- you are not a financial institution and you lease the passenger vehicle or aircraft which you use 50% or more in non-commercial activities of the business, and you elect to treat it as being used 90% or more in such non-commercial activities.

#### Notes

To make this election, complete Form GST30, *Election for Passenger Vehicles or Aircraft to be Deemed to be Used Exclusively in Non-Commercial Activities*, or state in writing the information required on the form. You do not have to file this form or statement, but you must keep it with your records for audit purposes.

For more information about this election, contact any tax services office or tax centre.

## When are you considered to have collected GST/HST?

You are considered to have collected GST/HST on a taxable benefit subject to GST/HST at the end of February in the year following the year in which you provided the benefit to the employee. This corresponds with the deadline for calculating employee taxable benefits for income tax purposes and for issuing T4 slips.

For example, for taxable benefits you provided to your employees during the 2006 tax year, you are considered to have collected GST/HST at the end of February 2007. You have to include this amount in your GST/HST return for the reporting period that includes the last day of February 2007.

#### Example

You are a GST/HST registrant and have a monthly reporting period. At the end of February 2007, you calculated the total taxable benefits provided to your employees for 2006, including any GST and PST, or HST. You are considered to have collected GST/HST on the taxable benefits at the end of February 2007. In your February 2007 GST/HST return, you have to include the GST/HST relating to the taxable benefits provided to your employees in 2006. You have to file this return by the end of March 2007.

## How do you calculate the amount of GST/HST you are considered to have collected?

The amount of GST/HST that you are considered to have collected on a taxable benefit is calculated as a percentage of the value of the benefit for GST/HST purposes.

On July 1, 2006, the GST rate was reduced from 7% to 6% and the HST rate was reduced from 15% to 14%.

Generally, the new rates apply in the following manner:

If GST/HST became payable on or after July 1, 2006, without having been paid before that day, the 6% GST rate or 14% HST rate applies.

If GST/HST is paid on or after July 1, 2006, without having become payable before that day, the 6% GST rate or 14% HST rate applies.

If GST/HST became payable or was paid before July 1, 2006, the 7% GST rate or 15% HST rate applies.

## Value of the benefit for GST/HST purposes

The value of the benefit for GST/HST purposes is the total of the following two amounts:

- the amount reported on the T4 or T4A slip for the benefit; and
- if the taxable benefit is for a **standby charge** or the **operating expense of an automobile**, the amount, if any, that the employee or the employee's relative reimbursed you for that benefit.

#### Notes

When an employee or an employee's relative has reimbursed an amount equal to the entire taxable benefit for a standby charge or the operating expense of an automobile and, as a result, no benefit is reported on the T4 slip, the value of the benefit for GST/HST purposes is equal to the amount of the reimbursement.

However, when an employee or an employee's relative has reimbursed an amount for a taxable benefit **other** than for a standby charge or the operating expense of an automobile, you are considered to have collected an amount equal to 7/107 of GST or 15/115 of HST on this reimbursement if paid before July 1, 2006. The rates for reimbursements paid on or after July 1, 2006, will be 6/106 for GST and 14/114 for HST. In this situation, you have to include GST/HST relating to this reimbursement in your GST/HST return for the reporting period that includes the date of the reimbursement.

## Amount of GST/HST you are considered to have collected

The amount of GST/HST considered to be collected depends on whether or not it is calculated for an automobile operating expense benefit.

#### Automobile operating expense benefits

If the last establishment where your employee ordinarily worked or to which he or she ordinarily reported in the year is located in a **participating province** (Newfoundland and Labrador, Nova Scotia, or New Brunswick), the amount of HST considered to be collected for 2006 is equal to 10.5% of the value of the benefit for GST/HST purposes as calculated above. The amount of HST considered to be collected for later tax years will be equal to 10%.

If the last establishment where your employee ordinarily worked or to which he or she ordinarily reported in the year is located in a **non-participating province** (the rest of Canada), the amount of GST considered to be collected for 2006 is equal to 4.5% of the value of the benefit for GST/HST purposes. The amount of GST considered to be collected for later tax years will be equal to 4%.



### Benefits other than automobile operating expenses

If the last establishment where your employee ordinarily worked or to which he or she ordinarily reported in the year is located in a **participating province** (Newfoundland and Labrador, Nova Scotia, or New Brunswick), the amount of HST considered to be collected for 2006 is equal to 13.5/113.5 of the value of the benefit for GST/HST purposes as calculated above. The amount of HST considered to be collected for later tax years will be equal to 13/113.

If the last establishment where your employee ordinarily worked or to which he or she ordinarily reported in the year is located in a **non-participating province** (the rest of Canada), this amount for 2006 is equal to 5.5/105.5 of the value of the benefit for GST/HST purposes. The amount of GST considered to be collected for later tax years will be equal to 5/105.

### Input tax credits (ITCs)

As a registrant, you can claim an ITC to recover GST/HST you paid or owe on the purchases and operating expenses related to your commercial activities. Generally, commercial activities include the supply of taxable goods and services.

For more information about what are considered to be commercial activities, see Guide RC4022, *General Information for GST/HST Registrants*.

For employee benefits, you can usually claim an ITC for the GST/HST you paid or owe on goods and services you supply to your employees or their relatives as a benefit related to your commercial activities. However, in some situations, you will not be able to claim an ITC for the GST/HST you paid or owe for benefits you gave to your employees. For information on these situations, read the rest of this section.

### ITC restrictions

Remember, if you cannot claim an ITC for GST/HST you paid or owe for a taxable benefit, you are not considered to have collected GST/HST and, as a result, you do not have to remit GST/HST on that benefit.

### Club memberships

You may pay or reimburse membership fees or dues for an employee or an employee's relative for any club whose main purpose is to provide dining, recreational, or sporting facilities. In such cases, you cannot claim an ITC for the GST/HST you paid or owe, regardless of whether the club membership fees or dues are a taxable benefit to the employee for income tax purposes.

### Exclusive personal use

You cannot claim an ITC for GST/HST you paid or owe on goods or services you acquire, import, or bring into a participating province for the exclusive personal consumption, use, or enjoyment (90% or more) of an employee or an employee's relative.

However, you can claim an ITC in the following cases:

- The consumption, use, or enjoyment of the good or service by the employee or the employee's relative does

not give rise to a taxable benefit for income tax purposes and no amounts were payable by the employee for this benefit. The most common type of non-taxable benefit is moving expenses paid by an employer. Moving expenses that are considered non-taxable benefits are discussed in "Moving expenses and relocation benefits" on page 19.

- During the same GST/HST reporting period, you make a supply of the good or service to such a person for consideration that becomes due in that period and that is equal to its fair market value plus GST/HST.

### Property supplied by way of lease, licence, or similar arrangement

You cannot claim an ITC for GST/HST you paid or owe on property supplied by way of lease, licence, or similar arrangement that is more than 50% for the personal consumption, use, or enjoyment of one of the following individuals:

- if you are an **individual**, yourself or another individual related to you;
- if you are a **partnership**, an individual who is a partner or another individual who is an employee, officer, or shareholder of, or related to, a partner;
- if you are a **corporation**, an individual who is a shareholder or another individual related to the shareholder; or
- if you are a **trust**, an individual who is a beneficiary or another individual related to the beneficiary.

However, you can claim an ITC if, during the same GST/HST reporting period, you make a taxable supply of the property to that individual for consideration that becomes due in that period and that is equal to its fair market value.

For more information on ITCs relating to employee benefits, see GST Memorandum 400-3-2, *Employee and Shareholder Benefits*.

### Property acquired before 1991 or from a non-registrant

If you acquired property before 1991, you did not pay GST/HST. Also, you do not generally pay GST/HST when you acquire property from a non-registrant. As a result, you cannot claim an ITC under these circumstances. However, if you make this property available to your employee and the benefit is taxable for income tax purposes, you may still be considered to have collected GST/HST on this benefit.

#### Example

You bought a passenger vehicle from a non-registrant and made it available to your employee throughout 2006. The passenger vehicle is used more than 90% in the commercial activities of your business. You report the value of the benefit, including GST and PST, or HST, on the employee's T4 slip. For GST/HST purposes, you will be considered to have collected GST/HST on this benefit even if you could not claim an ITC on the purchase of the passenger vehicle.

## Summary

The following steps will help you determine whether you have to remit GST/HST on employee benefits.

**Step 1** – Establish whether the benefit is taxable under the *Income Tax Act* and subject to GST/HST (see the previous chapters). If the benefit is not taxable or is not subject to GST/HST, you are not considered to have collected any GST/HST on the benefit and, as a result, you will not have to remit GST/HST on the benefit.

**Step 2** – For each taxable benefit, establish whether any of the “Situations where you are not considered to have collected GST/HST” on page 31 applies. If one of these situations applies, you are not considered to have collected GST/HST on this benefit and, as a result, you will not have to remit any GST/HST on the benefit.

**Step 3** – If you are considered to have collected GST/HST on a taxable benefit, you have to calculate the amount of GST/HST due (see “How do you calculate the amount of GST/HST you are considered to have collected?” on page 32).

**Step 4** – Enter the amount of GST/HST due on your GST/HST return and send your remittance, if applicable, with your GST/HST return for the reporting period that includes the last day of February 2007.

### Note

If the GST/HST is for a reimbursement made by an employee or an employee’s relative, the amount may be due in a different reporting period. For more information, see the note under “Value of the benefit for GST/HST purposes” on page 32.

## Employee does not pay GST/HST on taxable benefits

The employee does not pay GST/HST you have to remit on taxable benefits. As explained in previous chapters, an amount for GST/HST has already been added to the taxable benefit reported on the employee’s T4 slip.

## Examples

The following examples will help you apply rules for remitting GST/HST on employee benefits.

### Example 1: Remitting GST/HST on automobile benefits in a non-participating province

As a corporation registered for GST/HST, you buy a vehicle that is used more than 50% in commercial activities and is made available to your employee during 2006. The last establishment where the employee ordinarily reported in the year for the corporation was located in **Ontario**.

You calculated a taxable benefit (including GST and PST) of \$4,800 on the standby charge and an operating expense benefit of \$600. Your employee reimbursed you \$1,800 for the automobile operating expenses within 45 days following the end of 2006. You did not include this amount as a taxable benefit.

You claimed an ITC for the purchase of the automobile and also on the operating expenses. Since the benefit is taxable under the *Income Tax Act*, and no situations described on page 31 (where you are not considered to have collected GST on taxable benefits) apply, you calculate the GST remittance as follows:

#### Standby charge benefit

Taxable benefit reported on T4..... \$4,800  
 GST considered to have been collected on the benefit .....  $\$4,800 \times 5.5/105.5 = \$250.24$

#### Operating expense benefit

Taxable benefit reported on T4..... \$600  
 Employee’s partial reimbursement of operating expenses ..... \$1,800  
**Total value of the benefit.....** \$2,400  
 GST considered to have been collected on the benefit .....  $\$2,400 \times 4.5\% = \underline{\$108.00}$   
**Total GST to be remitted on the automobile benefit .....** **\$358.24**

You are considered to have collected GST in the amount of \$358.24 at the end of February 2007. You have to include this amount on your GST/HST return for the reporting period that includes the last day of February 2007.

### Example 2: Remitting GST/HST on automobile benefits in a participating province

Using the same facts as in Example 1, assume that the last establishment to which the employee ordinarily reported in the year for the corporation was located in **Nova Scotia**. In this case, you would calculate the HST remittance as follows:

#### Standby charge benefit

Taxable benefit reported on T4..... \$4,800  
 HST considered to have been collected on the benefit .....  $\$4,800 \times 13.5/113.5 = \$570.93$

#### Operating expense benefit

Taxable benefit reported on T4..... \$600  
 Employee’s partial reimbursement of operating expenses ..... \$1,800  
**Total value of the benefit.....** \$2,400  
 HST considered to have been collected on the benefit .....  $\$2,400 \times 10.5\% = \underline{\$252.00}$   
**Total HST to be remitted on the automobile benefit .....** **\$822.93**

You are considered to have collected HST in the amount of \$822.93 at the end of February 2007. You have to include this amount on your GST/HST return for the reporting period that includes the last day of February 2007.

**Example 3: Long service award**

You bought a watch for \$560 (including GST and PST, or HST) for your employee to mark the employee's 25 years of service. You reported a taxable benefit of \$560 in box 14 and under code **40** on the employee's T4 slip. You could not claim an ITC because you bought the watch for the employee's exclusive personal use and enjoyment. Since you cannot claim an ITC, you are not considered to have collected GST/HST and, as a result, you will not have to remit GST/HST on the benefit.

**Example 4: Special clothing**

You have provided your employees with safety footwear designed to protect them from particular hazards associated with their employment. Since we do not consider the footwear to be a taxable benefit to the employees for income tax purposes, you are not considered to have collected GST/HST on the footwear and you do not have to remit GST/HST. However, you can claim an ITC for any GST/HST you paid on the footwear.

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## Benefits chart

This chart indicates whether the **taxable** allowances and benefits discussed in this guide are subject to CPP and EI withholdings, and shows which codes you should use to report them on the employee's T4 slip.

The chart also indicates whether GST/HST must be included in the value of the **taxable** benefit for income tax purposes. Cash reimbursements and non-cash benefits are subject to GST/HST, unless they are for exempt or zero-rated supplies. Cash allowances are not subject to GST/HST.

Taxable allowance or benefit	CPP	EI	Code	GST/HST
Automobile and motor vehicle allowances	yes	yes	40	no
Automobile standby charge and operating expense benefits	yes	no	34	yes
Board and lodging, <b>if cash earnings also paid</b> in the pay period	yes	yes	30	<sup>1</sup>
Board and lodging, <b>if no cash earnings paid</b> in the pay period	yes	no	30	<sup>1</sup>
Cellular phone service – in cash	yes	yes	40	yes
Cellular phone service – non-cash	yes	no	40	yes
Child care expenses – in cash	yes	yes	40	yes
Child care expenses – non-cash	yes	no	40	yes
Counselling services – in cash	yes	yes	40	<sup>2</sup>
Counselling services – non-cash	yes	no	40	<sup>2</sup>
Disability-related employment benefits – in cash	yes	yes	40	yes
Disability-related employment benefits – non-cash	yes	no	40	yes
Discounts on merchandise and commissions on sales	yes	no	40	yes
Educational allowances for children	yes	yes	40	no
Gifts and awards – in cash	yes	yes	40	no
Gifts and awards – non-cash/near-cash	yes	no	40	yes
Group term life insurance policies: Employer-paid premiums	yes	no	40	no
Housing, rent-free or low-rent – in cash	yes	yes	30	<sup>3</sup>
Housing, rent-free or low-rent – non-cash	yes	<sup>4</sup>	30	<sup>3</sup>
Interest-free and low-interest loans <sup>5</sup>	yes	no	36	no
Internet service (at home) – in cash	yes	yes	40	yes
Internet service (at home) – non-cash	yes	no	40	yes
Medical expenses – in cash	yes	yes	40	<sup>6</sup>
Medical expenses – non-cash	yes	no	40	<sup>6</sup>

Chart continues on next page

<sup>1</sup> The rent portion of the lodging benefit is subject to GST/HST if the dwelling is occupied for **less than** one month; the utility portion is subject to GST/HST unless municipality-supplied.

<sup>2</sup> Certain counselling services are subject to GST/HST. If the services you pay are subject to GST/HST, include it in the value of the benefit.

<sup>3</sup> The rent portion of the housing benefit is subject to GST/HST if the dwelling is occupied for **less than** one month; the utility portion is subject to GST/HST unless municipality-supplied.

<sup>4</sup> If it is a non-cash benefit, it is insurable if it is received by the employee in addition to cash earnings in a pay period. If no cash earnings are paid in the pay period, it is not insurable.

<sup>5</sup> Enter the home relocation loan deduction under code 37.

<sup>6</sup> Some medical expenses are subject to GST/HST. For more information, contact any tax services office or tax centre.

<b>Taxable allowance or benefit – cont.</b>	<b>CPP</b>	<b>EI</b>	<b>Code</b>	<b>GST/HST</b>
Moving expenses and relocation benefits – in cash	yes	yes	40	yes
Moving expenses and relocation benefits – non-cash	yes	no	40	yes
Moving expenses – non-accountable allowance over \$650	yes	yes	40	no
Municipal officer's expense allowance <sup>7</sup>	yes	no	40	no
Overtime meal allowances	yes	yes	40	no
Overtime meals – in cash	yes	yes	40	yes
Overtime meals – non-cash	yes	no	40	yes
Parking – in cash	yes	yes	40	yes
Parking – non-cash	yes	no	40	yes
Premiums under provincial hospitalization, medical care insurance, and certain federal government plans – in cash	yes	yes	40	no
Premiums under provincial hospitalization, medical care insurance, and certain federal government plans – non-cash	yes	no	40	no
Professional membership dues – in cash	yes	yes	40	<sup>8</sup>
Professional membership dues – non-cash	yes	no	40	<sup>8</sup>
Recreational facilities – in cash	yes	yes	40	yes
Recreational facilities – non-cash	yes	no	40	yes
Recreational facilities – club membership dues	yes	no	40	yes
Registered retirement savings plan (RRSP) premiums – in cash	yes	yes	40	no
Registered retirement savings plan (RRSP) premiums – non-cash	yes	no	40	no
Registered retirement savings plan (RRSP) administration fees	yes	no	40	<sup>8</sup>
Scholarships and bursaries	yes	yes	40	no
Security options <sup>9</sup>	yes	no	38	no
Social events – in cash	yes	yes	40	no
Social events – non-cash	yes	no	40	yes
Spouse or common-law partner's travelling expenses – cash allowance	yes	yes	40	no
Spouse or common-law partner's travelling expenses – non-cash	yes	no	40	yes
Subsidized meals	yes	no	30	yes
Transit passes – in cash	yes	yes	40	yes
Transit passes – non-cash	yes	no	40	yes
Transportation to and from the job – in cash	yes	yes	40	yes
Transportation to and from the job – non-cash	yes	no	40	yes
Travel assistance in a prescribed zone <sup>10</sup>	yes	yes	32	yes
Travelling allowances to a part-time employee and other employees	yes	yes	40	no
Tool allowance	yes	yes	40	no
Tool reimbursement	yes	no	40	yes
Tuition fees – in cash	yes	yes	40	<sup>8</sup>
Tuition fees – non-cash	yes	no	40	<sup>8</sup>
Uniforms and special clothing – in cash	yes	yes	40	yes
Uniforms and special clothing – non-cash	yes	no	40	yes
Wage-loss replacement or income maintenance non-group plan premiums	yes	no	40	no

<sup>7</sup> Enter the exempt amount under code 70.

<sup>8</sup> Certain fees are subject to GST/HST. If the fees you pay are subject to GST/HST, include it in the value of the benefit.

<sup>9</sup> Enter the amount of the security options deduction under code 39 or 41, as applicable.

<sup>10</sup> Enter the amount of medical travel assistance under code 33.