

Employers' Guide

Taxable Benefits

2004-2005

Is this guide for you?

Use this guide if you are an employer providing benefits or allowances to your employees such as, but not limited to:

- automobile benefits;
- housing, board, and lodging;
- housing and travel assistance in a prescribed zone;
- 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.

Use this guide jointly with the following employers' guides:

- *Payroll Deductions (Basic Information)* (T4001)
- *Filing the T4 Slip and Summary Form* (RC4120)
- *Filing the T4F Slip and Summary Form* (RC4200)
- *Deducting Income Tax on Pension and Other Income, and Filing the T4A Slip and Summary Form* (RC4157)

Teletypewriter (TTY) users

If you use a teletypewriter, you can call our toll-free, bilingual enquiry service at **1-800-665-0354**.

Your opinion counts!

We review this guide each year. If you have any comments or suggestions to help us improve the information it contains, we would like to hear from you.

Please send your comments to:

Client Services Directorate
Canada Revenue Agency
Lancaster Road
Ottawa ON K1A 0L5

Do you need other publications?

Throughout this guide, we mention other publications that cover topics in more detail. To get any of these publications, including blank copies of T4 and T4A slips, you can:

- download them from our Web site at www.cra.gc.ca/forms;
- complete the order form at www.cra.gc.ca/orderforms; or
- call **1-800-959-2221**.

Visually impaired persons can get our publications in braille, large print, or etext (computer diskette), or on audio cassette by visiting our Web site at www.cra.gc.ca/alternate or by calling **1-800-267-1267** weekdays between 8:15 a.m. and 5:00 p.m. (Eastern Time).

In this publication, we use the name "Canada Revenue Agency" and the acronym "CRA" to represent the Canada Customs and Revenue Agency. This reflects recent changes in the structure of the Agency.

This guide uses plain language to explain the most common tax situations. If you need more help after reading this guide, you can call our Business Enquiries line at **1-800-959-5525** for service in English, or at **1-800-959-7775** for service in French.

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

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Major changes that have taken place since last year are outlined in red.

Notice

Worksheet – Calculating automobile benefits for 2003 and later taxation years

Use the worksheet on pages 9 and 10 to calculate automobile benefits.

Tables on Diskette for calculating automobile benefits

We provide a stand alone program for calculating payroll deductions called *Tables on Diskette* (TOD). It is available in PC and MacIntosh formats. You can also use TOD to calculate most taxable automobile benefits, including:

- the standby charge for an owned or leased car;
- the ratio for personal kilometres driven;
- the operating cost benefit; and
- the benefit for employees who partially reimburse their employer.

TOD is available free of charge. Visit our Web site at www.cra.gc.ca/tod to download the install file or to complete the online order form. If you do not have Internet access, you can get a copy of TOD by calling 1-800-959-2221. Ask for diskette T4143, *Tables on Diskette*. You will receive a single compact disk with both versions of the PC and MacIntosh install file on it.

General information

There are many types of benefits and allowances that you may have to include in an employee's income. Whether or not they are taxable depends on the type of benefit or allowance and the reason an employee or officer receives it. Add the taxable benefits and allowances to the employee's income each pay period to determine the total amount that is subject to source deductions.

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

Pensionable earnings

Taxable benefits and allowances are generally pensionable and, therefore, subject to Canada Pension Plan (CPP) contributions, regardless of whether they are in cash or non-cash benefits.

However, if the non-cash benefit is the only form of income received by the employee, you are not required to withhold CPP on the amount of the benefit even if the value of the benefit is pensionable.

Insurable earnings

Taxable benefits in cash and taxable allowances are generally insurable earnings and, therefore, subject to Employment Insurance (EI) premiums.

However, non-cash taxable benefits are not insurable for EI purposes, **except** for the value of board and lodging enjoyed by an employee in a period during which you pay the employee cash earnings and your contributions to an employee's RRSP where the employee cannot withdraw the amounts. For more information see the section 2.19, "Registered retirement savings plans (RRSPs)."

If the employment is not insurable employment under the *Employment Insurance Act*, taxable allowances as well as taxable benefits in cash and non-cash are not insurable earnings and, therefore, not subject to EI premiums.

Tax deductions

Where a non-cash benefit is received in addition to salary and wages, you have to include the value of this benefit in the employee's gross income and withhold tax in the normal manner.

Reporting benefits and allowances

You must report taxable benefits and allowances on a T4 slip in box 14, "Employment income," and under code 40 in the "Other information" area unless we tell you to use a different code.

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.

Goods and services tax/harmonized sales tax (GST/HST)

The taxable benefits you include in the employment income of your employees for income tax purposes normally include an amount for GST/HST and provincial sales tax (PST), where applicable. 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 have to 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.

See the sections in this guide to find out if GST/HST applies to the allowances and benefits you provide to your employees.

The GST is 7% and the HST is 15% of the amount used to calculate the taxable benefit. 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 supply or zero-rated supply, see the publication called *General Information for GST/HST Registrants* (RC4022).

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 4.

Benefits chart

The Benefits chart at the end of the 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.

Chapter 1 – Automobile Benefits and Allowances

1.1 Definitions

Motor vehicle

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.

Automobile

An automobile means 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;
- 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:
 - has a seating capacity of not more than the driver and two passengers, and in the year it is acquired or leased is used mainly 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.

In addition to the above, for taxation years that begin after 2002, an automobile **does not** include:

- clearly marked police and fire emergency-response vehicles; or
- pick-up trucks that are acquired or leased in the taxation 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.

Automobile availability

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

Personal driving

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 drives the vehicle home).

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 (e.g., a salesperson visiting customers) other than your place of business to which the employee regularly reports, or to return home from that point.

Standby charge

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

Your automobile costs

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

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

Specialized equipment you add to the automobile to meet the requirements of 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.

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.

Operating costs

Operating costs include:

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

Operating costs do not include:

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

1.2 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 cost 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 costs.

You and your employees should keep records on the use of an automobile 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 traveled between home and the client's place of business.

Note

Any tax payable by you in buying or leasing an employer-provided automobile has to be included when you calculate the automobile standby charge benefit. You have to include any tax (GST and PST, or HST) payable by you, as well as 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.

Calculating a standby charge benefit

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 vehicle 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.

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 (after you divide the number of days by 30, see the worksheet on page 9 to know how to round off the resulting amount);
- 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.

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 (after you divide the number of days by 30, see the worksheet on page 9 to know how to round off the resulting amount);
- 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.

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 slips of those individuals who used the vehicle, as long as:
 - the employees agree; and
 - the employees 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 their 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 slips of the individuals who used the automobile and give them a letter explaining the reduction, as long as:
 - the employees agree; and
 - the employees 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 their returns for those years.

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

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.

You can also reduce 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 standby charge, 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.

Partnerships

You have to include a standby charge benefit 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.

Use the worksheet provided on page 9 to calculate the standby charge benefit.

Calculating an operating cost 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 the GST and PST, or HST), this payment represents a taxable benefit to the employee.

If you pay any amount of operating expenses, you have to calculate the operating cost benefit using a charge based on a fixed rate for 2003 and 2004 of 17¢ per kilometre of personal use (including the GST and PST, or HST).

If the employee's main source of employment is selling or leasing automobiles, the fixed rate for 2003 and 2004 is 14¢ per kilometre of personal use (including the GST and PST, or HST).

Reimbursement for operating costs

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 a benefit for operating costs in the year.

If the employee reimburses you for **part** of the vehicle's operating costs in the year, or no later than 45 days after the end of the year, deduct the payment from the calculated benefit.

Example

In 2004, you provided your employee with an automobile. The distance the employee drove during the year was 30,000 kilometres. The distance the employee drove for personal use during the year was 10,000 kilometres.

You paid \$3,000 in costs associated with maintenance, licences, and insurance. Calculate the part of the operating expenses that relates to the employee's personal use of the automobile as follows:

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

If the employee 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 cost benefit for this employee.

However, if the employee 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, you have to calculate the operating cost benefit as follows:

$$10,000 \text{ km} \times 17\text{¢ per km} = \$1,700$$

$$\$1,700 - \$800 = \$900$$

The operating cost benefit would be \$900.

Note

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

Optional calculation

You can choose an optional method to calculate the vehicle's operating cost 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 taxation year to use this method.

If your employee meets these three conditions, calculate the operating cost 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.

If the employee reimburses you for **part** of the vehicle's operating costs in the year, or no later than 45 days after the end of the year, deduct the payment from the calculated benefit.

Benefit for motor vehicles not defined as an automobile

There is no standby charge for the availability of motor vehicles such as trucks, buses, clearly marked police and fire emergency-response vehicles, which are not included in the definition of automobiles. However, a taxable benefit for the personal use would apply. If you provide your employees with such vehicles for personal use, you must reasonably estimate the fair market value of that benefit, including the GST/HST.

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

After you determine the fair market value of the motor vehicle benefit, you must prorate the amount to the employee's pay periods. Add the resulting amount to the employee's salary and other benefits/allowances, if applicable, to determine the total amount subject to Canada Pension Plan (CPP) contributions and income tax. The motor vehicle benefit is not insurable and is not subject to Employment Insurance (EI) premiums.

Reporting automobile benefits on the T4 slip

You have to report the value of the motor vehicle benefit on a T4 slip.

At the end of the year, or when the person is no longer your employee, you must include the value of the motor vehicle benefit under code 34 and include it in box 14 of the T4 slip.

Shareholder's benefit

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

You must report the benefit on a T4 slip when the individual is both a shareholder and an employee and the automobile is provided to the individual (or a person related to that individual) in his or her capacity as an employee.

However, you must 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 automobile to the individual in his or her capacity as a shareholder.

Use the worksheet provided on page 9 to calculate the standby charge and the operating cost benefits.

Worksheet – Calculating Automobile Benefits for 2003 and Later Taxation Years

You can calculate the value of an employee's automobile benefits using the following worksheet. The amount you determine is the taxable benefit you have to report on the T4 or T4A slip.

Worksheet – Calculating Automobile Benefits

CALCULATING AUTOMOBILE BENEFITS FOR 2003 AND LATER TAXATION YEARS

Last name	First name	Social insurance number
Address		

Complete Step 1, "Standby charge," only if you provide your employees an automobile for their personal use. Otherwise, go to Step 2, "Operating cost benefit."

Step 1 – Standby charge

Simplified calculation

Use this calculation if the following conditions apply:

- the automobile you provide your employee is owned by you;
- the employee used the same automobile throughout the year;
- the employee's principal source of employment is not selling or leasing automobiles; and
- the employee is not eligible for the reduced standby charge rate as he or she does not meet the conditions set out in d) below.

Cost of automobile you provided *
(including GST and PST or HST) \$ _____ x 24% \$ _____

* For the meaning of cost of automobile, see the definitions at the beginning of this chapter.

Minus: Employee reimbursements attributable to standby charge \$ _____

Standby charge benefit (if negative, enter "0") \$ _____ **(A)**

Detailed calculation

Before calculating 1, 2, or 3 below, please read the following instructions **carefully**:

- a) For the meaning of **cost of automobile**, see the definitions at the beginning of this chapter.
- b) The highest average cost of automobiles is one of the following amounts, whichever is more:
 - 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.
- c) You must determine the number of days the automobile was available to the employee for the entire calendar year (including weekends and holidays).
- d) Calculate the standby charge at a reduced rate if the following conditions apply:
 - you require employees to use the automobile to perform their duties;
 - the employee uses the automobile 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 a year.
- e) * When you divide the total days available by 30, round off the result to the nearest whole number if it is more than one.
 Examples: Available 20 days ÷ 30 = 0.67 (do not round off)
 Available 130 days ÷ 30 = 4.33 (round to 4)
 Available 135 days ÷ 30 = 4.50 (round to 4)
 Available 140 days ÷ 30 = 4.67 (round to 5)

Choose 1, 2, or 3

1. Employer-owned automobile: Cost of automobile
(including GST and PST or HST) \$ _____ x 2% \$ _____ 1
2. Employer-leased automobile (lessee): Monthly leasing cost
(including GST and PST or HST, excluding insurance) \$ _____ x 2/3 \$ _____ 2
3. Employee sells or leases automobiles: Highest average cost of automobiles, (including GST and PST or HST) (see b) above) ... \$ _____ x 1.5% \$ _____ 3

Amount from 1, 2, or 3 above	Number of days auto available to employee	Reducing the standby charge (see d) above) Personal kilometres ÷ ((($\frac{\text{Number of days auto available to employee}}{30 *}$) x 1,667)) = _____	\$ _____ 4
Minus: Employee reimbursements attributable to standby charge			\$ _____ 5
Standby charge benefit (if negative, enter "0")			\$ _____ (B)

(see reverse)

Worksheet – Calculating Automobile Benefits – cont.

Step 2 – Operating cost benefit

You do not have to calculate an operating cost benefit when the employee reimburses you for all operating expenses attributable to personal use no later than 45 days after the end of the year.

Basic calculation for 2003 and later taxation years

Complete this calculation if both of the following conditions apply:

- the employee does not reimburse or only partially reimburses you for operating expenses attributable to personal use no later than 45 days after the end of the year; and
- the employee did not elect to use the optional calculation, and:
 - the employee's principal source of employment is selling or leasing automobiles

Personal kilometres driven x 14¢ = \$ 6

or

- the employee occupies any other employment

Personal kilometres driven x 17¢ = \$ 7

OR

Optional calculation (This calculation may not be beneficial in all cases.)

You can use this calculation if the employees meet both of the following conditions:

- they use the automobile more than 50% in the course of their office or employment; and
- they request (in writing before the end of the year) that you use this method.

Standby charge amount (A) or (B) Employee reimbursements attributable to standby charge
 (\$ + \$) x 50% = \$ 8

Amount 6, 7, or 8 above \$

Minus: Employee reimbursements for the operating cost benefit made no later than 45 days after the end of the year \$

Operating cost benefit (if negative, enter "0") \$ (C)

Total of amounts (A) or (B) and (C) (employee taxable benefit you report in box 14 and under code 34 of the T4 or, if applicable, in box 28 of the T4A) \$

1.3 Automobile allowances

An automobile allowance means any payment that employees receive from an employer for using their own motor 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 automobile allowance is taxable unless it is a reasonable per-kilometre allowance.

There is no GST/HST to include in the value of automobile allowances.

Non-taxable 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. When your employees complete their returns, they do not include this allowance in income. A non-taxable allowance is not subject to CPP and EI withholdings.

We consider an allowance for using an automobile 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 a motor vehicle allowance to be reasonable. The automobile allowance rates per kilometre that we usually consider reasonable are the amounts prescribed in section 7306 of the *Income Tax Regulations*. These rates represent the maximum amount you can deduct as business expenses. You can use them as a guideline to determine if a motor vehicle allowance paid to an employee is reasonable.

Automobile allowance rates

For 2003 and 2004, they are:

- 42¢ per kilometre for the first 5,000 kilometres; and
- 36¢ 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 taxable. The taxable allowance must be reported in box 14 and under code 40 on the employee's T4 slip. Employees may be able to claim allowable expenses on their return. See the section called "Employees' allowable expenses" on the next page.

Note

If the allowance paid to your employees is unreasonably low, you may not have to include it in their income. This administrative policy applies only if the employees do not claim allowable expenses when they complete their returns.

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 taxable. The taxable allowance must be reported in box 14 and under code 40 on the employee's T4 slip. Employees may be able to claim allowable expenses on their return. See the section called "Employees' allowable expenses" on the next page.

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 taxable.

The taxable combined allowance must be reported in box 14 and under code 40 on the employee's T4 slip. Employees may be able to claim allowable expenses on their return. See the section called "Employees' allowable expenses" on the next page.

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 kilometer driven to offset the operating expenses.

The flat-rate amount compensates the employee for some of the "same use" on which a reasonable per-kilometre allowance is based, i.e., 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 amount 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 a 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 monthly fixed amount must be reported in box 14 and under code 40 on the T4 slip.

Employees' allowable expenses

When employees claim allowable expenses on their returns, they have to complete Part A of Form T2200, *Declaration of Conditions of Employment*. You have to complete Part B and sign the forms 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.

It is the employees' responsibility to claim allowable expenses on their returns and to maintain records to support the claim. They also have to keep records of the kilometers driven for business.

For more information on allowable expenses, see the publication called *Employment Expenses* (T4044).

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. They will 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 automobile 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 automobile 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 automobile 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 automobile allowances, see Interpretation Bulletin IT-522, *Vehicle, Travel and Sales Expenses of Employees*.

Payroll deductions

Add the amount of the taxable allowances and the value of other benefits to the employee's salary to determine the total amount subject to payroll deductions such as CPP contributions, EI premiums, and income tax per pay period. The taxable automobile allowances are insurable and are subject to EI premiums.

Reducing tax deductions at source on automobile allowances

In many cases, automobile allowances that are not based solely on a reasonable per-kilometre rate can later be substantially offset by the employees' expense deductions when employees complete their individual returns. Employees can ask to reduce or eliminate their payroll deductions (commonly called a **waiver**) from the allowances.

To do this, an employee has to send a request to the Client Services Division at his or her tax services office and include the following information:

- the type of employment for which you will pay the allowance;
- an estimate of the total automobile 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 automobile 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, employees do not have to request individual waivers. For more information, see the employers' guide called *Payroll Deductions (Basic Information)* (T4001) or contact your tax services office.

Reporting automobile allowances on the T4 slip

If you paid your employee an automobile allowance that we consider to be taxable, you must enter the yearly total of this allowance under code 40 and in box 14 of the T4 slip.

Do not report any amounts that we do not consider to be taxable.

Chapter 2 – Other Benefits and Allowances

2.1 Board and lodging

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 under code 30 and in box 14 on 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 section 2.22, "Subsidized meals." The benefit's lodging part is the fair market value of the accommodation **minus** any amount the employee paid. Report the benefits under code 30 and in box 14 on the employee's T4 slip.

Payroll deductions

The taxable benefit for board, lodging, or both is pensionable. Deduct CPP contributions and income tax.

Even though this is a non-cash benefit, it is insurable if it is received by the employee in addition to cash earnings in the pay period—in that case, deduct EI premiums. If no cash earnings are paid during the pay period, it is not insurable—do not deduct EI premiums.

Exception to the rules

There is an exception to these rules when you provide meals and accommodation to an employee who works at a remote location or a special work site. For more information, see section 2.2 below and section 3.2.

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

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 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 allowance the employee received if

he or she worked away from home under **all** these conditions:

- 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 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) above. 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) above, 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. As long as you complete Form TD4, do not include the amounts in box 14 or under code 30 on the employee's T4 slip. After you complete Form TD4 with the employee, keep it with your payroll records.

You should not complete Form TD4 if the employee does not meet all the above conditions. 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 section 3.2, "Board, lodging, and transportation at a special work site."

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 (e.g., basic food store, basic clothing store with merchandise in stock (not 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 you provide an employee who works at a **remote work location**, or the allowance the employee receives, if the following conditions are met:

- the employee has to be located where we could not reasonably expect him or her 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 allowances have to be for a period of at least 36 hours when:
 - the employee’s duties require the employee to be away from the principal place of residence; or
 - the employee has to be at the remote work location.

Transportation

An employee can exclude from income the value of free or subsidized transportation, or a reasonable allowance received for transportation expenses, when he or she received an allowance or the value of board and lodging during that period. However, to qualify for the exemption, the transportation allowances you pay 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 for exemption.

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.

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.

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

Payroll deductions

If you exclude from income 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.

2.3 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.

You have to include any applicable GST/HST in the value of such a benefit.

Employee counselling services are not taxable if they relate to:

- the wellness, mental or physical health (e.g., 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; and
- an employee’s retirement.

Payroll deductions

Where 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.

2.4 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.

Payroll deductions

Do not deduct CPP contributions, EI premiums, or income tax on these benefits.

2.5 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 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 taxable. 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

Where the benefit is taxable, it is also pensionable. However, it is not insurable since it is a non-cash benefit. Deduct CPP contributions and income tax, but do not deduct EI premiums.

2.6 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 languages 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.

There is no GST/HST to include in the value of the educational allowances.

Payroll deductions

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

2.7 Gifts, awards, and social events

A gift or award that you give an employee is considered to be a taxable benefit from employment, whether it is cash,

near-cash, or non-cash. However, under our policy, a non-cash gift or award that you give an employee may not be considered a taxable benefit under certain circumstances.

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

It also allows you to give each employee up to two non-cash awards per year, tax free. An award is given for an employment-related accomplishment such as long or outstanding service, employees' suggestions, meeting or exceeding safety standards.

The policy limits the cost of the gifts to \$500, including taxes, and the cost of the awards to \$500, including taxes. If **one non-cash** gift costs you more than \$500, you have to include the **fair market value** of the gift in the employee's income. As well, if one non-cash award costs you more than \$500, you have to include the full fair market value of the award in the employee's income.

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

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

This policy **does not apply** to cash or near-cash gifts or awards. A near-cash item could be a gift certificate, gold nuggets, securities, stocks, or any other item that can be easily converted to cash.

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, visit our Web site at www.cra.gc.ca/gifts, where you can find examples and questions and answers.

Payroll deductions

Where 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 and under code **40** on 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.

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 would increase the \$100 per person amount. If the cost of the party is greater than \$100, 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*, and its Special Release.

Payroll deductions

Where 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.

2.8 Group term life insurance policies – Employer-paid premiums

This section applies to both current and former employees (retirees) who receive group term life insurance benefits from their employer or former employer.

Definitions

Group term life insurance policy means 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 or former employee.

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 active employees would usually be term insurance, although it is sometimes provided for retired employees as well.

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).

Calculation

If the premiums are paid regularly and the premium rate for each individual is not dependent on age or sex, the taxable benefit is the total of:

- 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;

less

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

In any other situation, a detailed calculation is required. For more information, contact your tax services office.

Note

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

You have to report this benefit for current employees on a T4 slip and former employees on a T4A slip. The \$500 reporting threshold for T4A slips, which is described in the employers' guide called *Deducting Income Tax on Pension and Other Income, and Filing the T4A Slip and Summary Form (RC4157)*, will not apply.

Multi-employer plan administrators or trustees who provide taxable benefits from group term life insurance to employees or former employees 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.

Premiums paid by an employer for employees' group life insurance (that is not group term insurance) are also a taxable benefit. For more information, contact your tax services office.

There is no GST/HST to include in the value of this benefit.

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.

Payroll deductions

This taxable benefit is pensionable. However, it is not insurable since it is a non-cash benefit. Deduct CPP contributions and income tax, but do not deduct EI premiums.

2.9 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, the employee is considered to be receiving a taxable benefit.

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 under code **30** and in box 14 on the employee's T4 slip.

Note

If the dwelling you provide to the employee is in a prescribed zone, see section 3.1, "Accommodation or utilities provided by the employer."

Payroll deductions

The taxable housing benefit is 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 insurable if it is received by the employee in addition to cash earnings in a pay period—in that 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 rent-free, 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. An employee is a member of the clergy, a regular minister, or a member of a religious order who is in charge of, or ministers to, a diocese, parish, or congregation. This also applies to an employee who exclusively occupies a full-time administrative position 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. For information about CPP and EI, see chapters 2 and 3 of the employers' guide called *Payroll Deductions (Basic Information)* (T4001). 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 (e.g., 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 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. For more information, contact your tax services office.

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.

2.10 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 the section called "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 the sections called "Home-relocation loan" and "Exceptions" on the next page.

Include the benefit for employees under code **36** and in box 14 on the T4 slip. If you file a T4A for a shareholder, enter the benefit in box 28, "Other income."

There is no GST/HST to include in the value of these benefits.

Payroll deductions

The taxable benefit for interest-free or low-interest loans is also pensionable. However, it is not insurable since it

is a non-cash benefit. Deduct CPP contributions and income tax, but 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 taxation 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 the section called "Exceptions" on the next page.

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 on January 2, 2004. The prescribed rate of interest for the loan for 2004 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 \times loan amount for the year:

$$3\% \times \$150,000 \times 3/4 = \$3,375$$

$$2\% \times \$150,000 \times 1/4 = \$750 \dots\dots\dots \$4,125$$

plus

$$\text{b) Amount paid by a third party} \dots\dots\dots \underline{1,000} \\ \dots\dots\dots \$5,125$$

minus

$$\text{c) Interest paid } (\$2,000 + \$1,000) = \dots\dots\dots \$3,000$$

$$\text{d) Amount Joshua repaid} \dots\dots\dots \underline{1,000} \quad \underline{4,000}$$

$$\text{Joshua's taxable benefit} \dots\dots\dots \underline{\underline{\$1,125}}$$

Loans received because of shareholdings

Loans received because of shareholdings are considered taxable benefits when the following three 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 (i.e., shareholder) received a benefit in the taxation 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 (e.g., 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 the section called “Loans received because of employment” on this page.

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 provided 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 the section called “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 (e.g., a loan or debt forgiven in whole or in part) in the income of a person or partnership.

How do you report benefits on interest-free and low-interest loans?

If an **employee** receives a loan or incurs a debt because of employment, report the benefit under code **36** and in box **14** on a 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 2003 and 2004:

Quarterly rates		
Quarter	2003	2004
1st	3%	3%
2nd	3%	3%
3rd	4%	2%
4th	3%	3%

To obtain the current prescribed rates of interest, visit our Web site at www.cra.gc.ca/interestrates.

2.11 Medical expenses

If you pay for or provide an amount to pay for an employee’s medical expenses in a taxation 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 the GST/HST in the value of the benefit. If you have any questions about how GST/HST applies in this case, contact any tax services office or tax centre.

For more information on qualifying medical expenses, see Interpretation Bulletin IT-519, *Medical Expenses and Disability Tax Credits and Attendant Care Expense Deduction*.

Payroll deductions

The taxable benefit for medical expenses is 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.

2.12 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 the section called “Non-accountable allowances” on page 20.

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.

However, there is an exception for amounts paid after February 23, 1998, in respect of an eligible housing loss, if the employee started to work at the new work location after September 1998. Generally, in these situations, only one-half of the amount that is more than \$15,000 is taxable.

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 the examples below to determine how to calculate the taxable part of the benefit.

Example 1

In March 2004, 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 2004. The taxable benefit you will report on Clara's 2004 T4 slip will be \$12,500, calculated as follows:

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

Example 2

In June 2003, 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, 2003.

Paul's eligible housing loss amounted to \$65,000. You paid out the compensation in two payments: \$30,000 in September 2003 and \$35,000 in February 2004.

Paul's taxable benefit in 2003 was \$7,500 (one-half of the amount paid in 2003 that is more than \$15,000).

Paul's taxable benefit in 2004 is \$17,500. This is calculated as follows:

- one half of the total of amounts paid in 2003 and 2004 that is more than \$15,000
($\frac{1}{2} \times [\$65,000 - \$15,000] = \$25,000$);

minus

- the amount included in income in 2003 (\$7,500).

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 filing their returns. 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*.

If a taxable benefit arises for moving expenses, include any applicable GST/HST in the value of this benefit.

Payroll deductions

Where 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 under code **40** and in box 14 on the T4 slip.

There is no GST/HST to include 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.
- 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.

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 co-operative 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 the section called "Loans received because of employment" on page 18. Include the amount of the taxable benefit in box 14 of the T4 slip, and enter it under code **36**.

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 the section called "Loans received because of employment" on page 18;
- 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 under code **37** in the "Other information" area of the T4. This is the amount the employees can deduct on their returns as "Employee home-relocation loan deduction."

Note

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

2.13 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 and under code **40** on the 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 the officer's income in box 14 or under code **40**.

In either of the above situations, you have to identify the non-taxable portion of the allowance by entering the corresponding amount under code **70** in the "Other information" area of the T4 slip.

There is no GST/HST to include in the value of this type of 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

Where 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.

2.14 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.

Include the GST/HST in the value of this type of benefit.

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 (i.e., there are fewer spaces than there are employees who require parking and the spaces are available on a first-come, first-served basis).

To determine if an employee has received a benefit, each case must be examined based on the facts. If the employee has a disability, the parking benefit is generally not taxable. See section 2.4, "Disability-related employment benefits."

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.

If you are not sure if employer-provided parking is a taxable benefit, contact your tax services office.

Payroll deductions

Where 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.

2.15 Premiums under a private health services plan

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

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.

2.16 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.

Also, 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.

There is no GST/HST to include in the value of this type of benefit.

As an employer, if you have to pay amounts (other than for the contribution or premiums that an employee has to make under the plan) to a provincial or territorial authority that administers a hospital or medical insurance plan, the payments you make are not considered to be a taxable benefit to employees.

Payroll deductions

Where 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.

2.17 Professional membership dues

If you pay professional membership fees on behalf of your employees, there is no benefit to the employees if you are the primary beneficiary of the payment. A taxable benefit arises when the employee is 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, the question of primary beneficiary still has to be resolved. As the employer, you are responsible for making this determination. 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.

You have to include any applicable GST/HST in the value of such a benefit.

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

Note

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

Payroll deductions

Where 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.

2.18 Recreational facilities and club dues

If you provide or paid for a recreational facility for employees, such as an exercise room, swimming pool, or gymnasium or if you pay for their memberships to a business or professional club (that operate fitness, recreational, sports, or dining facilities for the use of their members but their primary purpose is something other than recreation) your employees receive a taxable benefit. This occurs when you subsidize, pay, or reimburse the cost of the membership for employees. However, the use of the facility or club does not give rise to a taxable benefit to the employees in either 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. If you supply 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, we consider that a taxable benefit is conferred to the employees who do not have to pay the full fee.
- Where you make an arrangement with a facility to pay a fee for the use of the facility 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.

If you reimburse your employees, up to a set maximum, for the membership fees in a recreational facility of their choice the employee receives a taxable benefit. 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 must include GST/HST in the value of the taxable recreational facility and club dues.

If you pay or reimburse 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 a club, the employee receives a taxable benefit. Include the GST/HST in the value of the benefit.

For more information, see interpretation bulletins IT-470, *Employees' Fringe Benefits*, and its Special Release, and IT-148, *Recreational Properties and Club Dues*.

Payroll deductions

Where 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.

2.19 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. This does not include an amount you withheld from the employee's remuneration and contributed for the employee.

GST/HST may apply to the administration fees, if applicable include the GST/HST in the value of the benefit.

Payroll deductions

RRSP taxable benefits are pensionable and insurable. Deduct CPP contributions and EI premiums.

Your contributions to the employee's RRSP are considered non-cash benefits and are not insurable in cases where the employees cannot withdraw the amounts from a Group RRSP until they retire or cease to be employed. Where you allow the employee to withdraw the RRSP funds from such a plan under a Home Buyers Plan or a Lifelong Learning Plan, we still consider the contributions to be non-cash benefits.

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 employees' RRSPs. However, you must have reasonable grounds to believe that the employee can deduct the contribution for the year.

2.20 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 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.

There is no GST/HST to include in the value of this benefit.

Include this benefit in box 14 and report it under code 38 on the 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" below.

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

Payroll deductions

The security option taxable benefit is 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 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 granted, 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 options are 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 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 of the T4 slip under code 53. Do not include this amount in box 14 or under code 38 on 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 a share 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*), 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 under code 39 on the 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 under code **41** on the T4 slip.

Note

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

2.21 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.

If GST/HST applies to the travelling expenses, you have to include it in the value of the benefit.

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*.

Payroll deductions

Where 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.

2.22 Subsidized meals

If you provide subsidized meals to an employee (e.g., 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 and under code **30** on 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

Where the subsidized meals benefit is taxable, it is also pensionable. However, since it is a non-cash benefit, it is not insurable. Deduct CPP contributions and income tax, but do not deduct EI premiums.

Overtime meal allowances

If you provide overtime meals, or a reasonable allowance for overtime meals, we consider that there is no taxable benefit in the following circumstances:

- 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. Include the taxable benefit in box 14 and under code **40** on the employee's T4 slip.

Payroll deductions

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

2.23 Subsidized school services

In remote areas, employers are often responsible for essential community services that municipalities usually provide. If you provide free or subsidized school services 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.

This does not include an educational allowance you pay directly to your employees, as we explained in section 2.6, "Educational allowances for children."

2.24 Transportation to and from the job

If you provide an employee with an automobile 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. If GST/HST applies, you have to include it in the value of the benefit.

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 pick-up points to that location. This transportation is **not** a taxable benefit. Do not deduct CPP contributions, EI premiums, or income tax from these amounts. For more information, see section 2.2, "Board, lodging, and transportation at special work sites and remote work locations" on page 13.

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 in the following situations:

- For teachers and professors who are working in a designated educational institution, the duties of the employee's part-time employment were the provision in Canada of a service to you in the employee's capacity as a professor or teacher. The part-time employee performed the duties at a location no less than 80 kilometres from the employee's home.
- For other employees, the part-time employee 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.

Payroll deductions

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

2.25 Travelling allowance

Salesperson and clergy

A reasonable travel allowance for expenses other than for the use of an automobile (e.g., meals, lodging, per diem allowance) is not included in the employee's income if the allowance was for expenses related to the discharge of the 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 those reasonable travel allowances in the income of employees, other than a salesperson or 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.

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

Payroll deductions

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

2.26 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 the guidelines above, 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 the guidelines above, 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.

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, and Research Grants*, IT-470, *Employees' Fringe Benefits*, and its Special Release, 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

Where 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.

2.27 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 a **non-taxable benefit** 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**.

Include the GST/HST in the value of this type of 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

Where 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.

2.28 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.

There is no GST/HST to include in the value of this type of benefit.

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

Payroll deductions

Where 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.

For more information, contact your tax services office.

Chapter 3 – 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.

The publication called *Northern Residents Deductions – Places in Prescribed Zones* (T4039) 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 in section 2.2, "Board, lodging, and transportation at special work sites and remote work locations."

3.1 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 (e.g., 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 applicable GST/HST, 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 the applicable GST/HST is more than the allowable ceiling amount, report the allowable ceiling amount as the housing benefit.

The publication called *Ceiling Amounts for Housing Benefits Paid in Prescribed Zones* (RC4054), which we update each year, 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.

3.2 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.

You have to identify, on the employee's T4 or T4A slip, any portion of the excluded board and lodging benefit or allowance that the employee received for duties performed at a special work site that was within 30 kilometres of the nearest urban area with a population of at least 40,000 people (the 30-km portion), 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 a prescribed zone.

Enter the 30-km portion of the excluded amount under code **31** on the T4 slip.

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 30-km 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 under code **30** or in box 14 of the 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 under code **31** on the employee's T4 slip, even though it was not entered 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 residency deduction.

3.3 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, compassionate reasons, etc.

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 accommodation, camping fees, taxi fares, and road and ferry tolls.

When you give employees travel assistance benefits other than cash or refundable tickets (e.g., 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 and under code **32** on the 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. The number of trips an employee can claim is limited to two 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 in the next section.

Where the travel assistance is a taxable benefit, include any applicable GST/HST in the value of the benefit. There is no GST/HST to include 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. Medical travel 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. Enter under code **33** on the T4 slip the medical portion of the travel assistance that you reported under code **32**. In the footnotes area of the T4A slip, enter "Box 28, medical travel," and the medical portion of the travel assistance that you reported in box 28. In box 38, enter code **16**.

This way, we will know which portion, if any, of the amount you reported under code **32** of a T4 slip or in box 28 of a T4A slip is for medical travel. 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 employee's deduction, as well as that of the members of the household, to two trips each.

Note

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. You may have to make such payments because of an obligation you have under a collective agreement. If this is the case, you should not report them on employees' T4 slips.

3.4 Payroll deductions

Travel assistance benefits

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 Canada Pension Plan contributions and Employment Insurance 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 taxation 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 2004, 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 2004, 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 30-km portion of the benefit they receive if they maintain a principal residence that is not in a prescribed zone. The 30-km portion of the excluded benefit will be shown under code **31** of the T4 slip. See section 3.2, "Board, lodging, and transportation at a special work site," for details.

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 in the above note apply, reduce the residency amount by the 30-km 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 the TD1 form minus the above adjustments) by the number of pay periods in the year;
- subtract the result from their gross earnings for each pay period; and
- refer to the tax tables that apply.

Chapter 4 – Remitting GST/HST on Employee Benefits

You should read this chapter if you are a GST/HST registrant. It 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/HST in that province. If your business is located in Quebec, contact an Revenu Québec office for information on the GST/HST treatment of employee benefits.

4.1 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 goods 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 in the following section.

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

You are not considered to have collected 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*, such as an unreasonable allowance for automobile expenses;
- when you are restricted from claiming an input tax credit (ITC) for the GST/HST you paid or owe on the goods and services which give rise to the taxable benefit (see the section called "ITC restrictions" on page 32); 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 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 cost benefit of an automobile or aircraft, you are not considered to have collected 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*; 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.

Note*

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.

4.3 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 2004 taxation year, you are considered to have collected GST/HST at the end of February 2005. You have to include this amount in your GST/HST return for the reporting period that includes the last day of February 2005.

Example

You are a GST/HST registrant and have a monthly reporting period. At the end of February 2005, you calculated the total taxable benefits provided to your employees for 2004, including any GST and PST, or HST. You are considered to have collected GST/HST on the taxable benefits at the end of February 2005. In your February 2005 GST/HST return, you have to include the GST/HST relating to the taxable benefits provided to your employees in 2004. You have to file this return by the end of March 2005.

4.4 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.

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 cost 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 cost 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 cost 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. 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 considered to be collected

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

Automobile operating cost 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 is equal to 11% of the value of the benefit for GST/HST purposes as calculated above.

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 is equal to 5% of the value of the benefit for GST/HST purposes.

Benefits other than automobile operating cost

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 is equal to 14/114 of the value of the benefit for GST/HST purposes as calculated above.

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 is equal to 6/106 of the value of the benefit for GST/HST purposes.

4.5 Input tax credits (ITCs)

As a registrant, you can claim an ITC to recover the 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. Taxable goods and services are those that are taxable at the rates of 15%, 7%, and 0%. For more information about what are considered to be commercial activities, see the publication called *General Information for GST/HST Registrants* (RC4022).

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 the 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 the 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 section 2.12, "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 the 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 by 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*.

4.6 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 2004. 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.

4.7 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 one of the situations listed in section 4.2, “Situations where you are not considered to have collected GST/HST,” 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 section 4.4, “How do you calculate the amount of GST/HST you are considered to have collected?”).

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 2005*.

Note*

The GST/HST amount may be due in a different reporting period if the GST/HST is for a reimbursement made by an employee or an employee’s relative in certain circumstances. For more information, see the note in the section called “Value of the benefit for GST/HST purposes” on page 31.

Employee does not pay GST/HST on taxable benefits

The employee does not pay the 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.

4.8 Examples

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

Example 1: 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 2004. The last establishment where the employee ordinarily reported in the year for the corporation was located in **Ontario**. Using the worksheet on page 9, you calculated a taxable benefit (including GST and PST) of \$4,800 on the standby charge and an operating cost benefit of \$600. Your employee reimbursed you \$1,800 for the automobile operating costs within 45 days following the end of 2004. 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 costs.

Since the benefit is taxable under the *Income Tax Act*, and no situations described on page 30 (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 6/106 = \271.70

Operating cost benefit

Taxable benefit reported on T4..... \$600

Employee’s partial reimbursement of operating costs \$1,800

Total value of the benefit..... \$2,400

GST considered to have been collected on the benefit $\$2,400 \times 5\% = \underline{\$120.00}$

Total GST to be remitted on the automobile benefit \$391.70

You are considered to have collected GST in the amount of \$391.70 at the end of February 2005. You have to include this amount on your GST/HST return for the reporting period that includes the last day of February 2005.

Example 2: Automobile benefits in a participating province

Using the same facts as in Example 1 above, 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 14/114 = \589.47

Operating cost benefit

Taxable benefit reported on T4..... \$600

Employee’s partial reimbursement of operating costs \$1,800

Total value of the benefit..... \$2,400

HST considered to have been collected on the benefit $\$2,400 \times 11\% = \underline{\$264.00}$

Total HST to be remitted on the automobile benefit \$853.47

You are considered to have collected HST in the amount of \$853.47 at the end of February 2005. You have to include this amount on your GST/HST return for the reporting period that includes the last day of February 2005.

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.

Benefits Chart

This chart lists the **taxable** allowances and benefits discussed in the guide. It indicates whether they are subject to CPP and EI withholdings, and 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 allowances	yes	yes	40	no
Automobile standby charge and operating cost benefits	yes	no	34	yes
Board and lodging, if cash earnings also paid in the pay period	yes	yes	30	¹
Board and lodging, if no cash earnings paid in the pay period	yes	no	30	¹
Counselling services – in cash	yes	yes	40	²
Counselling services – non-cash	yes	no	40	²
Discounts on merchandise and commissions on sales	yes	no	40	yes
Educational allowances for children	yes	yes	40	no
Gifts, awards, and social events – in cash	yes	yes	40	no
Gifts, awards, and social events – non-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	³
Housing, rent-free or low-rent – non-cash	yes	⁴	30	³
Interest-free and low-interest loans ⁵	yes	no	36	no
Medical expenses – in cash	yes	yes	40	⁶
Medical expenses – non-cash	yes	no	40	⁶

Chart continues on next page →

¹ 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.

² 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.

³ 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.

⁴ 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.

⁵ Enter the home relocation loan deduction under code 37.

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

Taxable allowance or benefit – cont.	CPP	EI	Code	GST/HST
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 ⁷	yes	no	40	no
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	yes	no	40	no
Professional fees – in cash	yes	yes	40	⁸
Professional fees – non-cash	yes	no	40	⁸
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	yes	yes	40	no
Registered retirement savings plan (RRSP) premiums considered non-cash benefits	yes	no	40	no
Registered retirement savings plan (RRSP) administration fees	yes	yes	40	⁸
Scholarships and bursaries	yes	yes	40	no
Security options ⁹	yes	no	38	no
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
Travel assistance in a prescribed zone ¹⁰	yes	yes	32	yes
Travelling allowances to a part-time employee and other employees	yes	yes	40	no
Tuition fees – in cash	yes	yes	40	⁸
Tuition fees – non-cash	yes	no	40	⁸
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

⁷ Enter the exempt amount under code 70.

⁸ 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.

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

¹⁰ Enter the amount of medical travel assistance under code 33.