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Employers' Guide to Payroll Deductions

Taxable Benefits

97-98



Is this guide for you?

You can use this guide if you provide taxable benefits or allowances to your employees such as:

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

The instructions in this guide mainly apply to employers. However, we also provide certain guidelines for trustees, administrators, and corporate directors.

Problem Resolution Program

Revenue Canada is 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.

If you have a problem, you can call, write, or visit your tax services office. Also, you can write or visit your tax centre.

You can find the telephone numbers for your tax services office listed under "Revenue Canada" in the Government of Canada section of the telephone book. As for the address of your tax centre, it is listed at the end of this guide.

However, if, after this step, your problem is not resolved to your satisfaction, you should get in touch with the Problem Resolution Program co-ordinator of your tax services office.

TTY users

If you have a teletypewriter (TTY) attached to your telephone, you can call our toll-free, bilingual enquiry service at 1-800-665-0354 during regular hours of service.

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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.

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 0L5

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 the guide, and send it to your tax services office or tax centre. If you do not use the order form, you can order the publications from your tax services office by mail, telephone, or in person. You can also write or go to your tax centre.

You can find the telephone numbers for your tax services office listed under "Revenue Canada" in the Government of Canada section of the telephone book. As for the address of your tax centre, it is listed at the end of this guide.

If you mail the order form, allow three weeks for delivery.

Internet access

You can find many of Revenue Canada publications on the Internet at: <http://www.rc.gc.ca>

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What's New?

Harmonized sales tax (HST)

On April 1, 1997, provincial sales tax (PST) in three participating provinces, Newfoundland, Nova Scotia, and New Brunswick, was harmonized with goods and services tax (GST) to create HST. When we refer to Newfoundland, we include Labrador. HST applies to the same base of goods and services as GST at a rate of 15%. Of this, 7% is the federal part and 8% is the provincial part of HST. For more information on HST, see the guide called *General Information for GST/HST Registrants*, which you can get from any tax services office or tax centre.

Notice

Business Number (BN)

The BN is a numbering system that replaces the multiple numbers businesses had to use to do business with the federal government. The BN is based on a simple principle—one business, one number.

All new businesses will get a BN when they open any of the following business accounts with Revenue Canada:

- corporate income tax;
- import/export;
- payroll deductions; and
- goods and services tax/harmonized sales tax (GST/HST).

The BN also includes registered charity accounts.

Eventually, businesses will be able to use their BN for other Revenue Canada accounts and other federal and provincial government programs.

Work sheet – Calculating automobile benefits for 1997 and later taxation years

This work sheet has been revised to make it easier for you to complete. Please note that it is available only in this guide. You cannot get one from your tax services office or tax centre.

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

GST/HST applies to many of the taxable benefits you include in employment income of your employees for income tax purposes. You have to include any tax (GST and PST or HST) payable by you, as well as tax that would have been payable if you were not exempt from paying the tax because of the type of employer you are, or the nature of the use of the property.

In this guide, when we refer to GST/HST, please remember that where applicable, you still have to calculate the provincial sales tax (PST) and add it to the benefit. Calculate the GST before any PST.

Chapter 1 – 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 year¹; and

Note

For 1996 and later taxation years, any tax payable by you in buying or leasing an employer-provided automobile must be included when you calculate the automobile standby charge benefit. You have to include any tax (GST and PST or HST) payable by you, as well as tax that would have been payable if you were not exempt from paying the tax because of the type of employer you are or the nature of the use of the property.

- 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.

Note

If you are an employer registered for the GST/HST, you may have to remit the GST/HST relating to the standby charge and the operating cost benefit paid to your employees. For more information, see Chapter 3 "GST/HST and Employee Benefits."

Definitions

Read through the following definitions. They will help you understand the 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 a driver and eight passengers on highways and streets.

An automobile **does not** include:

- an ambulance;
- a motor vehicle bought primarily to use as a taxi;
- a bus used to transport passengers;
- a hearse used for funerals; or
- a van, pick-up truck, or similar vehicle that:

¹ You have to calculate the GST/HST for the standby charge based on the gross amount of the benefit without considering any amounts the employee reimbursed.

- carries not more than the driver and two passengers and in the taxation year it is bought is used primarily to transport goods or equipment in the course of business; or
- in the year it is 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 only on rails.

Automobile availability

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

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

Personal driving

Personal driving is any driving by an employee, or a person related to the employee, for purposes other than in the course of his or her employment. This includes:

- vacation trips;
- driving for personal use; and
- 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 identify the business and personal use amounts of the total kilometres driven in a calendar year by an employee or a person related to the employee.

Your automobile costs

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

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

you add the additions to the capital cost of the automobile for depreciation).

Note

When you calculate the standby charge, specialized equipment you add to the automobile to meet the requirements of the employment (e.g., cellular phones, two-way radios, heavy-duty suspension, power winches) is not considered as part of the automobile's cost.

Leasing costs

Leasing costs in determining the standby charge include:

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

Leasing costs do not include liability and collision insurance costs.

Operating costs

■ Operating costs include:

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

■ Operating costs do not include:

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

Standby charge

The standby charge 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.

Note

For 1996 and later taxation years, any tax payable by you in buying or leasing an employer-provided automobile must be included when you calculate the automobile standby charge benefit. You have to include any tax (GST and PST or HST), payable by you as well as tax that would have been payable if you were not exempt from the payment of that tax because of the type of employer you are or the nature of the use of the property.

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 9 to know how to round off the resulting amount);
- the personal driving the employee did while the automobile was available to the employee; and
- the amount of any payment (reimbursement) you received from the employee for the standby charge.

Fleet operations

You may operate a fleet or pool of automobiles from which an employee uses several automobiles during the year. If you assign an employee an automobile from a fleet or pool on a long-term or exclusive basis, you have to base the standby charge on the automobile you have assigned to the employee. However, if the fleet is mostly the same or if you group it into a few similar groups, you can calculate the standby charge based on the average cost of the group from which you provide the automobile. You and the employee must agree to this.

For more information, see Interpretation Bulletin IT-63, *Benefits, Including Standby Charge for an Automobile, from the Personal Use of a Motor Vehicle Supplied by an Employer – after 1992*, which is available at your tax services office or tax centre.

Automobiles you lease

Base the standby charge on:

- two-thirds of the cost of your automobile lease less the amount payable to the lessor for insuring against loss, damage, or liability resulting from use of the automobile;
- the number of 30-day periods in the year 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 9 to know how to round off the resulting amount);
- the personal driving the employee did while the automobile was available to the employee; and
- the amount of any payment (reimbursement) you received from the employee for the standby charge.

Lump-sum lease payments

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

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

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

- 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 GST/HST.

A lump-sum payment you **receive at the end** of a lease is considered 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 they can still request an income tax adjustment.

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 can 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.

Partnership's

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

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

To calculate the standby charge benefit, you can use the work sheet provided at page 9.

Operating cost benefit

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

If you pay any amount of operating expenses for 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 for 1997 and later taxation years of 14¢ per kilometre of personal use (including GST and PST or HST).

Example

In 1997, your employee used a car to travel 4,000 kilometres for personal use. The operating cost benefit is:

$$4,000 \text{ km} \times 14\text{¢ per km} = \$560$$

Note

If you pay any amount of operating expenses for the personal use of an automobile you provide to an employee whose principal source of employment is selling or leasing automobiles, you have to calculate the operating cost benefit using a charge based on a fixed rate for 1997 and later taxation years of 11¢ per kilometre of personal use (including GST and PST or HST).

Reimbursement for operating costs

If the employee reimburses you in the year or no later than 45 days after the end of the year for **all** operating expenses attributable to personal use, no benefit will accrue for operating costs in the year.

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

Example

In 1997, you provide your employee with an automobile.

The 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 part 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 have to calculate the operating cost benefit as follows:

$$10,000 \text{ km} \times 14\text{¢ per km} = \$1,400$$

$$\$1,400 - \$800 = \$600$$

The operating cost benefit will be \$600.

Note

When you use the fixed rate method, you still have to keep 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% in the course of his or her office or employment; and
- your employee notifies you in writing, before the end of the taxation year, to use this method.

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

Note

In some cases, this calculation may not give the employee possible largest deduction.

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 for 1997 and later taxation years

The following work sheet will help you calculate the value of an employee's automobile benefits. The amount you determine is 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. This work sheet is available only in this guide. You cannot get one from your tax services office or tax centre.

CALCULATING AUTOMOBILE BENEFITS FOR 1997 AND LATER TAXATION YEARS

Last name	First name	Social insurance number
Address		

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

Step 1 – Standby charge

Simplified calculation

Do this calculation if the following conditions are met:

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

Cost of automobile you provided *

(including GST and PST or HST) \$ _____ x 24% \$ _____

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

Minus: Employee reimbursements attributable to standby charge \$ _____

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

Detailed calculation

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

- a) For the meaning of **cost of automobile**, see the definitions at the beginning of this chapter.
- b) The highest average cost of automobiles is one of the following amounts, whichever is more:
 - the average cost of all automobiles you acquired to sell or lease in the year; or
 - the average cost of all **new** automobiles you acquired to sell or lease in the year.
- c) You must determine the number of days the automobile was available to the employee for the entire calendar year (including weekends and holidays).
- d) Calculate the standby charge at a reduced rate if you meet the following conditions:
 - you require employees to use the automobile to perform their duties;
 - the employee uses the automobile at least 90% of the time for business purposes; and
 - the number of personal-use kilometres in a taxation year is less than 12,000 kilometres.
- e) * When you divide the total days available by 30, round off the result to the nearest whole number if it is more than one.

Examples: Available 20 days ÷ 30 = 0.67 (do not round off)
 Available 130 days ÷ 30 = 4.33 (round to 4)
 Available 135 days ÷ 30 = 4.50 (round to 4)
 Available 140 days ÷ 30 = 4.67 (round to 5)

Choose 1, 2, or 3

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

Amount from 1, 2, or 3 above	Number of days auto available to employee	<p align="center">Reducing the standby charge (see d) above)</p> <p align="center">Personal kilometres ÷ ((($\frac{\text{Number of days auto available to employee}}{30^*}$) x 1,000)) = _____</p>	\$ _____ 4
Minus: Employee reimbursements attributable to standby charge			\$ _____ 5
Standby charge benefit (if negative, enter "0")			\$ _____ (B)

(see reverse)

Step 2 – Operating cost benefit

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

Basic calculation for 1997 and later taxation years

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

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

Personal kilometres driven x 11¢ = \$ 6

or

- the employee occupies any other employment

Personal kilometres driven x 14¢ = \$ 7

OR

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

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

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

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

Amount 6, 7, or 8 above \$

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

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

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

How to complete the T4 Supplementary slip – Benefits

When you pay a taxable automobile benefit, prepare the T4 Supplementary slip in the following way:

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 and is not subject to Employment Insurance premiums (EI).

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.

Shareholder's benefit

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

You must report the benefit on a T4 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.

However, 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.

To calculate the standby charge and the operating cost benefits, you can use the work sheet provided at page 9.

Automobile allowances

An **allowance** means any periodic or other payment that employees receive from an employer for using their own motor vehicle in connection with or in the course of their office or employment, 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 we define them in the next section.

There is no GST/HST on automobile allowances.

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.

An allowance for using a motor vehicle is considered 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*.

Automobile allowance rates

For 1997 and later taxation years, the rates are:

- 35¢ per kilometre for the first 5,000 kilometres;
- 29¢ per kilometre thereafter; and
- an additional 4¢ per kilometre for travel in the Yukon Territory and Northwest Territories.

Use these rates to determine the maximum amount you can deduct. The rates are a guideline to help you determine if a motor vehicle allowance paid to an employee is reasonable.

Reimbursement for travel expenses

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 for travel expenses

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 "Averaging automobile allowances" later in this section).

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

How to complete the T4 Supplementary slip – Allowances

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

Prepare the T4 Supplementary slip in the following way when:

- **You pay your employee an automobile allowance that you calculated only 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, Canada Pension Plan (CPP) contributions, or Employment Insurance (EI) premiums. Do not report this amount on the employee's T4 Supplementary slip.

- **You pay your employee a flat-rate automobile allowance.**

This allowance is not considered to be a reasonable allowance. The total amount you pay is subject to income tax, CPP, and EI 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. They have to complete Part A of Form T2200, *Declaration of Conditions of Employment*. You have to complete Part B and sign the forms to certify that your employees met the required conditions during the year. They do not have to submit this form with their income tax return. However, they have to keep it in case we ask to see it.

For more information on allowable expenses, see the guide called *Employment Expenses*.

- **You pay your employee an automobile allowance based on a per-kilometre rate that we do not consider to be reasonable.**

In this case, the total amount is subject to income tax, CPP, and EI 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. They have to complete Part A of Form T2200, *Declaration of Conditions of Employment*. You have to complete Part B and sign the forms to certify that your employees met the required conditions during the year. They do not have to submit this form with their income tax return. However, they have to keep it in case we ask to see it.

For more information on allowable expenses, see the guide called *Employment Expenses*.

- **You pay your employee a flat-rate automobile allowance and a reasonable per-kilometre automobile allowance.**

These allowances are considered 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 of allowances. When employees complete individual income tax returns, they include both automobile allowances in income and they can claim allowable expenses. They have to complete Part A of Form T2200, *Declaration of Conditions of Employment*. You have to complete Part B and sign the forms to certify that your employees met the required conditions during the year. They do not have to submit this form with their income tax return. However, they have to keep it in case we ask to see it.

You have to deduct income tax, CPP, and EI 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 automobile allowances

An automobile allowance must be based on a reasonable per-kilometre amount to be excluded from an employee's income. A flat-rate or lump-sum automobile allowance can not be averaged 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. However, we understand 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, you do not have to include them in the employee's income if the following conditions are met:

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

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.

You do not have to report the excess advances on the employee's T4 Supplementary slip.

Reducing tax deductions at source on automobile allowances

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

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

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

If you have a number of employees in the same situation, you can obtain a bulk waiver for the group instead of individual waivers. For more information, contact your tax services office.

Chapter 2 – Other Taxable Benefits

In this guide, when we refer to GST/HST, please remember that where applicable, you still have to calculate the provincial sales tax (PST) and add it to the benefit. Calculate the GST before any PST.

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."

Goods and services tax (GST) or harmonized sales tax (HST) applies to many of the taxable benefits you include in employment income for income tax purposes. The GST

is 7% and the HST is 15% 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 GST/HST on benefits you paid to employees based on the gross amount of the benefits without taking into account any amounts the employee reimbursed you for those benefits.

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

Note

If you are an employer registered for the GST/HST, you may have to remit the GST/HST relating to taxable benefits paid to your employees. For more information, see chapter 3 "GST/HST and Employee Benefits."

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.*

There is no GST/HST on educational allowances.

Employee counselling services

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

You have to include the GST/HST in such a benefit.

Some employee counselling services are exempt from tax. Counselling services are not 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 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.

You have to include the GST/HST in such a benefit.

Note

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

For more information, see Interpretation Bulletin IT-158, *Employees' Professional Membership Dues*.

Gifts

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

If the gift is all in cash, do not include GST/HST in the benefit. However, if the gift or any part of the gift is in kind, and is not an exempt or zero-rated supply, GST/HST applies on that part of the gift.

Note

If the gift is for Christmas (or an occasion like 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 is more than \$100, or if the gift is not for Christmas (or an occasion like Christmas) or a wedding, the 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 no acquisition of capital property, are income of the employees. This is the case even when suggestions are not directly connected with the employees' duties.

There is no GST/HST on the part of an award that you give in cash. However, if any part of the award is in kind, and is not an exempt or zero-rated supply, GST/HST applies on that part of the award.

Your employee suggestion plan may be open generally to all employees and awards given for each suggestion that is helpful to sales, efficiency, etc. In this case, you can deduct the amount of the award as a business expense unless it can be considered to be a payment to acquire a capital asset. However, if the award is not more than \$100, the payment can be allowed as an expense to the employer even when it is to acquire 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 following items:

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

The taxable benefit for group term life insurance premiums that an employer or former employer pays is not subject to Employment Insurance premiums. However, this benefit is subject to CPP contributions and income tax deductions.

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.

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

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

There is no GST/HST on this benefit.

Note

- In Ontario, the 8% provincial sales tax affects the taxable benefit for certain insurance premiums that employers pay.
- The Province of Quebec has adopted new measures for employers located in this province. These employers now have to calculate a taxable benefit on the total amount of group life insurance premiums that they pay for their employees.

Holiday trips, other prizes, and incentive awards

A holiday trip, an all-expenses-paid vacation, or any other award you give to an employee is considered 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, the amount the employee receives is an 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 GST/HST on the part of a prize or award that you give in cash. However, if the prize or award or any part of the prize or award is in kind, and is not exempt or zero-rated supply, GST/HST applies on that part of the prize or award.

Housing, board, and lodging

For 1997 and later taxation years, taxable benefits in kind are no longer insurable for EI purposes, except for the value of board and lodging enjoyed in a period if there are cash earnings paid in the period.

Housing

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, the employee is considered 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."

When you provide a house, apartment, or similar accommodation to an employee, the value of the accommodation is usually not subject to GST/HST, if the employee occupies it for at least one month. To find out if the accommodation you provide to your employee is subject to GST/HST, contact your tax services office. If GST/HST applies to the accommodation, add the GST/HST to the value of the benefit. You have to include that amount in the employee's income without considering any amounts he or she reimbursed you.

Member of the clergy

If by virtue of his or her employment, 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 about the Canada Pension Plan and Employment Insurance, see Chapters 2 and 3 of the *Employers' Guide to Payroll Deductions – Basic Information*.

For more information, see Interpretation Bulletin IT-141, *Clergymen's Residences*.

Free board and lodging

If you provide free board and lodging to an employee, the employee receives a taxable benefit. As a result, you must add to the employee's remuneration the fair market value of the 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."

Subsidized 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."

Subsidized meals

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

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

Exception to the rules

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*.

Housing and travel assistance benefits in a prescribed zone

If you have employees who live in prescribed zones and you pay them housing and travel assistance benefits, you have to include these amounts on their T4 Supplementary slips as taxable benefits. There are four benefits that employers usually pay or give to employees in these zones.

- a) **Medical travel assistance** – Employees and members of their households use this benefit to travel to other areas to take advantage of medical services that are not available where they reside. Include this amount in boxes 32 and 14 of the T4 Supplementary slip. In the footnotes area, enter “Box 32, Medical travel \$_____.”

Note

You have to separate medical travel assistance from other types of travel. If you do not do this, we will consider all travel assistance as vacation travel, and the employee will not be entitled to claim a deduction for medical travel. In addition, we will limit the employee's deduction, as well as that of the members of the household, to two trips each.

- b) **Other travel assistance** – This benefit is for travel for any purpose other than business or medical reasons. It includes travel for vacation, bereavement, and compassionate reasons. Include this amount in boxes 32 and 14 of the T4 Supplementary slip.
- c) **The valuation of the housing benefit** – You have to put a value on and report all housing benefits you provide to your employee. This includes any utilities you subsidize or provide. Include this amount in boxes 30 and 14 of the T4 Supplementary slip.
- d) **Board and lodging at a special work site that is also considered as a prescribed zone** – Do not include in boxes 30 and 14 of the T4 Supplementary slip any board and lodging benefits an employee receives while working at a special work site. Show this amount as a footnote only. In the footnotes area, enter “Box 30, Special work site \$_____.”

Note

Include any GST/HST that applies to related benefits.

Benefits supplied by a third party

If you are a **third party** (a prime contractor or a subcontractor) and you supply benefits for board and lodging, or transportation to employees of another subcontractor, there are special instructions for reporting on the T4A Supplementary slip. For details, see “How to complete the T4A Supplementary slip,” box 28 – item 10, in Chapter 6 of the *Employers' Guide to Payroll Deductions – Basic Information*.

For more information, see the guide called *Employers' Guide – Housing and Travel Assistance Benefits Paid in Prescribed Zones*.

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, 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” on page 18) **minus** the amount of interest that the borrower pays on the loan in the year (or no later than 30 days after the end of the year). Special rules apply to certain loans and to home-relocation loans (see “Exceptions” and “Home-relocation loans” later in this section.)

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 GST/HST on these benefits.

Loans received because of employment

An employee receives a taxable benefit if he or she receives a loan because of an office or employment or intended office or employment. The loan can be received by 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; and
- b) the interest on the loan or debt that was paid or payable for the year by you the employer (for this purpose, an **employer** is a person or partnership that employed or intended to employ the individual, and also includes a person related to the person or partnership);
- minus the total of the following two amounts:**
- c) the interest for the year that any person or partnership paid on each loan or debt no later than 30 days after the end of the year; and
- d) any part of the amount in b) that the employee pays back to the employer no later than 30 days after the end of the year.

Note

Sometimes these rules do not apply. For more information, see the section called “Exceptions” on the next page.

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

Example of calculating taxable benefit

Joshua is your employee. He borrowed \$150,000 from you on January 2, 1997. The prescribed rate for the loan for 1997 is 4% for the first quarter of the year, 3% for the second quarter, and 4% for the third and the fourth quarters. Joshua paid you \$3,000 interest on the loan no later than 30 days after the end of the year. During the year, a company related to you paid \$1,000 interest on the loan for

Joshua. Before the end of the same year, Joshua repaid \$1,000 to the company. You determine the benefit to include in Joshua's income as follows:

a) Prescribed rate × loan amount for the period in the year:		
■ 4% × \$150,000 × 1/4 = \$1,500		
■ 3% × \$150,000 × 1/4 = 1,125		
■ 4% × \$150,000 × 1/4 = 1,500		
■ 4% × \$150,000 × 1/4 = 1,500.....		\$5,625
plus		
b) Amount a third party paid.....	<u>1,000</u>	
		\$6,625
minus		
c) Amount of interest paid		
(\$3,000 + \$1,000) =	\$4,000	
d) Amount Joshua repaid.....	<u>1,000</u>	<u>5,000</u>
Joshua's taxable benefit		<u>\$1,625</u>

Loans received because of shareholdings

Loans received because of shareholdings are considered 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, 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 no later than 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 one of the following occurs:

- The interest rate on the loan or debt equals or is more than the rate that two parties who deal with each other at arm's length would have agreed on when the debt arose. This is the rate that would apply on a commercial loan 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.
- You include all or part of the loan (e.g., a loan or debt forgiven in whole or in part) in the income of a person or partnership.

Home-purchase 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 acquire 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.

The benefit for the home-purchase loan is calculated as described in the section "Loans received because of employment" on page 16.

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

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

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

The benefit for the home-relocation loan is calculated as described in the section "Loans received because of employment" on page 16.

Note

We do not consider a loan received because of employment to be a taxable benefit for an employee when he or she meets the following three conditions:

- The employee is transferred to an area with higher housing costs.
- The employee owns a house just before relocating and buys a house at the new location.
- The amount of loan is based on the market differential between the two locations for comparable houses.

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

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

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:

- the benefit calculated for the home-relocation loan using the formula found in the section "Loans received because of employment" on page 16;
- the interest (calculated at the prescribed rate) as if the home-relocation loan were for \$25,000; or
- the benefit that you included in the employee's income for loans received because of employment in the year (see the section "Loans received because of employment" on page 16 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.

How do you report 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 1996 and 1997:

Quarterly rates		
Quarter	1996	1997
1st	7%	4%
2nd	6%	3%
3rd	5%	4%
4th	5%	4%

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 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 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 GST/HST on this type of allowance.

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

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."*

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

An employer may be paying premiums or contributing to a provincial hospital or medical care insurance plan for an employee. If this is the case, the amount you pay is considered 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.

Also, if you are the former employer of an employee who has retired, any amount you pay as a contribution to a provincial health services insurance plan for the retired employee is a taxable benefit. Report this benefit in box 28 of a T4A Supplementary slip. In the footnotes area, enter: "Box 28, Medical premium benefit: \$____." In box 38, enter code 18. For 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 the Canadian Forces serving outside Canada.

There is no GST/HST on this type of benefit.

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

Medical expenses you pay

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

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

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

Registered retirement savings plans (RRSPs)

Contributions you make to an employee's RRSP are considered as a taxable benefit to the employee. This does not include an amount you withheld from the employee's remuneration and contributed for the employee.

There is no GST/HST 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 GST/HST 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)

The employee receives 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*) when issued or sold; and
- the price of the share is not less than its fair market value when 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)

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

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

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

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

The deduction 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.

The reimbursement is **not considered** 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*.

If GST/HST applies on this type of benefit, you have to include GST/HST in the value of the benefit.

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, Travel and Sales Expenses of Employees* (paragraph 57).

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, the fees are a taxable benefit. You have to include the amount you pay in the employee's income for the year you made the payment. Tuition fees you paid for a person related to your employee is also 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, these amounts are not considered 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.

A student, during or right after employment with you, may arrange with you to receive a scholarship or bursary from you on condition that the student returns to your employ. In this situation, the amount of the scholarship or bursary is 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/HST. If paying or providing tuition fees results in a taxable benefit to an employee and if the fees are subject to GST/HST, add the GST/HST to the value of the benefit.

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 for an employee, the premium is a taxable benefit if you pay it to a **non-group** plan that is:

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

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

There is no GST/HST 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, Canada Pension Plan contributions, or Employment Insurance premiums from these disability-related employment benefits.

Group disability benefits – Insolvent insurer

Tax change announced on April 26, 1995

The proposed change 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 permits 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 for lost employment income.

The proposal will apply to any 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 sell merchandise to your employees at a **discount**, the benefit they get from this is not usually considered as a taxable benefit. However, this does not apply:

- to a special arrangement you make with an employee or a group of employees to buy merchandise at a discount;
- to an arrangement 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 so that employees of one employer can buy merchandise at a discount from another employer.

If you sell merchandise to employees at below cost, the taxable benefit is the difference between the fair market value of the goods and the price the employees 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, and is not an exempt or zero-rated supply, add the GST/HST to the benefit.

Recreational facilities

Generally, if you supply recreational facilities (e.g., exercise rooms, swimming pools, gymnasiums) 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.

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).

Calculate the GST/HST on this type of benefit.

Club dues

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.

For more information, see Interpretation Bulletins IT-470, *Employees' Fringe Benefits*, and IT-148, *Recreational Properties and Club Dues*. You can also contact your tax services office or tax centre.

Moving expenses

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

Also, if you pay certain expenses to move employees, their families, and their household effects out of a remote place when they have completed their employment duties there, the amount you pay is not a taxable benefit.

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

- the cost of house-hunting trips to the new location, which includes child and pet-care expenses while 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;
- losses 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, the amounts may be considered as a taxable benefit to the employees.

If a taxable benefit arises under moving expenses, add the GST/HST to the benefit.

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 taxed on the amount they received.
- If your employees receive an amount that is more than \$650, the employees will not be taxed on part of the expenses they can certify, up to a maximum of \$650.

Do not report the amount of the reimbursement on 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 GST/HST 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, the employees **do not receive** 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

Employees do not receive a taxable benefit when:

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

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

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

- the law requires employees to wear the protective clothing on the work site;
- employees 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**. Calculate the GST/HST on this type of benefit.

You may pay a laundry or dry cleaner to clean uniforms and clothing for your employees or you may pay a reasonable allowance to your employees (when they do not have to provide a receipt). You may also reimburse the employees for these expenses when they present a receipt. If you do either of these, the amounts you pay are **not** taxable benefits 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 are more than \$500 in box 14 of the firefighter's T4 Supplementary slip.

EI insurable earnings

If the volunteer firefighter is engaged under a contract of service, the expense allowance of \$500 has to be included in the insurable earnings. If no contract of service is existing with the employer, the allowance is not insurable.

Terms and conditions of employment must be addressed before determining whether or not the allowance is included or excluded from the insurable earnings.

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

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.

There is GST/HST on this type of benefit.

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 who require parking, and the spaces are available on a first-come, first-served basis).

To determine if an employee has received a benefit, each case must be examined separately.

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

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

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

List of the benefits for which you have to enter footnotes on T4 and T4A Supplementary slips

When you provide certain benefits to your employees, you have to use the "Footnotes" area at the bottom of the T4 Supplementary slip and the "Footnote codes and explanation" area at the bottom of the T4A Supplementary slip to enter explanatory notes for these benefits.

The following is a list of these benefits and the page numbers where we discuss them in this guide:

■ a flat-rate automobile allowance and a reasonable per-kilometre automobile allowance.....	12
■ board and lodging at a special work site that is also considered as a prescribed zone	16
■ interest-free and low-interest loans (employee and shareholder).....	18
■ medical travel assistance	16
■ municipal officer's expense allowance	18
■ premiums under provincial hospitalization, medical care insurance, and certain government of Canada plans	19
■ stock options	19
■ scholarships, bursaries, or fellowships.....	20

Chapter 3 – GST/HST and Employee Benefits

You should read this chapter if you are an employer who is a GST/HST registrant. It will help you familiarize yourself with the GST/HST treatment of employee benefits. If you are not a GST/HST registrant, you do not have to read this chapter.

Revenue Canada is responsible for administering GST/HST. However, as a result of an agreement between the governments of Canada and Quebec, the ministère du Revenu du Québec (MRQ) administers GST/HST in that province. If your business is located in Quebec, please contact an MRQ office for information on the GST/HST treatment of employee benefits.

Employee benefits

Salaries, wages, commissions, and other cash remuneration, including gratuities, you pay to employees are not subject to GST/HST. However, non-monetary means of compensating employees, commonly referred to as fringe or employee benefits, may be subject to GST/HST.

For the most part, the GST/HST treatment of these benefits is based on their treatment under the *Income Tax Act*. Generally, if a benefit is taxable for income tax purposes, you will be considered to have made a supply of a good or service to the employee. If the good or service that gives rise to the taxable benefit is subject to GST/HST, you are considered to have collected GST/HST on that benefit. However, there are situations where you will not be considered to have collected GST/HST on taxable benefits given to employees. We explain these situations in the following section.

Situations where you will not be considered to have collected GST/HST on taxable benefits given to employees

You will not be considered to have collected GST/HST on taxable benefits given to employees in the following situations:

- when the goods or services that give rise to a taxable benefit are GST/HST-exempt or zero-rated;
- when the goods or services that give rise to a taxable benefit are an **allowance** included in the income of the employee under paragraph 6(1)(b) of the *Income Tax Act*, such as a non-reasonable allowance for automobile expenses; and
- when you are restricted from claiming an input tax credit for the GST/HST you paid or owe on the goods and services which give rise to the taxable benefit (see "ITC restrictions" on page 26.)

In addition, if the taxable benefit is for the standby charge of an automobile or aircraft, you will not be considered to have collected GST/HST on this benefit in the following situations:

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

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

***Note**

To make this election, complete Form GST30, *Election for Passenger Vehicles or Aircraft to be Deemed to be Used Exclusively in Non-Commercial Activities*, or a statement containing the same information. You do not have to file this form or statement, but you must keep it with your records for audit purposes. For more information about this election, see GST Memorandum 400-3-2-1, *Automobile Benefits*, or contact your tax services office or tax centre.

When are you considered to have collected GST/HST?

You are considered to have collected GST/HST on a taxable benefit subject to GST/HST at the end of February in the year following the year in which you gave the benefit to the employee. This corresponds with the deadline for calculating employee taxable benefits for income tax purposes and for issuing T4 Supplementary slips. For example, for taxable benefits you gave to your employees during the 1997 taxation year, you are considered to have collected GST/HST at the end of February 1998. You have to include this amount in your GST/HST return for the reporting period that includes the last day of February 1998.

Example

You are a GST/HST registrant and have a monthly reporting period. At the end of February 1998, you calculated the total taxable benefits given to your employees for 1997, including any GST and PST or HST. You are considered to have collected GST/HST on the taxable benefits at the end of February 1998. In your February 1998 GST/HST return, you have to include the GST/HST relating to the taxable benefits given to your employees in 1997. You have to file this return by the end of March 1998.

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

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

Value of the benefit for GST/HST purposes

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

- the amount reported on the T4 or T4A Supplementary slip for the particular benefit; and
- if the taxable benefit is for a **standby charge or operating cost of an automobile**, the amount, if any, that the

employee or the employee's relative reimbursed you for that benefit.

Note

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

However, when an employee or an employee's relative has refunded an amount for a taxable benefit **other** than for a standby charge or operating cost of an automobile, you are considered to have collected an amount equal to 7/107 of GST or 15/115 of HST, on this reimbursement. In this situation, you have to include the GST/HST relating to this reimbursement in your GST/HST return for the reporting period that includes the date of the reimbursement.

Amount of GST/HST considered to be collected

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

Automobile operating cost benefits

For the 1997 taxation year, if the last establishment where your employee ordinarily worked or to which they ordinarily reported in the year is in a **participating province** (i.e., Newfoundland, Nova Scotia, and New Brunswick), the amount of HST considered to be collected is equal to 9.5% of the value of the benefit for GST/HST purposes as calculated above. However, for the 1998 taxation year and later, the amount of HST that you will be considered to have collected will be 11% of the value of the benefit.

If the last establishment where your employee ordinarily worked or to which he or she ordinarily reported in the year is in a **non-participating province** (i.e., the rest of Canada), the amount of GST considered to be collected is equal to 5% of the value of the benefit for GST/HST purposes as calculated above.

Benefits other than automobile operating cost

For the 1997 taxation year, if the last establishment where your employee ordinarily worked or to which they ordinarily reported in the year is in a **participating province** (i.e., Newfoundland, Nova Scotia, and New Brunswick), the amount of HST considered to be collected is equal to 12/112 of the value of the benefit for GST/HST purposes as calculated above. However, for the 1998 taxation year and later, the amount of HST that you will be considered to have collected will be equal to 14/114 of the value of the benefit.

If the last establishment where your employee ordinarily worked or to which they ordinarily reported in the year is in a **non-participating province** (i.e., the rest of Canada), this amount is equal to 6/106 of the value of the benefit for GST/HST purposes as calculated above.

Input tax credits (ITC)

As a registrant, you can claim an ITC to recover the GST/HST you paid or owe on the purchases and operating expenses related to your commercial activities. Generally, commercial activities include the supply of taxable goods and services. Taxable goods and services are those that are taxable at the rate of 15%, 7%, and 0%. For more information about what are considered to be commercial activities, see the guide called *General Information for GST/HST Registrants*.

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

ITC restrictions

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

Club memberships

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

Exclusive personal use

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

- The consumption, use, or enjoyment of the good or service by the employee or the employee's relative does not give rise to a taxable benefit for income tax purposes and no amounts were payable by the employee for this benefit. The most common type of non-taxable benefit is moving expenses paid by an employer. Moving expenses that are considered non-taxable benefits are discussed in the section "Moving expenses" on page 22 of this guide.
- During the same GST/HST reporting period you make a supply of the property to such a person for consideration that becomes due in that period and that is equal to its fair market value plus GST/HST.

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

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

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

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

For more information on ITCs relating to employee benefits, get GST Memorandum 400-3-2, *Employee and Shareholder Benefits*, or the guide called *General Information for GST/HST Registrants*.

Property acquired before 1991 or from a non-registrant

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

Example

You bought a passenger vehicle in 1990 and made it available to your employee throughout 1997. The passenger vehicle is used more than 90% in the commercial activities of your business. You report the value of the benefit, including GST and PST or HST, on the employee's T4 Supplementary slip. For GST/HST purposes, you will be considered to have collected GST/HST on this benefit even if you could not claim an ITC on the purchase of the passenger vehicle.

Summary

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

- Step 1** – Establish whether the benefit is taxable under the *Income Tax Act*, and subject to GST/HST (see the previous chapters). If the benefit is not taxable or is not subject to GST/HST, you are not considered to have collected any GST/HST on the benefit and, consequently, you will not have to remit any GST/HST on the benefit.
- Step 2** – For each taxable benefit, establish whether one of the situations listed in the section called "Situations where you will not be considered to have collected GST/HST on taxable benefits given to employees" on page 24, applies. If one of these

situations applies, you are not considered to have collected GST/HST on this benefit and, consequently, you will not have to remit any GST/HST on the benefit.

Step 3 – If you are considered to have collected GST/HST on a taxable benefit, you have to calculate the amount of GST/HST due (see “How do you calculate the amount of GST/HST you are considered to have collected?” on page 25).

Step 4 – Enter the amount of GST/HST due on your GST/HST return and send your remittance, if applicable, with your GST/HST return for the reporting period that includes the last day of February 1998*.

***Note**

The GST/HST amount may be due in a different reporting period if the GST/HST is for a reimbursement made by an employee or an employee’s relative in certain circumstances. For more information, see the note in the section “Value of the benefit for GST/HST purposes” on page 25.

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

Example 1: Automobile benefits in a non-participating province

As a corporation registered for GST/HST, you buy a vehicle that is used more than 50% in commercial activities, and is made available to your employee during 1997. The last establishment to which the employee ordinarily reported in the year for the corporation was in **Ontario**. Using the work sheet on page 9 called “Calculating Automobile Benefits for 1997 and later taxation years,” you calculated a taxable benefit (including GST and PST) of \$4,800 on the standby charge, and an operating cost benefit of \$600. You received a reimbursement of \$1,800 from your employee for the automobile operating costs within 45 days following the end of 1997. You did not include this amount as a benefit.

You claimed an ITC for the purchase of the automobile and also on the operating cost.

Since the benefit is taxable under the *Income Tax Act*, and no situations described on page 24 (where you are not considered to have collected GST on taxable benefits given to employees) apply, you calculate the GST remittance as follows:

Standby charge benefit

Taxable benefit reported on
T4 Supplementary slip..... \$4,800

GST considered to have been
collected on benefit $\$4,800 \times 6/106 = \271.70

Operating cost benefit

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

Employee partial reimbursement of
operating cost \$1,800

Total value of the benefit \$2,400

GST considered to have been
collected on benefit..... $\$2,400 \times 5\% = \120.00

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

You are considered to have collected \$391.70 GST at the end of February 1998. You have to include this amount on your GST/HST return for the reporting period that includes the last day of February 1998.

Example 2: Automobile benefits in a participating province

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

Standby charge benefit

Taxable benefit reported on
T4 Supplementary slip \$4,800

HST considered to have been
collected on benefit..... $\$4,800 \times 12/112 = \514.29

Operating cost benefit

Taxable benefit reported on
T4 Supplementary slip \$600

Employee partial reimbursement of
operating cost \$1,800

Total value of the benefit \$2,400

HST considered to have been
collected on benefit..... $\$2,400 \times 9.5\% = \228.00

**Total HST to be remitted on the automobile
benefit**..... \$742.29

You are considered to have collected \$742.29 HST at the end of February 1998. You have to include this amount on your GST/HST return for the reporting period that includes the last day of February 1998.

Note that for the 1998 taxation year, in participating provinces, the amount of HST considered to be collected will be 11% for automobile operating cost benefits and 14/114 for other benefits.

Example 3: Gifts

You bought a watch for \$460 (including GST and PST or HST) for your employee to mark the employee’s 25 years of service. You reported a taxable benefit of \$460 in boxes 14 and 40 of the employee’s T4 Supplementary slip. You could not claim an ITC because you bought the gift for the employee’s personal consumption, use, or enjoyment only. Since you cannot claim an ITC, you are not considered to have collected GST/HST and, consequently, you will not have to remit GST/HST on the benefit.

Example 4: Special clothing

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

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

Sample Forms

T4 Supplementary slip

Revenu Canada		Revenu Canada		T4 - 1997 Supplementary		STATEMENT OF REMUNERATION PAID		ÉTAT DE LA RÉMUNÉRATION PAYÉE		R								
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 EI premiums Cotisations de l'employé à l'AE	20	Registered pension plan contributions Cotisations à un régime de pension agréé	22	Income tax deducted Impôt sur le revenu retenu	24	EI insurable earnings Gains assurables d'AE	26	CPP/QPP pensionable earnings Gains donnant droit à pension - RPC/RRQ	28	Exempt CPP/QPP EI RPCRRO AE Exemption	
30	Housing, board, and lodging Logement, pension et repas	32	Travel in a prescribed zone Voyage dans une zone visée par règlement	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 RPDB 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						Employer's name - Nom de l'employeur												
Surname (in capital letters) Nom de famille (en lettres majuscules)		First name Prénom		Initials Initiales		Employee no. - N° de l'employé						Business No. - N° d'entreprise						
Footnotes - Notes :																		

T4 Supplementary - Supplémentaire (97) 0762 Return with T4 Summary return / À retourner avec la déclaration T4 Sommaire 1

T4A Supplementary slip

Revenu Canada		Revenu Canada		T4A - 1997 Supplementary		STATEMENT OF PENSION, RETIREMENT, ANNUITY, AND OTHER INCOME		ÉTAT DU REVENU DE PENSION, DE RETRAITE, DE RENTE OU D'AUTRES SOURCES		Return with T4A Summary return / À retourner avec la déclaration T4A Sommaire		1			
16	Pension or superannuation Prestations de retraite ou autres pensions	18	Lump-sum payments Paiements forfaitaires	20	Self-employed commissions Commissions d'un travail indépendant	22	Income tax deducted Impôt sur le revenu retenu	24	Annuities Rentes	26	Retiring allowances Allocations de retraite	28	Other income Autres revenus		
30	Patronage allocations Répartitions selon l'apport commercial	32	Registered pension plan contributions (past service) Cotisations à un régime de pension agréé (services passés)	34	Pension adjustment Facteur d'équivalence	36	Pension plan registration number Numéro d'agrément du régime de pension	46	Charitable donations Dons de bienfaisance	12	Social insurance number Numéro d'assurance sociale	38	Footnote codes Codes de notes		
Recipient's name and address - Nom et adresse du bénéficiaire						Employer's or payer's name - Nom de l'employeur ou du payeur									
Surname (in capital letters) Nom de famille (en lettres majuscules)		First name Prénom		Initials Initiales		Recipient's number Numéro du bénéficiaire		Business Number - Numéro d'entreprise							
Footnote codes and explanation - Explication des codes de notes															

T4A Supplementary - Supplémentaire (97) 0182

Addresses of tax centres

Employers served by tax services office on the left side of the following list should communicate with the office shown on the right.

Bathurst, Charlottetown, Halifax, Moncton, Saint John, Sydney, and Newfoundland and Labrador	St. John's Tax Centre 290 Empire Ave. St. John's NF A1B 4J7
Chicoutimi, Québec, Rimouski, Rouyn-Noranda, Sherbrooke, and Trois-Rivières	Jonquière Tax Centre 2251 René Lévesque Blvd. (formerly De la Centrale Blvd.) Jonquière QC G7S 5P6
Laval, Montérégie-Rive-Sud, Montréal, and Outaouais	Shawinigan-Sud Tax Centre 4695 - 12th Avenue Shawinigan-Sud QC G9N 8L5
Ottawa, Toronto Centre, Toronto East, Toronto North, and Toronto West	Ottawa Tax Centre 875 Heron Road Ottawa ON K1A 1G9
Belleville, Hamilton, Kingston, Kitchener and Waterloo, London, Peterborough, St. Catharines, Sudbury, Thunder Bay, and Windsor	Sudbury Tax Services Office 1050 Notre-Dame Ave. Sudbury ON P3A 5X7
Calgary, Edmonton, Regina, Saskatoon, and Winnipeg	Winnipeg Tax Centre 66 Stapon Road Winnipeg MB R3C 3M2
Burnaby-Fraser, Northern BC and Yukon, Southern Interior BC, Vancouver, and Vancouver Island	Surrey Tax Centre 9755 King George Highway Surrey BC V3T 5P9

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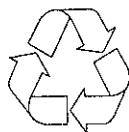
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