

1995-1996

Employers'  
Guide to  
Payroll  
Deductions

Taxable Benefits  
and Non-Resident  
Information

This guide uses plain language to explain the most common tax situations. If you need more help after you read this guide, please contact your Revenue Canada tax services office or tax centre.

La version française de cette publication est intitulée *Guide de l'employeur — Retenues sur la paie : Avantages imposables et renseignements concernant les non-résidents*.

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## **Problem Resolution Program**

We are always looking at ways to make it easier for you to file your information returns, deduct and send in your remittances, and resolve any problems you may have.

We deal with most of your payroll-related questions and concerns through regular channels. In other words, if you have a problem, call, write, or visit Client Services at your Revenue Canada tax services office or tax centre. If, after contacting Client Services, your problem is not resolved to your satisfaction, you should get in touch with a Problem Resolution Program co-ordinator at your tax services office or tax centre. You can find the numbers for your tax services office and tax centre listed under "Revenue Canada" in the Government of Canada section of the phone book.

## **We welcome your suggestions**

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

Please send your comments to:

Client Services Directorate  
Revenue Canada  
Room 8000  
400 Cumberland Street  
Ottawa ON K1A 0L8

## **Ordering Publications**

Throughout this guide, we mention other publications that cover topics in more detail. To order these publications, complete the order form at the back of this guide. Your tax services office or tax centre can fill your order by mail, telephone, or in person. You can find the addresses and telephone numbers for your tax services office and tax centre listed under "Revenue Canada" in the Government of Canada section of the phone book. If you mail the order form, allow three weeks for delivery.

## What's New?

### **Important changes to the *Employers' Guide to Payroll Deductions — Taxable Benefits and Non-Resident Information***

Revenue Canada has issued this revised *Employers' Guide to Payroll Deductions — Taxable Benefits and Non-Resident Information* to replace the guide you are currently using. Since we had many changes to make and information from the 1994 update to add, reprinting the guide was the most cost-effective approach.

We have also changed the guide's format for 1995. We would like to know what you think of the change, since we may reprint the guide in 1996. You will find our address under the heading "We welcome your suggestions" on page iv.

### **Group Disability Benefits — Insolvent Insurer**

Tax changes have been announced by the Minister of Finance. These had not yet become law at the time of printing. However, we are getting ready to apply them.

#### **Proposed Legislation — From tax changes announced on April 26, 1995**

The proposed legislation provides that, for purposes of paragraph 6(1)(f) 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 where the employer made contributions under the policy. This treatment will permit the continued deduction of contributions made by the employer to be taken into account in determining the amount to be included in the employee's income from employment under paragraph 6(1)(f).

A "disability policy" is a group disability insurance policy that provides periodic payments to individuals in respect of lost employment income.

The proposal will apply to top-up disability payment made after August 10, 1994.

For more information, contact your tax services office or tax centre.

### **Operating cost benefit**

Beginning for 1996, the rates used to determine the value of the employee benefit from the personal-use portion of automobile operating expenses paid by the employer when a vehicle is provided to an employee will be increased by one cent per kilometre to 13¢ per kilometre.

In the case of individuals employed principally in selling or leasing automobiles the prescribed rate will be increased by one cent per kilometre to 10¢ per kilometre of personal driving.

### **Non-taxable allowances**

Beginning for 1996, the rates for reasonable allowance per kilometre for automobile expenses paid to employees will be increased by two cents a kilometre to 33¢ for the first 5,000 kilometres driven and 27¢ for each kilometre thereafter.

For travel in the Yukon Territory and Northwest Territories the allowance rates will be 37¢ for the first 5,000 kilometres driven and 31¢ for each kilometre thereafter to reflect the higher cost of maintaining and operating a vehicle in these regions.

### **Payroll deduction tables on diskette (TOD)**

Revenue Canada introduced the electronic version of *Payroll Deductions Tables (T4032)* and the *Payroll Deductions Supplementary Tables (T4008)*. This diskette contains the information you need to calculate deductions on your employee's pay for all pay periods for each province and territory, and also for employees working outside Canada.

You can get TOD free of charge. For more information, contact your tax services office or tax centre.

### **Addresses and telephone numbers**

We no longer list the addresses and telephone numbers for the tax services offices and tax centres at the back of this guide. You can find the current addresses and phone numbers listed under "Revenue Canada" in the Government of Canada section of the telephone book.

**Do not use the listings from the previous guides, since they are not up-to-date.**

## Notice

### Business Number (BN)

The BN is a numbering system designed to replace the multiple account numbers that businesses use when they do business with the federal government. The BN is based on a simple principle — “one business, one number.”

We issue all new businesses a Business Number when they open any of the following business accounts with Revenue Canada:

- corporate income tax;
- import/export;

- payroll deductions; and
- goods and services tax (GST).

Current Revenue Canada business clients can choose to convert their accounts to the BN any time up to the mandatory conversion date of January 1, 1997. Eventually, businesses will be able to use their BN for other Revenue Canada accounts and other federal government programs.

# Chapter 1 — Automobile Benefits

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## Reminder

### 1. Automobile benefits — Calculating the operating cost benefit

If your employee has chosen not to or is unable to use the optional operating cost benefit for an automobile you supply (see "Operating cost benefit" discussed later in this chapter), then calculate the operating cost benefit using a charge based on a rate of 12¢ per kilometre for 1995 and 13¢ per kilometre for 1996 of personal use minus any reimbursement your employee makes in the year or no later than 45 days after the end of the year. The fixed rate for determining an employee's personal-use benefit for an automobile you supply, is 9¢ per kilometre for 1995 and 10¢ per kilometre for 1996 for employees whose principal source of employment is selling or leasing automobiles.

No benefit will accrue for the operating cost benefit where the employee fully reimburses you for all operating expenses attributable to personal use in the year or no later than 45 days after the end of the year. We consider the employee to have made a full reimbursement only when the employee pays back the portion of all operating expenses (including GST) that are attributable to personal use.

### 2. Work sheet — *Calculating automobile benefits*

The work sheet will help you calculate the value of an employee's automobile benefit. The result obtained represents the taxable benefit you have to

report in boxes 14 and 34 of the T4 Supplementary slip or, if applicable, in box 28 of the T4A Supplementary slip.

### 3. Non-taxable allowances

The motor vehicle allowance rates per kilometre we usually consider reasonable when an employee uses his or her automobile are the amounts prescribed in section 7306 of the *Income Tax Regulations*.

The rates for 1995 are:

- 31¢ per kilometre for the first 5,000 kilometres;
- 25¢ per kilometre thereafter; and
- an additional 4¢ per kilometre for travel in the Yukon Territory and Northwest Territories.

The rates for 1996 are:

- 33¢ per kilometre for the first 5,000 kilometres;
- 27¢ per kilometre thereafter; and
- an additional 4¢ per kilometre for travel in the Yukon Territory and Northwest Territories.

These rates are used for determining the maximum amount you may deduct and, therefore, are only a guideline in determining if a motor vehicle allowance paid to an employee is reasonable.

## 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;
- a taxable GST benefit related to the standby charge<sup>1</sup>; 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.

## Definitions

Read through the following explanations. They will help you understand certain terms and expressions we use in the information that follows.

### Automobile

An automobile means a motor vehicle (see the definition below) that is designed or adapted primarily to carry not more than the driver and eight passengers on highways and streets.

An automobile **does not** include:

- an ambulance;
- a motor vehicle bought primarily to be used as a taxi;
- a bus used for transporting passengers;
- a hearse used in connection with funerals; or
- a van, pick-up truck, or similar vehicle that:
  - in the taxation year it is bought, carries not more than the driver and two passengers and is used primarily to transport goods or equipment in the course of business; or
  - in the taxation year it was bought, is used 90% or more of the time to transport goods, equipment, or passengers in the course of business.

### Motor vehicle

A motor vehicle is an automotive vehicle designed or adapted to be used on highways and streets. It does not include a trolley bus or a vehicle designed or adapted to be used exclusively on rails.

### Automobile availability

We consider an automobile to be available to employees as long as they have access to or control over the vehicle. Access ends only when an employee returns all the automobile's keys to you.

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 the office or employment.

### Personal driving

Personal driving is any driving by an employee, or a person related to the employee, for purposes other than business. This includes:

- vacation travel;
- driving for personal business;
- travel between home and work (even if you insist that the employee drive the vehicle home).

We do not consider it 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.

The employee may have to reimburse you for personal use of the automobile. If this happens, reduce the total automobile benefit by the reimbursed amount.

You and your employees should keep records on the use of an automobile so that you can properly apportion between business and personal use the total kilometres driven in a calendar year by an employee or a person related to the employee.

### Your automobile costs

Your automobile costs for purposes of determining the standby charge are the total of the following two amounts:

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

#### Note

When you calculate the standby charge, remember that we do not consider specialized equipment you add to the automobile as meeting the requirements of the employment (e.g., cellular phones, two-way radios, heavy-duty suspension, power winches) to be part of the automobile's cost.

### Leasing costs

Leasing costs for purposes of determining the standby charge include:

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

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<sup>1</sup> You have to calculate the taxable GST component related to the standby charge based on the gross amount of the benefit without taking into account any amounts the employee reimbursed.



Leasing costs do not include:

- GST; or
- liability and collision insurance costs.

### Operating costs

Operating costs include:

- gasoline and oil;
- maintenance charges and all repair expenses net of insurance proceeds;
- licences; and
- insurance.

Operating costs do not include:

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

### Standby charge

This amount represents the benefit employees enjoy when your automobile is available for their personal use. You calculate the standby charge differently depending on whether you **own** or **lease** the automobile.

#### Automobiles 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 (when you divide the number of days the automobile was available to the employee by 30, see the "Work sheet" provided at page 1-5 to know how to round off the resulting amount);
- the personal driving the employee did in the period 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 employee an automobile from a fleet or pool on a long-term or exclusive basis, you must 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 minimal number of homogeneous 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. 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*, which is available at your tax services office or tax centre.

#### Automobiles you lease (lessee)

Base the standby charge on:

- two-thirds of the cost of your automobile lease;
- the number of 30-day periods in the year the automobile was available to the employee (when you divide the number of days the automobile was available to the employee by 30, see the "Work sheet" provided at page 1-5 to know how to round off the resulting amount);
- the personal driving the employee did in the period 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 payments you make at the beginning or end of a lease that are not a payment to purchase 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:

- prorate the payment over the term of the lease and amend the T4 or T4A Supplementary slip of those individuals who used the vehicle; or
- add the terminal charge to the lease costs in the year you terminate the lease.

You can choose which method to use as long as the employee agrees with your choice. Furthermore, none of the relevant years can be statute-barred, which means that the employee can still request an income tax adjustment for the year in question. Whichever method you use, include the GST benefit.

We consider a lump-sum payment you receive at the end of a lease as a terminal credit. When this occurs, the standby charge for the automobile has been overstated since the lease costs should have been lower. In this situation, you should amend the T4 and T4A Supplementary slips of the individuals who used the automobile (as long as they agree) and give them a letter explaining the reduction. These individuals can then write to their tax services office or tax centre and ask us to adjust their returns for years that are not statute-barred.

#### Reducing the standby charge

You can reduce the standby charge if the automobile is used at least 90% of the time for business purposes and the total kilometres for personal use are less than 12,000 a year.

You can reduce the standby charge for individuals you employ in selling or leasing automobiles if:

- the individual is employed principally 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 may choose the rate of 1.5% instead of 2% for the standby charge, and calculate the cost of your automobile 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.

### 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, this payment represents a taxable benefit to the employee.

If you pay any amount of operating expenses related to the personal use of an automobile you provide to an employee, you have to calculate the operating cost benefit using a charge based on a fixed rate of 12¢ for 1995 per kilometre of personal use.

#### Note

For January 1996, the fixed rate for personal use of an automobile by an employee is increased to 13¢ per kilometre.

#### Example

In 1995, your employee used 4,000 kilometres for personal use. The operating cost benefit is:

$$4,000 \text{ km} \times 12¢ \text{ per km} = \$480$$

#### Reimbursement

No benefit will accrue for operating cost benefit if the employee fully reimburses you for all operating expenses attributable to personal use in the year or no later than 45 days after the end of the year. We consider an employee as having made a full reimbursement only when the employee pays back the portion of all operating expenses (including GST) that are attributable to personal use.

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 1995, you provide your employee with an automobile.

The total distance the employee drove during the year was 30,000 kilometres.

The personal distance the employee drove during the year was 10,000 kilometres.

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

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

If the employee reimburses 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 only reimburses \$800 of the expenses you paid in the year or no later than 45 days after the end of the year, you must calculate the operating cost benefit as follows:

$$10,000 \text{ km} \times 12¢ \text{ per km} = \$1,200$$

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

The operating cost benefit will be \$400.

The fixed rate you use to calculate the value of the benefit an employee derives from the personal use of your automobile for employees whose principal source of employment is selling or leasing automobiles is 9¢ per kilometre for 1995 and 10¢ per kilometre for 1996.

#### Note

When you use this method, you still have to maintain records on this benefit.

#### Optional calculation of the operating cost benefit

You can reduce 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% for business purposes; 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.

#### Reimbursement

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.

#### Work sheet — Calculating automobile benefits

The following work sheet will help you calculate the value of an employee's automobile benefits. The amount you determine represents the taxable benefit you have to report in box 14 and 34 of the T4 Supplementary slip or, if applicable, in box 28 of the T4A Supplementary slip. Please note that this work sheet is available only in this guide. You cannot obtain it separately from your tax services office or tax centre.

**CALCULATING AUTOMOBILE BENEFITS FOR 1995 and 1996**

Last name	First name	Social insurance number
Address		

**Please read the following instructions carefully:**

1. PST means provincial sales tax. GST means goods and services tax.
2. For the meaning of **cost of automobile**, see the definitions at the beginning of this chapter.
3. You must determine the number of days the automobile was available to the employee for the entire calendar year (including weekends and holidays).
4. \* 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).

5. The highest average cost of automobiles is one of the following amounts, whichever is more:
  - a) the average cost of all automobiles you acquired to sell or lease in the year; or
  - b) the average cost of all **new** automobiles you acquired to sell or lease in the year.
6. Calculate the standby charge at a reduced rate if you meet the following conditions:
  - a) you require employees to use the automobile to perform their duties;
  - b) the employee uses the automobile at least 90% of the time for business purposes; and
  - c) the number of personal-use kilometres in a taxation year is less than 12,000 kilometres.

7. Keep in mind that the optional calculation in "Step 3 - Operating cost benefit" may not be beneficial in all cases.

**Step 1 - Standby charge: Choose 1, 2, or 3**

1) Employer-owned automobile: Cost of automobile (including PST, excluding GST) .....	\$ _____	x 2%	\$ _____	(1)
2) Employer-leased automobile (lessee): Monthly leasing cost (including PST, excluding GST and insurance) .....	\$ _____	x 2/3	\$ _____	(2)
3) Employee sells or leases automobiles: Highest average cost of automobiles, (including PST, excluding GST - (see 5 above) ..	\$ _____	x 1.5%	\$ _____	(3)

Amount from 1, 2, or 3 above	Number of days auto available to employee	Personal kilometres	Number of days auto available to employee		
\$ _____	$\left( \frac{\quad}{30^*} \right)$	÷	$\left( \left( \frac{\quad}{30^*} \right) \times 1,000 \right)$	=	\$ _____ (4)
Minus: Employee reimbursements attributable to standby charge .....					\$ _____ (5)
Standby charge benefit (if negative, enter "0") .....					\$ _____ (A)

**Step 2 - GST component on standby charge: Choose 1, 2, or 3**

1) Employer-owned automobile: Cost of automobile (excluding PST and GST) .....	\$ _____	x 2%	\$ _____	(1)
2) Employer-leased automobile (lessee): Monthly leasing cost (excluding PST and insurance) .....	\$ _____	x 2/3	\$ _____	(2)
3) Employee sells or leases automobiles: Highest average cost of automobiles, (excluding PST - see 5 above) .....	\$ _____	x 1.5%	\$ _____	(3)

Amount from 1, 2, or 3 above	Number of days auto available to employee	Personal kilometres	Number of days auto available to employee		
\$ _____	$\left( \frac{\quad}{30^*} \right)$	÷	$\left( \left( \frac{\quad}{30^*} \right) \times 1,000 \right)$	=	\$ _____ (4)
Multiply the amount on line 4 above by the GST factor .....				x	<b>7%</b>
GST component on standby charge .....					\$ _____ (B)

(see reverse)

**Step 3 - 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 1995**

Complete this calculation if both of the following conditions are met:

- a) 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
- b) the employee did not elect to use the optional calculation, and:
  - i) the employee's principal source of employment is selling or leasing automobiles

Personal kilometres driven ..... x 9¢ = \$ ..... (1)

or

- ii) the employee occupies any other employment

Personal kilometres driven ..... x 12¢ = \$ ..... (2)

**Basic calculation for 1996**

Complete this calculation if both of the following conditions are met:

- a) 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
- b) the employee did not elect to use the optional calculation, and:
  - i) the employee's principal source of employment is selling or leasing automobiles

Personal kilometres driven ..... x 10¢ = \$ ..... (1)

or

- ii) the employee occupies any other employment

Personal kilometres driven ..... x 13¢ = \$ ..... (2)

OR

**Optional calculation**

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

- a) they use the automobile 50% or more for business purposes; and
- b) they request (in writing before the end of the year) that you use this method.

Standby charge amount **(A)**      Employee reimbursements attributable to standby charge  
 ( \$ ..... + \$ ..... ) x 50% = \$ ..... (3)

Amount 1, 2, or 3 above ..... \$ .....

Minus: Employee reimbursements attributable to 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)**, **(B)**, and **(C)** (employee taxable benefit you report in box 14 and box 34 of the T4 Supplementary or, if applicable, in box 28 of the T4A Supplementary) ..... \$ .....

## Payroll deductions and reporting taxable automobile benefits

To make payroll deductions easier to calculate, you can estimate in advance the yearly value of the automobile standby charge or benefit by using the work sheet we discussed earlier in this chapter.

After you estimate the value of the automobile benefit, prorate the amount to the employee's pay period. Add the resulting amount and the value of other benefits to the employee's salary to determine the total amount subject to payroll deductions of tax and Canada Pension Plan (CPP) contributions per pay period. The automobile benefit is not insurable. Deduct unemployment insurance UI premiums only from the salary and the value of the other benefits.

At the end of the year, or when that person is no longer your employee, recalculate the benefit using the automobile's actual availability and the kilometres driven for the taxation year. Adjust the last pay accordingly. After you have calculated the final amount, report it in box 14, "Employment income before deductions," and in box 34, "Personal use of employer's auto" on the employee's T4 Supplementary slip for the taxation year.

## Partnerships

You have to include a standby charge plus the related GST component 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.

## Shareholders

The automobile benefit to the shareholder of a corporation (or a person related to the shareholder) is the income of the shareholder.

You must report the benefit on a T4 Supplementary 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.

On the other hand, you must report the benefit on a T4A Supplementary 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.

## Automobile allowances

An allowance means any periodic or other payment that employees receive from an employer, in addition to their salary or wages, without having to account for its use. An allowance is subject to tax unless it falls within the conditions of non-taxable allowances as defined in the next section.

## Non-taxable allowances

If you pay your employees a reasonable allowance for using their own motor vehicle in connection with or in the course of their office or employment, you do not have to include this amount on a T4 Supplementary slip.

We consider an allowance for using a motor vehicle as reasonable only if all of the following conditions apply:

- it is based solely 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 that relate to the same use.

An exception to this rule applies if you reimburse an employee for toll or ferry charges or supplementary business insurance if you have determined the allowance without including these reimbursements.

### Note

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*.

The rates for 1995 are:

- 31¢ per kilometre for the first 5,000 kilometres;
- 25¢ per kilometre thereafter; and
- an additional 4¢ per kilometre for travel in the Yukon Territory and Northwest Territories.

The rates for 1996 are:

- 33¢ per kilometre for the first 5,000 kilometres;
- 27¢ per kilometre thereafter; and
- an additional 4¢ per kilometre for travel in the Yukon Territory and Northwest Territories.

These rates are used for determining the maximum amount you may deduct and, therefore, are only a guideline in determining if a motor vehicle allowance paid to an employee is reasonable.

## Reimbursement

A reimbursement is a payment you make to your employees as a repayment for amounts they spent 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.

## Advance

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 returning any amount they did not spend.

## Note

Usually, a reimbursement or an accountable advance for travelling expenses is not income for the employee receiving it unless it represents payment of the employee's personal expenses (see the section called "Averaging allowances" on this page).

For more information on automobile allowances, see Interpretation Bulletin IT-522, *Vehicle and Other Travelling Expenses — Employees*.

## Payroll deductions and reporting automobile allowances

In the following sections, the term **allowance** refers to an amount you pay your employees to use their own automobile to carry on your business.

### ■ You pay your employee an automobile allowance which you calculated solely on a reasonable per-kilometre rate.

Do not include this amount in income. It is not taxable and is not subject to income tax deductions, CPP contributions, or UI premiums. Do not report this amount on the employee's T4 Supplementary slip.

### ■ You pay your employee a flat-rate automobile allowance.

We do not consider this allowance to be a reasonable allowance. The total amount you pay is subject to income tax, CPP, and UI deductions. Include the yearly total of the flat-rate allowance in box 14, "Employment income before deductions," and in box 40, "Other taxable allowances and benefits," on the employee's T4 Supplementary slip. When your employees complete individual income tax returns, they may be able to deduct the allowable expenses, as long as they meet the conditions of paragraph 8(1)(f) or (h.1) of the *Income Tax Act*. Your employees have to complete Form T2200, *Declaration of Conditions of Employment*, and include it with their tax returns. You have to sign the form to certify that your employees met the required conditions during the year.

### ■ You pay your employee an automobile allowance based on a per-kilometre rate that we do not consider as reasonable.

In this case, the total amount is subject to income tax, CPP, and UI deductions. Include the yearly total of these allowances in box 14, "Employment income before deductions," and in box 40, "Other taxable allowances and benefits," on your employee's T4 Supplementary slip. When your employees complete individual income tax returns, they may be able to deduct the allowable expenses, as long as they meet the conditions of paragraph 8(1)(f) or (h.1) of the *Income Tax Act*. Your employees have to complete Form T2200, *Declaration of Conditions of Employment*, and include it with their tax returns. You have to sign the form to certify that your employees met the required conditions during the year.

### ■ You pay your employee BOTH a flat-rate automobile allowance plus a reasonable per-kilometre automobile allowance.

We consider these allowances to be two separate allowances. **Include** the flat-rate allowance in income, and **exclude** the reasonable per-kilometre allowance from income. Employees in this situation would not usually be able to claim automobile expenses, since they received an allowance that you excluded from their income. However, we offer administrative relief to employees who receive both types allowances. When employees complete individual income tax returns, they include both automobile allowances in income and they can claim allowable expenses. The employees must complete Form T2200, *Declaration of Conditions of Employment*, and include it with their tax returns. You have to sign the form to certify that your employees met the required conditions during the year.

You have to deduct income tax, CPP, and UI from the flat-rate allowance. The reasonable per-kilometre allowance is **not** subject to these deductions.

Report the yearly total of the allowances on the employee's T4 Supplementary slip as follows:

- Include the yearly total of the employee's flat-rate allowance in box 14, "Employment income before deductions," and in box 40, "Other taxable allowances and benefits."
- Do not include the yearly total of the employee's reasonable allowance in box 14, "Employment income before deductions," or in box 40, "Other taxable allowances and benefits." Enter the yearly total of the reasonable per-kilometre allowances in the footnotes area only, as follows: **Plus total reasonable per-kilometre allowance of \$ \_\_\_\_.**

## Averaging allowances

You cannot average a flat-rate or lump-sum automobile allowance at the end of the year to determine a reasonable per-kilometre rate.

To comply with the rules on automobile allowances, employees must file expense claims with you on an ongoing basis to claim a per-kilometre allowance. We understand, however, the administrative problems that can result from this. As a result, we are providing you with an alternative. If you make accountable advances to employees for automobile expenses, the advances are not taxable if they meet the following conditions:

- 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.

If you meet **all** these conditions, we will not tax the accountable advances for the automobile allowance.

Employees have to account for the business kilometres they travelled and any advances they received. They must do so on the date they cease employment 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 expenses. **We cannot accept your simply reporting the excess advances on the employee's T4 Supplementary slip.**

### **Reducing tax deductions at source on certain 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 individual income tax returns. Employees can ask you to reduce or eliminate their payroll deductions (commonly called a **waiver**) from the allowance.

To do this, the employees have to send a request to Revenue Collections at their 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 obtain a bulk waiver for the group instead of individual waivers. For more information, contact your tax services office.

# Chapter 2 — Other Taxable Benefits

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## Reminder

### 1. Goods and services tax (GST) component on taxable benefits

When the GST is applicable, you have to calculate the taxable GST component on benefits (net of any provincial sales tax) you paid to employees based on the gross amount of the benefits, without considering any amounts the employee reimbursed you for those benefits.

### 2. Holiday trips, other prizes, and incentive awards

We consider a holiday trip, an all-expenses-paid vacation, or any other award you give an employee as a taxable benefit from employment. The value of the benefit is the fair market value of the trip or vacation.

### 3. Registered retirement savings plans (RRSPs)

We consider contributions you make to an employee's RRSP as a taxable benefit to the employee.

### 4. Spouse's travelling expenses

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

We do not consider the amount you pay the employee for expenses as a taxable benefit if the spouse went at your request, and was mostly engaged in business activities during the trip.

#### Note

The term spouse applies to a legally married spouse and a common-law spouse as defined under subsection 252(4) of the *Income Tax Act*.

### 5. Employer-provided parking

Employer-provided parking is usually a taxable benefit to the employee. Base the amount of the benefit on the fair market value of the parking minus any payment the employee makes to use the space.

There are many types of benefits that you may have to include in an employee's income. Whether or not the benefits are taxable depends on the type of benefit and the reason an employee or officer receives it. In this chapter, we list and describe certain benefits and tell you if they are taxable or not.

Unless otherwise noted, you must report taxable benefits on a T4 Supplementary slip in box 14, "Employment income before deductions," and in box 40, "Other taxable allowances and benefits," or in some cases on the T4A Supplementary slip in box 28, "Other income."



There is a goods and services tax (GST) component on many of the taxable benefits you include in employment income for income tax purposes. We consider the GST component as a separate taxable benefit. The benefit is 7% of the amount of the taxable benefit. However, this does not apply to:

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

#### Note

You have to calculate the taxable GST component on benefits you paid to employees based on the gross amount of the benefits net of any provincial sales tax, without taking into account any amounts the employee reimbursed you for those benefits.

You can find more information about the GST component throughout this chapter when we explain each taxable benefit.

## Educational allowances

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** when employees have to live in a specific location, by reason of their employment, where educational instruction is not available in the employees' official language. The language of educational instruction primarily used in the school must be one of the two official languages of Canada. Other conditions are also related to that exemption. If you would like more information, contact your tax services office or tax centre.

If any part of the educational services you provide are taxable, calculate a taxable GST component of 7% net of any provincial sales tax.

## Employee counselling services

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

The taxable GST component on such a taxable benefit is 7% of the amounts you included in the benefit net of any provincial sales tax.

Some employee counselling services are exempt from tax. We do not consider counselling services to be a taxable benefit if they relate to:

- the mental or physical health (e.g., tobacco, drug, and alcohol abuse, as well as stress management) 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 reemployment; and
- an employee's retirement.

## Professional fees

If you pay or reimburse professional membership dues because membership in the organization or association is a condition of employment, there is no taxable benefit to the employee. Whether or not membership is a condition of employment depends on the facts in each situation. 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 other situations when you pay or reimburse an employee's professional membership dues, there is a taxable benefit to the employee.

## Gifts

We consider a gift, either in cash or in kind, that you give to an employee as a taxable benefit from employment.

If the gift is all in cash, there is no taxable GST component. If any part of the gift is in kind, calculate the taxable GST component on the taxable benefit as 7% of the amounts you included in the benefit net of any provincial sales tax.

#### Note

If the gift is for Christmas (or a similar occasion to Christmas) or a wedding and is \$100 or less, you do not have to include the amount in the employee's income if you do not claim the cost of the gift as an expense when you calculate your taxable income. This administrative policy only applies to one gift per year. However, you are allowed to give two gifts (with a value of \$100 or less each) in the year an employee marries, as long as one of them is a wedding gift.

When the gift's value exceeds \$100, or if the gift is not for Christmas (or for an occasion similar to Christmas) or a wedding, the total value of the gift is a taxable benefit.

For more information, see Interpretation Bulletin IT-470, *Employees' Fringe Benefits*.

## Awards for employees' suggestions

Many employers have plans to encourage the making of suggestions by employees for the improvement of processes, the saving of materials, etc., under which awards or payments are made to employees for acceptable ideas. Such awards, where there is clearly no acquisition of capital property, are income of the employees in spite of, in some cases, the suggestion may not be directly connected with the employees' duties.

When such an employee suggestion plan is open generally to all employees and awards are given for each suggestion that is helpful to sales, efficiency, etc., the employer may deduct the amount of the award as an expense unless it can be considered to be a payment for the acquisition of a capital asset. However, if the amount of the award is not more than \$100, the payment can be allowed as an expense to the employer even where it is for the acquisition of capital property.

For more information, see Interpretation Bulletin IT-316, *Awards for Employees' Suggestions and Inventions*.

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

There is no longer an income tax exemption for the first \$25,000 of coverage under a group term life insurance policy. This change applies to both current and former employees (retirees) who receive group term life insurance benefits from their present or former employer.

The employee benefit is the total of the premiums you paid for the following items:

- the employee's term insurance benefit;
- the employee's prepaid insurance benefit; and
- sales and excise taxes that apply to the employee's insurance coverage **minus** the premiums and any sales and excise taxes the employee paid, either directly or through reimbursements to you.

The taxable benefit for group term life insurance premiums paid by the employer or former employer is not subject to UI premiums. However, this benefit is subject to CPP contributions and income tax deductions.

As the employer you have to report this benefit for current employees on a T4 Supplementary slip, and for former employees on a T4A Supplementary slip. The \$500 reporting threshold for T4A Supplementary slips described in Chapter 6 of the *Employers' Guide to Payroll Deductions — Basic Information* will not apply. If you provide group term life insurance taxable benefits to former employees or employees of a multi-employer benefit plan, you **always** have to prepare a T4A Supplementary slip, even if the benefit is less than \$500.

For more information, see the publication called *Employer-Provided Group Term Life Insurance*, which is available at your tax services office or tax centre.

### Note

In Ontario, the taxable benefit for certain insurance premiums that employers pay is affected by the 8% provincial sales tax.

New measures that the province of Quebec has adopted now impose a taxable benefit on the total amount of group life insurance premiums that an employer located in Quebec pays.

For more details, contact your tax services office or tax centre.

## Holiday trips, other prizes, and incentive awards

We consider a holiday trip, an all-expenses-paid vacation, or any other award you give to an employee as a taxable benefit from employment. The value of the benefit is the fair market value of the trip or vacation.

If you give an employee a prize or an award related to sales or other work performance, we consider the amount the employee receives as employment income. This applies whether the payment is in cash or in kind.

If a manufacturer of items or goods gives prizes, cash awards, or awards in kind **to the dealer** of the items or

goods, the manufacturer does not have to report the prizes or awards on an information slip. However, if the dealer passes the prizes or awards on to an employee, the dealer has to report the cash payment or the value of the benefit in boxes 14 and 40 on the employee's T4 Supplementary slip.

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

For more information, see Interpretation Bulletin IT-470, *Employees' Fringe Benefits*, and its Special Release.

There is no taxable GST component on the part of a prize or award that you give in cash. However, if any part of the prize or award is in kind, the taxable GST component on the taxable benefit is 7% of the amount included in the benefit net of any provincial sales tax.

## Housing, board, and lodging

If you provide an employee with a house, apartment, or similar accommodation rent-free or for less than the fair market value of such accommodation, we consider the employee as receiving a taxable benefit. As the employer, you have to estimate a reasonable amount for the benefit. This is usually the fair market value for the same type of accommodation **minus** any rent the employee paid. Report the taxable benefit on the employee's T4 Supplementary slip in box 14 and box 30, "Housing, board, and lodging."

If you provide a rent-free or low-rent residence or other accommodation to a **member of the clergy** who is in charge of, or ministers to, a diocese, parish, or congregation, you have to estimate the value of the benefit and report it on the individual's T4 Supplementary slip. This also applies to clergy members who occupy a full-time administrative position by appointment of a religious order or denomination. If the clergy members inform you in writing that they will claim a deduction from income for the residence or other accommodation, do not include the value of this benefit in their income for income tax deductions purposes. For information regarding CPP and UI see chapters 2 and 3 of the *Employers' Guide to Payroll Deductions — Basic Information*.

If you provide **free** board and lodging to an employee, we consider the employee as having received a taxable benefit. As a result, you must add to the employee's remuneration the fair market value of the board and lodging you provide. Report this amount on the employee's T4 Supplementary slip in box 14 and box 30, "Housing, board, and lodging."

If you provide **subsidized** board and lodging to an employee, determine the value of the benefit for board as described in the next section, "Subsidized meals." The lodging benefit is the fair market value of the accommodation, **minus** any amount the employee paid. Report the benefits on the employee's T4 Supplementary slip in box 14 and box 30, "Housing, board, and lodging."

There is an exception to these rules when you provide board and lodging to an employee who works at a remote location or a special work site. For more information, see "Employment at special work sites and remote work

locations" in Chapter 8 of the *Employers' Guide to Payroll Deductions — Basic Information*.

When you provide a house, apartment, or similar accommodation to an employee, the value of the accommodation is usually not subject to GST, as long as the employee occupies it for at least one month. To find out if the accommodation you provide to your employee is subject to GST, contact your tax services office for more information. If GST applies to the accommodation, calculate the taxable GST component as 7% of the amount of the benefit net of any provincial sales tax that you have to include in income without taking into account any amounts the employee reimbursed you.

### Subsidized meals

If you provide subsidized meals to an employee (e.g., in an employee dining room or cafeteria), we do not consider these meals as a taxable benefit as long as the employee pays a reasonable charge. A reasonable charge is one that covers the cost of the food, its preparation, and service. 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 box 30, "Housing, board, and lodging," on the employee's T4 Supplementary slip.

The taxable GST component on subsidized meals is 7% of the amounts you included in the benefit (net of any provincial sales tax) without taking into account any amounts the employee reimbursed you.

### Interest-free and low-interest loans

You have to include in income any benefits that an individual receives as a result of an interest-free or low-interest loan because of an office, an employment or shareholdings. The benefit is the amount of interest that the individual would have paid for the year at the prescribed interest rates (see "Prescribed rates of interest" later in this section) minus the amount of interest that the borrower pays on the loan in the year (or within 30 days after the end of the year). Some loans (see "Exceptions" later in this section) are excepted from this rule, and special rules apply to home-relocation loans (see "Home-relocation loans" later in this chapter.)

Include the benefit for employees in box 14, and enter it in box 36 of the T4 Supplementary slip. If you file a T4A Supplementary for a shareholder, enter the benefit in box 28, "Other income."

There is no taxable GST component on these benefits.

### Loans received because of employment

We consider an employee as receiving a taxable benefit if the employee receives a loan because of an office or employment or intended office or employment. Any individual can receive the loan, including the employee or the employee's spouse. A loan includes any other indebtedness (e.g., 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 period in the year during which it was outstanding;
  - B. 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 within 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 within 30 days after the end of the year.

#### Note

Sometimes these rules do not apply. For more information, see "Exceptions" on page 2-5.

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

#### Example of calculating taxable benefit

Joshua is your employee. He borrowed \$150,000 from you on January 2, 1995. The prescribed rate for the loan for 1995 is 6% for the first quarter of the year, 8% for the second quarter, 9% for the third quarter, and 7% for the last quarter. Joshua paid you \$3,000 interest on the loan within 30 days after the end of the year. Also, during the year, a company related to you paid \$1,000 interest on the loan on Joshua's behalf. Before the end of the same year, Joshua paid back the company that paid the \$1,000. You determine the benefit to include in Joshua's income as follows:

a)	Prescribed rate × loan amount for the period in the year:		
	■ 6% × \$150,000 × 1/4 = \$2,250		
	■ 8% × \$150,000 × 1/4 = 3,000		
	■ 9% × \$150,000 × 1/4 = 3,375		
	■ 7% × \$150,000 × 1/4 = 2,625.....		\$11,250
	<b>plus</b>		
b)	Amount a third party paid .....	<u>1,000</u>	
			\$12,250
	<b>minus</b>		
c)	Amount of interest paid (\$3,000 + \$1,000) = .....	\$4,000	
d)	Amount Joshua pays back .....	<u>1,000</u>	<u>5,000</u>
	<b>Joshua's taxable benefit.....</b>		<b>\$7,250</b>

## Loans received because of shareholdings

We consider loans received because of shareholdings as taxable benefits when the following three conditions are met:

- the loan is received by a person or a 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 a 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, we consider that the person or partnership (i.e., shareholder) received a benefit in the taxation year which 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 paid (e.g., the person or partnership) on each loan or debt in the year, or within 30 days after the end of the year.

### Note

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

## Exceptions

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

- a) 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 at the time the debt arose. This is the rate that would apply on a commercial loan the borrower received other than through an office, employment, or shareholding. This exception does not apply if a party who is not the borrower pays any part of the interest from the loan or debt.
- b) You include all or part of the loan in the income (e.g., a loan or debt forgiven in whole or in part) of a person or partnership.

## Home-relocation loans

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

- the employee or the employee's spouse moves to start work at a new location in Canada;

- the employee or the employee's spouse 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 receives the loan because of the employee's employment; and
- the employee designates the loan to be a home-relocation loan.

## Calculating the deduction

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

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

The result is the amount the employees can deduct on their income tax 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.
- A loan for a home-purchase is any part of a loan to an employee that was used to acquire or repay another loan to purchase 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.
- For a home-purchase loan or a home-relocation loan, the amount of interest you calculate as a benefit for loans received because of employment 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.
- A home-purchase loan or a home-relocation loan may have a term of repayment that is more than five years. In this case, we consider the balance owing at the end of five years (from the day the loan was made) to be a new home-purchase loan that the person receives on that date. To determine the benefit, use the prescribed rate in effect at that time.

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

Report the benefits in this way:

- If an employee receives a loan or incurs a debt because of employment, report the benefit on a T4 Supplementary slip. Enter the amount of the benefit in box 36 and box 14. Make sure you identify the amount the employee can deduct. In the footnotes area, enter: "Box 36, Home loan \$\_\_\_\_."

- 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 Supplementary slip. Enter the amount in box 28, "Other income," on the borrower's T4A Supplementary 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 (see the previous sections, "Loans received because of employment" or "Loans received because of shareholdings") 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 Supplementary slips.

### Prescribed rates of interest

The following chart shows the prescribed rates of interest for 1991 to 1995:

#### Quarterly rates

Quarter	1991	1992	1993	1994	1995
1st	13%	9%	8%	5%	6%
2nd	11%	8%	7%	4%	8%
3rd	10%	7%	6%	6%	9%
4th	9%	6%	5%	7%	7%

### Medical expenses you pay

If you pay for or provide an amount to pay for an employee's medical expenses in a taxation year, we consider these amounts as a taxable benefit to the employee. For more information, see Interpretation Bulletin IT-519, *Medical Expenses and Disability Tax Credits and Attendant Care Expense Deduction*.

#### Note

Some medical expenses that qualify for the medical expense tax credit may be subject to GST. Any taxable GST component on such a taxable benefit is 7% of the amounts you included in the benefit net of any provincial sales tax. If you have any questions about how the GST applies in this case, contact your tax services office or tax centre.

### Municipal officer's expense allowance

A municipal corporation or board may pay an 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 total salary and allowances, the excess amount is a taxable benefit. Enter it in box 40, and include the amount in box 14 of the T4 Supplementary slip. In the footnotes area of the T4 Supplementary slip, enter: "Municipal officer's allowance, not included in box 40, \$\_\_\_\_."

If the expense allowance is **not more than one-third** of the officer's total salary and allowances, do not include this amount in the officer's income. In the footnotes area of the T4 Supplementary slip, enter "Municipal officer's allowance, not included in box 40, \$\_\_\_\_."

There is no taxable GST component on this type of allowance.

If you would like more information, see Interpretation Bulletin IT-292, *Taxation of Elected Officers of Incorporated Municipalities, School Boards, Municipal Commissions and Similar Bodies*, available at your tax services office or tax centre.

### Premiums under provincial hospitalization, medical care insurance, and certain federal government plans

An employee may be paying premiums or contributing to a provincial hospital or medical care insurance plan. If this is the case, we consider the amount you pay as a taxable benefit to the employee if you:

- pay all or part of these amounts out of your own funds; or
- pay an amount to the employee for these premiums.

In addition, 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 Supplementary slip. In the footnotes area, enter: "Box 28, Medical premium benefit: \$\_\_\_\_." In box 38, enter code 18. If you need more information, see Interpretation Bulletin IT-247, *Employer's Contribution to Pensioners' Premiums Under Provincial Medical and Hospital Services Plans*.

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 Armed Forces serving outside Canada.

There is no taxable GST component on this type of benefit.

As an **employer**, if you have to pay amounts to a provincial or territorial authority that administers a hospital or medical insurance plan, we do not consider the payments you make as a taxable benefit to employees.

### Registered retirement savings plans (RRSPs)

We consider contributions you make to an employee's RRSP as a taxable benefit to the employee. This does not include an amount you withheld from the employee's remuneration and contributed on the employee's behalf.

There is no taxable GST component on this benefit.

## Stock options

When a corporation agrees to sell or issue its shares to employees, the employees may receive taxable benefits. The taxable benefit is the difference between the fair market value of the shares when the employees acquire them, and the amount paid, or to be paid, for them. 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.

There is no taxable GST component on this benefit.

Include this benefit in box 14 and report it in box 38 of the T4 Supplementary slip. Indicate the deduction the employee can claim in the footnotes area of the T4 Supplementary slip. This amount is **one-quarter** of the amount you include in box 38.

There are two sections in the *Income Tax Act* that entitle an employee to claim a stock option and shares deduction:

- paragraph 110(1)(d) for all other shares and options; and
- paragraph 110(1)(d.1) for shares or options a Canadian-controlled private corporation issues.

Make sure you indicate the correct section in the footnotes area of the T4 Supplementary slip.

### For paragraph 110(1)(d)

We consider the employee to have received the benefit in the same year he or she acquired the shares.

The employee can claim a deduction under paragraph 110(1)(d) of the *Income Tax Act* after February 15, 1984, if:

- a corporation 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;
- the employee dealt at arm's length with these corporations immediately after the agreement was made;
- the share was a prescribed share (as defined in the *Income Tax Regulations*) at the time of its issue or sale; and
- the price of the share is not less than its fair market value at the time the agreement was made.

The employee's deduction is one-quarter of the amount of the benefit that arises because shares were acquired, or rights for shares were transferred or otherwise disposed of after 1989. In the footnotes area of the T4 Supplementary slip, identify the amount of the deduction the employee can claim under paragraph 110(1)(d) of the *Income Tax Act*. To do this, enter "Stock option 110(1)(d) \$\_\_\_\_." This amount is one-quarter of the amount in box 38.

#### Note

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

### For paragraph 110(1)(d.1)

We consider the employee to have received the benefit in the year the employee disposes of the shares, and **not** in the year the employee acquires them if:

- at the time 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 immediately 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 that the employee can claim is one-quarter of the amount of the benefit for shares disposed of or exchanged after 1989. In the footnotes area of the T4 Supplementary slip, identify the amount of the deduction the employee can claim under paragraph 110(1)(d.1). To do this, enter "Stock option 110(1)(d.1) \$\_\_\_\_." This amount is one-quarter of the amount in box 38.

#### Note

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

For more information on stock options and shares, see Interpretation Bulletin IT-113, *Benefits to Employees - Stock Options*.

## Spouse's travelling expenses

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

**We do not consider** the reimbursement as a taxable benefit if the spouse went at your request and was mostly engaged in business activities during the trip. For more information, see Interpretation Bulletin IT-131, *Convention Expenses*.

The taxable GST component on this type of taxable benefit is 7% of the amounts you included in the benefit (net of any provincial sales tax).

#### Note

The term spouse applies to a legally married spouse and a common-law spouse as defined under subsection 252(4) of the *Income Tax Act*.

## Travelling allowances to a part-time employee

If you give a part-time employee a reasonable allowance or reimburse the employee for travelling expenses to and from a part-time job, you do not have to include the amount in the employee's income. This applies as long as:

- you and the part-time employee are dealing at arm's length;

- during the period the part-time employee incurred the expenses, the part-time employee had other employment or carried on a business; and
- the part-time employee performed the duties at a location no less than 80 kilometres from both the employee's home and principal place of employment or business.

For more information, see Interpretation Bulletin IT-522, *Vehicle and Other Travelling Expenses - Employees*.

## Tuition fees, scholarships, and bursaries

If you pay tuition fees for an employee, or reimburse (in whole or in part) an employee for tuition fees the employee paid, we consider the fees to be a taxable benefit. You have to include the amount you pay in the employee's income for the year you made the payment. We also consider tuition fees you paid for a person related to your employee, as a benefit to the employee. If you reimburse the employee for books and supplies, these amounts are also taxable for the year you made the payment. However, we do not consider these amounts as tuition fees.

Tuition fees you pay are **not** taxable if you ask employees to take the course for your benefit rather than for their benefit. This is usually the case if the employees take the course during regular working hours and you give them time off with pay to take it. This can also occur if you ask the employees to take the course on their own time because there isn't enough time during regular working hours. Generally, when employees take courses on their own time, this usually indicates that the employees are taking the course for their personal benefit.

If a student, during or immediately after employment with you, arranges with you to receive a scholarship or bursary from you on condition that the student returns to your employ, we consider the amount of the scholarship or bursary to be the student's employment income. In box 28 of the T4A Supplementary slip, indicate the amount of the scholarship or bursary. In the footnotes area, enter: "Box 28, Scholarships, bursaries, or fellowships \$\_\_\_\_." In box 38, enter code 05.

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

For more information, see 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*.

Certain tuition fees may be subject to GST. If paying or providing tuition fees results in a taxable benefit to an employee and if the fees are subject to GST, the taxable GST component on the taxable benefit is 7% of the benefit net of any provincial sales tax.

## Wage-loss replacement plans or premiums paid to an income maintenance plan

If you pay a premium to a wage-loss replacement plan or an income maintenance plan on behalf of an employee, we consider the premium to be 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.

There is no taxable GST component on this benefit.

## Disability-related employment benefits

Certain benefits you provide to employees with a disability are 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 who has a severe and prolonged mobility impairment. The effects of the impairment must be such that the individual's ability to perform a basic activity of daily living is markedly restricted.

These transportation costs can include an allowance for taxis or specially designed public transport 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 any reasonable benefits for attendants to help the employees perform their duties of employment, these benefits are not taxable to the employee. The benefits can include readers for the blind, signers for the deaf, and coaches for the mentally handicapped.

### Note

Do not deduct tax, CPP contributions or UI premiums from these disability-related employment benefits.

## Group Disability Benefits — Insolvent Insurer

### Proposed Legislation — From tax changes announced on April 26, 1995

The proposed legislation provides that, for purposes of paragraph 6(1)(f) 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 where the employer made contributions under the policy. This treatment will permit the continued deduction of contributions made by the employee to be taken into account in determining the amount to be included in the employee's income from employment under paragraph 6(1)(f).

A "disability policy" is a group disability insurance policy that provides periodic payments to individuals in respect of lost employment income.

The proposal will apply to top-up disability payment made after August 10, 1994.

For more information, contact your tax services office or tax centre.

## Discounts on merchandise and commissions on sales

If you usually sell merchandise to your employees at a discount, we do not usually consider the benefit they get from this as a taxable benefit. However, this does not apply:

- to a special arrangement you make with a particular employee or a select group of employees to buy merchandise at a discount;
- to an arrangement when you allow 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 when 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 paid.

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

If a taxable benefit arises under any discount arrangement, the taxable GST component on the benefit is 7% of the amounts included in the benefit net of any provincial sales tax.

## Premiums under a private health services plan

If you make contributions to private health services plans for employees, there is no taxable benefit to the employees.

Do not deduct income tax from benefits you provide to employees under private health services plans.

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

## Recreational facilities

Generally, if you supply recreational facilities for your employees' general use, the value of any benefit the employees receive when they use the facilities is **not taxable**. This applies whether you provide the facilities free of charge or for a fee.

If you pay fees for your employees to be members of a social or athletic club and it is clear that these memberships are primarily to your advantage, the fees you pay are **not taxable** benefits to the employees.

You usually have to include the value of meals, lodging, or both as a **taxable benefit** in your employees' remuneration if you provided it at a property you own (e.g., at a summer hotel or hunting lodge you maintain). The taxable GST component on this type of taxable benefit is 7% of the amounts included in the benefit net of any provincial sales tax.

## Moving expenses

When you transfer employees from one of your places of business to another, we do **not consider** the amount you pay or reimburse employees for certain moving expenses as 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 place when they have completed their employment duties there, the amount you pay is not a taxable benefit.

We do not consider the following expenses to be 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 employees are away;
- travelling costs (including a reasonable amount spent for meals and lodging) while employees and members of the employees' households were moving from old residences to new residences;
- the cost to employees of transporting or storing household effects while moving from their old residences to new residences;
- 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;
- mortgage discharge penalties;
- mortgage interest, property taxes, heat, hydro, insurance, and grounds maintenance costs to keep up old residences after the move, when all reasonable efforts to sell them have not been successful;
- charges to connect and install utilities, appliances, and fixtures that existed at old residences;
- adjustments and alterations to existing furniture and fixtures to arrange them in new residences, which include plumbing and electrical changes in new residences;
- automobile licences, inspections, and drivers' permit fees, if employees owned these items at the former location;
- legal fees and land transfer tax to buy new residences;
- the cost to revise wills, if needed because of the move;



- reasonable temporary living expenses while waiting to occupy new, permanent accommodations;
- long-distance telephone charges that relate to selling old residences;
- loss on selling old residences as outlined in paragraph 37 of Interpretation Bulletin IT-470, *Employees' Fringe Benefits*; and
- interest costs on bridge financing to buy new residences, as long as all reasonable efforts have been made to sell old residences.

If you pay or reimburse moving costs that we do not list above, we may consider the amounts to be a taxable benefit to the employees.

The taxable GST component on this type of taxable benefit is 7% of the amounts included in the benefit net of any provincial sales tax.

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 up to \$650 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.

#### Example

- If your employees received a non-accountable allowance of less than \$650 and certify that they incurred expenses for the amount of the allowance, the employees will not be taxable on the amount they received.
- If your employees receive an amount that is more than \$650, the employees will not be taxable on part of the expenses they can certify, up to a maximum of \$650.

Do not report the amount of the reimbursement on a T4 or T4A Supplementary slips. Report any part of the non-accountable allowance that is more than \$650 in the usual way.

There is no taxable GST component on these allowances.

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 income tax returns. If you or your employees would like more information, see Interpretation Bulletin IT-178, *Moving Expenses*, and its Special Release, and Form T1-M, *Claim for Moving Expenses*. Both are available at any tax services office or tax centre.

## 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, **we do not consider** the employees as receiving a taxable benefit. This does not include an educational allowance you pay directly to your

employees, as we discussed earlier in this chapter under the heading "Educational allowances."

## Transportation to the job

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. For more information, see "Employment at special work sites and remote work locations" in Chapter 8 of the *Employers' Guide to Payroll Deductions — Basic Information*.

## Uniforms and special clothing

We do not consider employees to be receiving 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 particular hazards associated with the employment.

When you pay an accountable allowance (where receipts are required) to employees to purchase distinctive uniforms or special protective clothing, we consider this amount 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, we consider the reimbursements to be a **non-taxable benefit** if:

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

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

You may pay a laundry or dry cleaner to clean uniforms and special 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 to the employees.

## Volunteer firefighters — Expense allowance

Income up to \$500 that a volunteer firefighter receives as an expense allowance from a government, municipality, or other public authority is **not** a taxable benefit. Include any amounts that exceed \$500 in box 14 of the firefighter's T4 Supplementary slip.

## Employer-provided parking

Employer-provided parking generally constitutes a taxable benefit to the employee. The amount of the benefit is based on the fair market value of the parking **minus** any payment the employee makes to use the space.

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

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

To determine if an employee has received a benefit, you must separately examine each case.

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 are required to use their own automobile or one supplied by you on a regular basis in carrying out their duties.

If you are not sure if employer-provided parking is a taxable benefit or if you are unable to determine its value, contact your tax services office or tax centre.

# Chapter 3 — Non-Residents

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## Reminder

### 1. Reporting amounts paid to non-residents

**T4 Supplementary slip** — Use this form to report amounts you paid to non-resident employees who perform services in Canada.

**T4A-NR Supplementary slip** — Use this form to report amounts you paid to non-residents (individuals, partnerships, or corporations) who render services in Canada but who are not considered to be in regular or continuous employment.

**NR4 Supplementary slip** — Use this form to report all other amounts you paid to non-resident individuals and corporations of Canada.

### 2. Information Returns — Filing dates

**T4 and T4A-NR (information returns)** — Send these information returns on or before the last day of February following the calendar year in which you paid the remuneration.

**NR4 (information return)** — Send the return to us by the last day of March for the previous calendar year or within 90 days of the end of the taxation year of an estate or trust for that taxation year.

## Required withholding from amounts paid to non-resident persons performing services in Canada

A withholding of 15% is required from payments of fees, commissions or other amounts paid to non-resident individuals, partnerships or corporations, in respect of services rendered in Canada, **other than in the course of regular and continuous employment**. Payments in respect of regular and continuous employment in Canada, made to non-resident individuals, are not subject to 15% withholding but rather subject to tax deductions on a basis similar to residents.

For more information about remittances, see Chapter 5 "When and How to Remit Deductions" of the *Employers' Guide to Payroll Deductions — Basic Information*.

## Directors' fees

If non-resident individuals receive directors' fees for services they rendered in Canada, you have to consider the amount of the fees as salary or wages.

When you pay remuneration in addition to directors' fees, deduct income tax the same way you would for resident employees.

When you only pay directors' fees, the withholding tax is 15% of the gross amount.

For more information, see Interpretation Bulletins IT-377, *Director's, Executor's and Juror's Fees*, and IT-468, *Management or Administration Fees Paid to Non-Residents*, and Information Circular 75-6, *Required Withholding from Amounts Paid to Non-Resident Persons Performing Services in Canada*.

## Applications for a waiver or a reduction of withholding based on tax treaty protection or estimated income and expenses

The 15% withholding does not represent a definitive tax, rather the withholding is considered a payment on account of the non-resident's overall tax liability to Canada. Where the non-resident can adequately demonstrate, based on treaty protection or estimated income and expenses, that withholding normally required is in excess of the ultimate Canadian tax liability, the Department may reduce the withholding accordingly.

In order to ensure consideration of an application for either a waiver or reduction of the amount required to be withheld it should be submitted to the tax services office that serves the area where the services are rendered:

- no later than one month prior to the commencement of the engagement, when based on tax treaty protection;
- no later than two weeks (ten working days) prior to the commencement of the engagement, when based on estimated income and expenses.

It remains the responsibility of the non-resident to demonstrate to the appropriate tax services office that a waiver, or a reduction of the amount required to be withheld is justified. If a payer has not secured written notification in the form of a waiver or authorization from Revenue Canada to reduce withholding, the normal withholding will be mandatory.

## Penalties

If you do not deduct or withhold the correct amount of tax from an amount you paid to non-residents for services they rendered, you are liable to pay the tax yourself. In addition to the tax, you may have to pay a penalty, plus interest on the penalty, and interest on the amount that you should have originally deducted. We charge interest at prescribed rates per year. However, if you pay tax on a non-resident's behalf, you are entitled to recover the money from the non-resident.

## Which amounts do you report on a T4A-NR Supplementary slip?

See the samples at the back of this guide for an example of the T4A-NR Supplementary slip.

Use the T4A-NR Supplementary slip to report all amounts you paid to non-resident individuals and corporations for services they rendered in Canada that they did not perform in the ordinary course of an office or employment. For information on how to report these amounts, see "T4A-NR Supplementary slip" in Chapter 6 of the *Employers' Guide to Payroll Deductions — Basic Information*.

## T4A-NR Summary return

See the samples at the back of this guide for an example of the T4A-NR Summary.

Use the T4A-NR Summary return to report the totals of all the amounts you reported on the T4A-NR Supplementary slips.

Send us the information return (T4A-NR Supplementary slips and T4A-NR Summary return) on or before the last day of February following the calendar year in which you paid the remuneration.

## Non-resident employees who perform services in Canada

Employees not resident in Canada who are in regular and continuous employment in Canada are subject to tax deductions in the same way as Canadian residents. This applies whether or not the employer is a resident of Canada.

## Deducting income tax — Form TD1 — Personal Tax Credits Return

Non-residents employed in Canada and certain individuals that we consider to be employed in Canada can claim personal tax credits on their TD1 form. However, they can only do this if they are going to include 90% or more of their total world income for the year when they determine the taxable income they earned in Canada. Non-residents who report less than 90% of their total world income for the year cannot claim personal tax credits. In this case, they have to use claim code 0 on the TD1 form.

A person who claims personal tax credits for non-resident dependants, can only do so for a spouse, and, under certain conditions, for children, grandchildren, or for the children or grandchildren of a spouse. For more information, see sections 2 and 3 on the TD1 form.

For more information, see Interpretation Bulletins IT-161, *Non-Residents — Exemption from Tax Deductions at Source on Employment Income*, and its Special Release, IT-168, *Athletes and Players Employed by Football, Hockey and Similar Clubs*, IT-171, *Non-Resident Individuals — Computation of Taxable Income Earned in Canada and Non-Refunded Tax Credits*, IT-221, *Determination of an Individual's Residence Status*, and its Special Release, and IT-420, *Non-Residents — Income Earned in Canada*.

## Which payroll deduction tables should you use for non-residents?

Use the tables in *Payroll Deductions Tables for In Canada Beyond the Limits of Any Province or Outside Canada* for the following non-resident individuals:

- government employees engaged outside Canada to perform services outside Canada;
- teachers formerly resident in Canada whom we consider to be employed in Canada;
- workers employed in certain foreign or overseas employment;
- offshore oil and gas workers in Canada beyond the limits of any province; and
- students abroad who receive a taxable amount such as a scholarship, bursary, or research grant from a Canadian source.

These payroll deduction tables also apply to non-resident individuals engaged in Canadian employment. Examples of this are commuters, sojourners, or workers from abroad who work for a term or for seasonal periods in agricultural or other occupations. It can also include foreign students from abroad who are periodically employed or who receive a taxable amount such as a scholarship, bursary, or research grant from a Canadian source.

#### Note

Revenue Canada introduced the electronic version of *Payroll Deductions Tables (T4032)* and the *Payroll Deductions Supplementary Tables (T4008)*. This diskette contains the information to calculate the deductions on your employee's pay for all pay periods for each province and territory, and also for employees working outside Canada.

You can get TOD free of charge. For more information, contact your tax services office or tax centre.

To determine the amount of tax to withhold from non-resident employees, see Chapter 4, "Deducting Income Tax," of the *Employers' Guide To Payroll Deductions — Basic Information*.

### Remitting deductions

If you deduct amounts for tax, CPP, and UI from non-residents engaged in regular and continuous employment, send us the amounts in the same way you do for residents. Send in the deductions with Form PD7A, *Statement of Account for Source Deductions*. Unless you are an accelerated remitter your deductions must be received on or before the 15th day of the month following the month the deductions were made.

### Penalties

You are subject to penalties if you do not deduct tax from non-resident employees, including employees who are deemed residents because they lived in Canada for 183 days or more in the year. If this happens, you will be liable to pay as tax the amount you should have deducted. This will include a penalty, plus interest on the penalty, and interest on the amount that you should have deducted. We charge interest at prescribed rates per year. If you have to pay any tax on behalf of a non-resident employee, you can recover the tax from the employee.

### Which amounts do you report on a T4 Supplementary slip?

Use the T4 Supplementary slip to report salary, wages, bonuses, and other remuneration you paid to non-residents during the year in the usual course of an office (including that of a non-resident director) or employment. For more information, see "T4 Supplementary slip" in Chapter 6 of the *Employers' Guide to Payroll Deductions — Basic Information*. This information applies whether the person who receives the income is a resident or non-resident of Canada.

A non-resident of Canada employed by a Canadian employer can participate in that employer's registered pension plan or deferred profit-sharing plan. In this case, the employer has to report a pension adjustment (PA) in

box 52, "Pension adjustment (PA)," of the employee's T4 Supplementary slip.

### Foreign pension plan (FPP)

On December 18, 1992, the Department of Finance released draft legislation on retirement savings plans. The legislation included measures to ensure that the uniform limits on tax-deferred retirement savings also take into consideration savings under a foreign pension plan.

If you are contributing to a foreign pension plan for a non-resident of Canada who is in regular and continuous employment with you, you may have to declare, or elect to declare, a pension adjustment annually on the employee's T4 Supplementary slip.

If you have any questions about foreign pension plans, contact:

Registered Plans Division  
Revenue Canada  
400 Cumberland Street  
Ottawa ON K1A 0L8

You can also call the following numbers toll-free:

1-800-267-3100 (English)  
1-800-267-5565 (French)

### T4 Summary return

See the samples at the back of this guide for an example of the T4 Summary.

Use the T4 Summary return to report the totals of all the amounts you reported on the T4 Supplementary slips.

Send us the information return (T4 Supplementary slips and T4 Summary return) on or before the last day of February following the calendar year in which you paid the remuneration.

### Amounts you paid, other than for services performed in Canada, that are subject to non-resident withholding tax (Part XIII of the *Income Tax Act*)

If you are a Canadian (e.g., a tenant, mortgagor, or debtor) paying or crediting an amount to a non-resident, you may have to withhold tax on certain types of payments. Under Part XIII of the *Income Tax Act*, you have to withhold tax at the rate of 25% (subject to various tax conventions and agreements) from the gross amount you pay or credit to the non-resident.

Canadian-source income from which you have to deduct the 25% withholding tax includes:

- rent;
- management or administration fees or charges;
- interest, dividends, and patronage dividends;
- motion-picture film and videotape payments;
- superannuation and pension benefits (see the following note);

- RRSP payments, annuity payments, and retiring allowances;
- deferred profit-sharing plan benefits;
- royalties and similar payments; and
- alimony.

For a full description of payments paid or credited to a non-resident of Canada, that are subject to a withholding tax under Part XIII, see Information Circular 77-16, *Non-Resident Income Tax*.

For the applicable rate of Part XIII tax on amounts paid or credited to persons in treaty countries, see Information Circular 76-12, *Applicable Rate of Part XIII on Amounts Paid or Credited to Persons in Treaty Countries*, and its Special Release.

#### Note

If part of the pension income relates to employment outside Canada, it may be exempt from Canadian tax. For information on the exempt portion of a pension when an employee is a non-resident, see Interpretation Bulletin IT-76, *Exempt Portion of Pension When Employee Has Been a Non-Resident*.

### Reduction in the amount of non-resident tax required to be withheld

A non-resident of Canada who receives alimony, pension, and similar payments can apply for a reduction in the non-resident tax that you have to withhold. To do this, the non-resident should use Form NR5, *Application by a Non-Resident of Canada for a Reduction in the Amount of Non-Resident Tax Required to be Withheld*. For more information, see Interpretation Bulletin IT-163, *Election by Non-Resident Individuals on Certain Canadian Source Income*.

Non-residents who receive rental income from real property in Canada can request that the payers or their agents deduct tax on the net amount instead of the gross amount. To do this, non-residents have to complete Form NR6, *Undertaking to File an Income Tax Return by a Non-Resident Receiving Rent From Real Property or Receiving a Timber Royalty*. They should file this form on or before January 1 of the taxation year for which the request applies, or on or before the date the first rental payment is due. Although we accept late-filed NR6 forms, the effective date for withholding on the net amount will be the first day of the month in which we receive the form. Any gross rental income paid or credited to a non-resident before this effective date will be subject to the 25% withholding rate.

### Remitting deductions

Use the remittance portion (Part 2) of Form NR76, *Non-Resident Tax — Statement of Account*, to send us the tax you withheld under Part XIII of the *Income Tax Act*. The deductions you make during a month on a non-resident's Canadian income, taxable under Part XIII, must be received by the 15th day of the following month.

### Reporting amounts on an NR4 Supplementary slip

Use the NR4 Supplementary slip to report alimony, pensions, annuities, or investment income. This includes interest, dividends, rents, royalties, and estate or trust income, when these amounts are paid or credited to non-resident individuals, trusts, and corporations.

### NR4 Summary return

Use the NR4 Summary return to report all amounts you reported on the NR4 Supplementary slips.

Send the information return (NR4 Supplementary slips and NR4 Summary return) to us by the last day of March for the previous calendar year, or within 90 days of the end of the taxation year of an estate or trust for that taxation year.

For more information on your reporting obligation, please obtain the *Guide for Filing the New NR4 Return* from your tax services office or tax centre.

Do not include the NR4 Supplementary slip as part of a T4 or T4A information return.

### Application for a refund of tax overpayments

To get a refund of excess or incorrectly withheld Part XIII tax, the non-resident, payer, or disbursing agent must complete Form NR7-R, *Application for Refund of Non-Resident Tax*. This has to be done within two years of the end of the calendar year in which the tax was sent to us.

For more information on Part XIII tax, see Information Circular 77-16, *Non-Resident Income Tax*.

# Sample forms

## T4 Supplementary slip

Revenu Canada		Revenu Canada		T4 - 1995 Supplémentaire		STATEMENT OF REMUNERATION PAID ÉTAT DE LA RÉMUNÉRATION PAYÉE	
14	Employment income before deductions Revenus d'emploi avant retenues	16	Employee's CPP contributions Cotisations de l'employé au RPC	17	Employee's QPP contributions Cotisations de l'employé au RRQ	18	Employee's UI premiums Cotisations de l'employé à l'AC
20	Registered pension plan contributions Cotisations à un régime de pension agréé	22	Income tax deducted Impôt sur le revenu retenu	24	UI insurable earnings Gains assurables d'AC	26	CPP/QPP pensionable earnings Gains donnant droit à pension - RPC/RRQ
28	Exempt CPP/QPP UI Exemption	30	Housing, board, and lodging Logement, pension et repas	32	Travel in designated area Voyage dans une région désignée	34	Personal use of employer's auto Usage personnel de l'auto de l'employeur
36	Interest-free and low-interest loan Prêts sans intérêt ou à faible intérêt	38	Stock option benefits Avantages tirés d'une option d'achat d'actions	40	Other taxable allowances and benefits Autres allocations et avantages imposables	42	Employment commissions Commissions d'emploi
44	Union dues Cotisations syndicales	46	Charitable donations Dons de bienfaisance	50	Pension plan or DPSP registration number Numéro d'agrément d'un RPDS ou d'un régime de pension	52	Pension adjustment Facteur d'équivalence
10	Province of employment Province d'emploi	12	Social insurance number Numéro d'assurance sociale	Employee's name and address - Nom et adresse de l'employé			
Surname (in capital letters) Nom de famille (en lettres majuscules)		First name Prénom		Initials Initiales		Employer's name - Nom de l'employeur	
56		Employee no. - N° de l'employé		54		Account no. - N° de compte	
Footnotes - Notes:							
Return with T4 Summary return À retourner avec la déclaration T4 Sommaire <b>1</b>							

## T4A-NR Supplementary slip

Revenu Canada Customs, Excise and Taxation		Revenu Canada Accise, Douanes et Impôt		T4A-NR Supplémentaire - Supplémentaire Rev. 93		STATEMENT OF FEES, COMMISSIONS OR OTHER AMOUNTS PAID TO NON-RESIDENTS OF CANADA TO WHICH SUBSECTION 106(1) OF THE INCOME TAX REGULATIONS APPLIES ÉTAT DES HONORAIRES, DES COMMISSIONS OU D'AUTRES SOMMES PAYÉES À DES PERSONNES QUI NE RÉSIDENT PAS AU CANADA ET AUXQUELLES S'APPLIQUE LE PARAGRAPHE 106(1) DU RÈGLEMENT DE L'IMPÔT SUR LE REVENU				
YEAR ANNÉE	18	GROSS INCOME (SEE REVERSE) REVENU BRUT (VOIR AU VERSO)	20	TRAVEL EXPENSES FRAIS DE DÉPLACEMENT	22	INCOME TAX DEDUCTED IMPÔT SUR LE REVENU RETENU	24	PROVINCE OR TERRITORY WHERE SERVICES RENDERED PROVINCE OU TERRITOIRE OÙ LES SERVICES ONT ÉTÉ FOURNIS		
USE FORM T4 SUPPLEMENTARY TO REPORT AMOUNTS PAID FOR SERVICES PERFORMED IN THE ORDINARY COURSE OF AN OFFICE OR EMPLOYMENT. LES SOMMES PAYÉES POUR DES SERVICES RENDUS DANS LE COURS NORMAL D'UNE CHARGE OU D'UN EMPLOI SONT DÉCLARÉES SUR LE FEUILLET T4 SUPPLÉMENTAIRE.		12	FOREIGN SOCIAL SECURITY NUMBER NUMÉRO DE SÉCURITÉ SOCIALE À L'ÉTRANGER	14	CANADIAN SOCIAL INSURANCE NUMBER NUMÉRO D'ASSURANCE SOCIALE DU CANADA	16			PROFESSIONAL NAME (IF APPLICABLE) NOM PROFESSIONNEL (S'IL Y A LIEU)	
Non-Resident Recipient Surname First and Full Address Bénéficiaire non résident Nom de famille d'abord et adresse complète								EMPLOYER'S OR PAYER'S NAME NOM DE L'EMPLOYEUR OU DU PAYEUR		
								26		ACCOUNT NUMBER NUMÉRO DE COMPTE
Country Pays								RETURN WITH T4A-NR SUMMARY À RETOURNER AVEC LA T4A-NR SOMMAIRE <b>1</b>		

# T4 Summary



Revenue Canada / Revenu Canada

**T4**  
SUMMARY  
SOMMAIRE

**SUMMARY OF REMUNERATION PAID**  
(For the year ending December 31, 1995)

0505 44111

**1995**

Complete this return using the instructions in the *Employers' Guide to Payroll Deductions - Basic Information*.

Vous devez remplir cette déclaration selon les instructions du *Guide de l'employeur - Retenues sur la paie - Renseignements de base*.

**SOMMAIRE DE LA RÉMUNÉRATION PAYÉE**

(Pour l'année se terminant le 31 décembre 1995)

Copy 1  
Copie 1

If you file your T4 return on tape or diskette, you do not need to complete this form. For more information see the guide called *Computer Specifications for Data Filed on Magnetic Media*.  
Si vous produisez votre déclaration T4 sur disquette ou sur bande, vous n'avez pas à remplir ce formulaire. Pour plus de renseignements, consultez le guide intitulé *Spécifications informatiques pour données produites sur support magnétique*.

<b>Important</b> Employer's name and account number has to be the same as on your PD7A remittance form. You have to file the T4 Summary on or before February 29, 1996.  Le nom et le numéro de compte de l'employeur doivent être les mêmes que ceux qui figurent sur le formulaire de versement PD7A. Vous devez produire la déclaration T4 Sommaire au plus tard le 29 février 1996.	Account number Numéro de compte	Name and address of employer Nom et adresse de l'employeur
	Tax centre Centre fiscal	

**T4 Supplementary slips totals**  
For returns with over 300 T4 slips, please see instructions in the *Employers' Guide to Payroll Deductions - Basic Information* about the breakdown of large returns.  
**Taux des feuillets T4 Supplémentaire**  
Pour les déclarations renfermant plus de 300 feuillets T4, consultez le *Guide de l'employeur - Retenues sur la paie - Renseignements de base* pour la répartition des déclarations volumineuses.

Total number of T4 slips filed Nombre total de feuillets T4 produits	89					Of the total number at left, indicate how many T4 slips are for employees whose addresses are in the U.S.A. Du total inscrit à gauche, indiquez le nombre de feuillets T4 émis pour des employés dont l'adresse est aux E.-U.
Employment income before deductions Revenus d'emploi avant retenues	14					
Registered pension plan contributions Cotisations à un régime de pension agréé	20					
Pension adjustment Facteur d'équivalence	52					
UI insurable earnings Gains assurables d'AC	24					
Employee's CPP contributions Cotisations de l'employé au RPC	16					
Employer's CPP contributions Cotisations de l'employeur au RPC	27					
Employee's UI premiums Cotisations de l'employé à l'AC	18					
Employer's UI premiums Cotisations de l'employeur à l'AC	19					
Income tax deducted Impôt sur le revenu retenu	22					

Departmental use only Total deductions reported (16 + 27 + 18 + 19 + 22) Total des retenues déclarées (16 + 27 + 18 + 19 + 22)	80			We do not charge or refund a difference of less than \$2. Nous n'exigeons et ne remboursons pas une différence inférieure à 2 \$.
	Minus: remittances - Moins: versements 82			
	Difference - Différence			

Overpayment Païement en trop	84			* Balance due Solde à payer	86		
* If you have not paid the total deductions reported, include the balance with this completed return. You may have to pay a penalty for late payment if you have any balance owing. Si vous n'avez pas payé le montant total des retenues déclarées, veuillez joindre le solde à payer, à cette déclaration. Tout solde à payer est assujéti à une pénalité pour paiement tardif.							
Revenue Canada - issued registration number(s) for RPP or DPSP - Numéro(s) d'agrément émis par Revenu Canada pour le ou les RPA ou RPDB							
71		72		73		Amount enclosed Somme jointe	
Canadian-controlled private corporations or unincorporated employers: Enter the SIN of the proprietor(s) or principal owner(s). Sociétés privées sous contrôle canadien ou employeurs non constitués: inscrivez le NAS ou du des propriétaires.							
74		75		Réservé au Ministère			

Person to contact about this return - Personne avec qui communiquer au sujet de cette déclaration	76			Telephone number - Numéro de téléphone	78		
First name - Prénom		Surname - Nom de famille		Area code - Indicateur régional			

I, \_\_\_\_\_, certify that the information given in this T4 return (T4 Summary and related T4 Supplementary slips) is, to the best of my knowledge, correct and complete.  
Je, \_\_\_\_\_, atteste que les renseignements fournis dans cette déclaration T4 (la déclaration T4 Sommaire et les feuillets T4 Supplémentaire connexes) sont, à ma connaissance, exacts et complets.

Date: \_\_\_\_\_ Signature of authorized person - Signature de la personne autorisée: \_\_\_\_\_ Position or office - Titre ou poste: \_\_\_\_\_

**For departmental use only: please do not write in this area - Réservé au Ministère: N'écrivez rien ici**

90 Last to current Précédente à courante	91 No Non	93 Date	Memo - Note
2 No action Aucune mesure	2 Yes Oui	94 _____ A	
3 Other Autre		_____ B	

Prepared by - Etabli par: \_\_\_\_\_ Date: \_\_\_\_\_

Initials - Initiales: \_\_\_\_\_ Code 2: \_\_\_\_\_ Correspond: \_\_\_\_\_ Inc: \_\_\_\_\_ TPC - CCT: \_\_\_\_\_ Dressed - MAP: \_\_\_\_\_ Rev. - Rév: \_\_\_\_\_ No Accounts - Aucun n°: \_\_\_\_\_

Data: \_\_\_\_\_

\* Keep the working copy of this form for your records.  
\* Conservez le brouillon de ce formulaire dans vos dossiers.  
\* Send copies 1 and 2 of this form and copy 1 of the related T4 Supplementary slips to the appropriate tax centre address shown on the back of this form.  
\* Envoyez les copies 1 et 2 de ce formulaire ainsi que la copie 1 des feuillets T4 Supplémentaire connexes au centre fiscal approprié, dont l'adresse figure au verso de ce formulaire.  
Loi sur la protection des renseignements personnels, fichier numéro RCT/P-PU-005



# T4A-NR Summary



Revenue Canada / Revenu Canada

## T4A-NR

SUMMARY - SOMMAIRE

0404 44111

1994

Complete this return using the instructions in the *Employers' Guide to Payroll Deductions - Basic Information* or the *Payroll Deductions for Small Business Employers Guide*.  
 Cette déclaration doit être remplie selon les instructions du *Guide de l'employeur - Retenues sur la paie : Renseignements de base* ou du *guide des Retenues sur la paie des employeurs qui exploitent une petite entreprise*.

**SUMMARY OF REMUNERATION PAID**  
 (For the year ending December 31, 1994)  
**SOMMAIRE DE LA RÉMUNÉRATION PAYÉE**  
 (Pour l'année se terminant le 31 décembre 1994)

Copy 1 / Copie 1

If you file your T4A-NR return on tape or diskette, you no longer need to complete this form. See the guide called *Computer Specifications for Data Filed on Magnetic Media* for more information.  
 Si vous produisez votre déclaration T4A-NR sur disquette ou sur bande, vous n'avez plus à remplir ce formulaire. Consultez le guide *Spécifications informatiques pour données produites sur support magnétique* pour obtenir plus d'informations.

Important Employer's name and number must be the same as those shown on your PD7A remittance form.  Le nom et le numéro de l'employeur doivent être les mêmes que ceux qui figurent sur le formulaire de versement PD7A.	Account number Numéro de compte	Name and address of employer Nom et adresse de l'employeur
	Taxation centre Centre fiscal	DO code Code du BD

**T4A-NR Supplementary slips totals**  
 For returns with over 300 T4A-NR slips, please see instructions in the *Employers' Guide to Payroll Deductions - Basic Information* about the breakdown of large returns.  
**Totaux des feuilles T4A-NR Supplémentaire**  
 Pour les déclarations renfermant plus de 300 feuilles T4A-NR, consultez le *Guide de l'employeur - Retenues sur la paie : Renseignements de base* pour la répartition des déclarations volumineuses.

Total number of T4A-NR slips filed Nombre total de feuilles T4A-NR produits	88	Gross income Revenu brut	18
		Travel expenses Frais de déplacement	20

Departmental use only	Total tax deductions reported (per T4A-NR Supplementary slips) Total des retenues d'impôt déclarées (selon les feuilles T4A-NR Supplémentaire)	22
	Minus: remittances - Moins: versements	82
	Difference - Différence	
	Overpayment Montant du trop-payé	84
	Balance due Solde à payer	86

We do not charge or refund a difference of less than \$2.00.  
 Une différence inférieure à 2 \$ ne sera ni exigée ni remboursée par le Ministère.

\* If you have not paid the total deductions reported, include the balance with this completed return. You may have to pay a penalty for late payment if you have any balance owing.  
 Si vous n'avez pas payé le montant total des retenues déclarées, veuillez joindre le solde à payer, à la présente déclaration. Tout solde à payer est assujéti à une pénalité pour paiement tardif.

Canadian-controlled private corporations or unincorporated employers: list the social insurance number of the main shareholder(s) or proprietor(s).  
 Sociétés privées dont le contrôle est canadien ou employeurs non constitués: listez le numéro d'assurance sociale de l'(des)actionnaire(s) ou d'(des)propriétaire(s).

74

Réservé au Ministère

Person to contact about this return - Personne avec qui communiquer au sujet de cette déclaration

76

First name - Prénom

Surname - Nom de famille

78

Telephone number - Numéro de téléphone

Area code - Indicatif régional

**Certification - Attestation**

I certify that the information given in this T4A-NR return (T4A-NR Summary and related T4A-NR Supplementary slips) is, to the best of my knowledge, correct and complete.  
 J'atteste que les renseignements fournis dans cette déclaration T4A-NR (la T4A-NR Sommaire et les feuilles T4A-NR Supplémentaire connexe) sont, à ma connaissance, exacts et complets.

Date

Name and surname (in capital letters) - Nom et prénom (en lettres majuscules)

Signature of authorized person - Signature de la personne autorisée

Position or office - Titre ou poste

**For departmental use only: please do not write in this area - Réservé au Ministère: Ne rien écrire ici**

90	1	Last to current Précédente à courante	91	1	No Non	93	Date	Memo - Note
	2	No action Aucune mesure		2	Yes Oui	94	A	
	3	Other Autre				95	B	

Late-filing penalty  
 Pénalité pour production tardive

Prepared by - Établi par

Date

Code 2	Correspond	Inc.	TPC - CCT	Dressed - MAP	Rev. - Rév.	No Accounts - Aucun n°
Initials - Initiales						
Date						

\* Keep the working copy of this Summary for your records.  
 \* Conservez le brouillon du formulaire T4A-NR Sommaire pour vos dossiers.

\* Send copies 1 and 2 of this Summary and copy 1 of the related T4A-NR Supplementary to the appropriate taxation centre address in box A on the back of this form.  
 \* Envoyez les copies 1 et 2 du formulaire T4A-NR Sommaire ainsi que la copie 1 du T4A-NR Supplémentaire connexe au centre fiscal approprié, dont l'adresse figure à la case A au verso de ce formulaire.

Canadian Human Rights Act / Federal Information Bank Number: 15615.  
 Loi canadienne sur les droits de la personne: Numéro de la banque fédérale de données: 15615.

## Notes

## Notes

## Notes

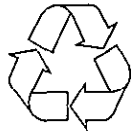


# Order Form

Please list the titles or numbers of the publications required in the boxes below. Print your name and address in the area provided, and submit your completed form to your Revenue Canada tax services office or tax centre.

Names of requested guides or other publications							
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Province					Postal code		

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