



Canada Revenue
Agency

Agence du revenu
du Canada

Employers' Guide

Taxable Benefits and Allowances

Is this guide for you?

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

- automobile benefits;
- board and lodging;
- gifts and awards;
- group term life insurance policies;
- interest-free or low-interest loans;
- meals;
- tool reimbursement or allowance;
- transit passes; and
- tuition fees.

The benefit/allowance can be paid to your employee in cash (such as a meal allowance) or provided to your employee in a manner other than cash (such as a parking space or a gift card).

You may have to include the value of the benefit/allowance in an employee's income, depending on the type of benefit or allowance and the reason you give it.

This guide explains your responsibilities and shows you how to calculate the value of the benefit/allowance.

For information on calculating the payroll deductions, visit our Web site at www.cra.gc.ca/payroll or see publication T4001, *Employers' Guide – Payroll Deductions and Remittances*.

For information on filing an information return, visit our Web site at www.cra.gc.ca/slips or see publication RC4120, *Employers' Guide – Filing the T4 Slip and Summary* and RC4157, *Deducting Income Tax on Pension and Other Income, and Filing the T4A Slip and Summary*.

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

If you have a visual impairment, you can get our publications in braille, large print, etext (CD or diskette), or MP3. For details, visit our Web site at www.cra.gc.ca/alternate or call **1-800-959-2221**.

What's new for 2008?

New residency deduction limits

In 2008, the residency deduction has increased for employees who live in a **prescribed zone** and who are entitled to claim it when they file their income tax returns. As a result, the reduction in payroll deductions these employees may request has changed. For more information, see "Chapter 4 – Housing and travel assistance benefits paid in a prescribed zone" on page 28.

Motor vehicle log books

Currently, employees and employers have to keep detailed records, including a detailed logbook, to support the deduction of motor vehicle expenses and to calculate taxable benefits. The Canada Revenue Agency is currently consulting with stakeholders to develop a policy that will reduce these requirements.

Penalties for late remittances and payments

For remittances and payments that are due on or after February 26, 2008 the 10% penalty has been replaced with a graduated penalty structure. For more information, visit our Web site at www.cra.gc.ca/payroll or see Guide T4001, *Employers' Guide – Payroll Deductions and Remittances*.

Table of contents

	Page		Page
Chapter 1 – Overview	5	Premiums under provincial hospitalization, medical care insurance, and certain Government of Canada plans	22
What are your responsibilities?	5	Professional membership dues.....	22
Benefits chart.....	6	Recreational facilities and club dues.....	22
Employee’s allowable employment expenses	6	Registered retirement savings plans (RRSPs).....	23
Chapter 2 – Automobile and motor vehicle benefits and allowances	6	Security options	23
Automobile.....	6	Social events	25
Motor vehicle	6	Spouse’s or common-law partner’s travelling expenses	25
Keeping records	6	Subsidized school services	25
Automobile and motor vehicle benefits	6	Tool reimbursement or allowance	25
Personal driving.....	7	Transit passes.....	25
Calculating automobile benefits	7	Transportation to and from the job	26
Benefit for motor vehicles not defined as an automobile	9	Travelling allowance.....	26
Automobile and motor vehicle allowances.....	9	Tuition fees, scholarships, and bursaries	26
Averaging allowances.....	11	Uniforms and special clothing.....	27
Chapter 3 – Other benefits and allowances	11	Wage-loss replacement plans or income maintenance plans.....	27
Board and lodging	11	Chapter 4 – Housing and travel assistance benefits paid in a prescribed zone	28
Board and lodging allowances paid to players on sports teams or members of recreation programs	12	Accommodation or utilities provided by the employer	28
Board, lodging, and transportation at special work sites and remote work locations	12	Board, lodging, and transportation at a special work site.....	29
Cellular phone service	13	Travel assistance benefits	29
Child care expenses	13	Chapter 5 – Remitting GST/HST on employee benefits	30
Counselling services.....	13	Employee benefits	31
Disability-related employment benefits	14	Situations where we do not consider you to have collected GST/HST	31
Discounts on merchandise and commissions from personal purchases	14	The date we consider you to have collected GST/HST	31
Educational allowances for children.....	14	How to calculate the amount of GST/HST we consider you to have collected.....	31
Gifts and awards.....	14	Input tax credits (ITCs).....	32
Group term life insurance policies – Employer-paid premiums	15	Property acquired before 1991 or from a non-registrant.....	33
Housing – Rent-free and low-rent.....	16	Summary	33
Interest-free and low-interest loans.....	17	Examples	33
Internet.....	18	Benefits chart	35
Meals	19	For more information	39
Medical expenses	19		
Moving expenses and relocation benefits	19		
Municipal officer’s expense allowance	21		
Parking	21		
Private health services plan premiums.....	22		

Chapter 1 – Overview

What are your responsibilities?

If you provide benefits or allowances to your employees, you always have to go through the same steps. If a step does not apply to you, skip it and go on to the next step.

- Calculate the value of the benefit or allowance;
- Calculate payroll deductions; and
- File an information return.

Calculate the value of the benefit or allowance

When you provide a taxable benefit/allowance to your employee as well as salary and wages, you have to include the value of the benefit/allowance in the employee's income. For instructions on how to calculate the value of a specific benefit/allowance, go to the section about that type of benefit/allowance.

Goods and services tax/harmonized sales tax (GST/HST) – When you calculate the value of the taxable benefit/allowance you provide to an employee, you may have to include an amount for (GST/HST) and provincial sales tax (PST).

This does not apply to:

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

For more information on exempt or zero-rated supplies, visit our Web site at www.cra.gc.ca/gsthst or see Guide RC4022, *General Information for GST/HST Registrants*.

The amount of tax you include is based on the gross amount of the benefits, without taking into account any amounts the employee reimbursed you for those benefits.

You may be exempt from paying the GST/HST because of the type of employer you are or the nature of the use of the property or service. In this case, you have to include the tax that would have been payable if you were not exempt.

For more information on how the GST/HST applies to a specific benefit/allowance, go to the section about that type of benefit/allowance. Remember that you still have to include any other taxes (for example PST) in the value of the benefit. Calculate the GST/HST before any other taxes.

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

Calculate payroll deductions

To calculate the total amount subject to payroll deductions, add the value of the taxable benefit or allowance to the employee's income each pay period and withhold deductions in the normal manner.

Canada Pension Plan (CPP) – When a benefit/allowance is taxable, it is also pensionable. This means you have to deduct CPP contributions from the employee's pay. It also means that you have to pay the employer's portion of CPP to CRA.

Employment Insurance (EI) – When a benefit/allowance is taxable and it is paid in cash, it is also insurable. This means you have to deduct EI premiums from the employee's pay. It also means that you have to pay the employer's portion of EI to CRA.

Generally, if it is a non-cash benefit, it is not insurable. Do not deduct EI premiums. Exceptions to this rule are:

- the value of board and lodging an employee receives during a period in which you pay the employee cash. For more information, see "Board and lodging" on page 11.
- employer-paid RRSP contributions when the employee can withdraw the amounts. For more information, see "Registered retirement savings plans (RRSPs)" on page 23.

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

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

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

For more information on calculating payroll deductions, visit our Web site at www.cra.gc.ca/payroll or see publication T4001, *Employers' Guide – Payroll Deductions and Remittances*.

File an information return

At the end of the year, or when you no longer have any employees, you have to file an information return.

- If you are the employer, report the value of the taxable benefit/allowance on a T4 slip in box 14, "Employment income." Also report the value of the taxable benefit/allowance in the "Other information" area at the bottom of the employee's slip and use code **40** unless we tell you to use a different code.
- If you are a third-party payer providing taxable benefits to employees of another employer, report them on a T4A slip in box 28, "Other income."

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

For more information on reporting benefits and allowances, visit our Web site at www.cra.gc.ca/slips or see Guides RC4120, *Employers' Guide – Filing the T4 Slip and Summary*, and RC4157, *Deducting Income Tax on Pension and Other Income, and Filing the T4A Slip and Summary*.

Benefits chart

Use the benefits chart on page 35 to find out if you should deduct CPP contributions and EI premiums on the **taxable** amounts, and which codes to use to report the taxable amounts on the employee's T4 slip. The chart also shows whether to include GST/HST in the value of the benefit for income tax purposes.

Employee's allowable employment expenses

Your employee may be able to claim certain employment expenses on his or her individual tax return. It is the employee's responsibility to claim the expenses and to maintain records to support the claim.

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

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

Chapter 2 – Automobile and motor vehicle benefits and allowances

In this chapter, the term "vehicle" includes both automobiles and motor vehicles not defined as an automobile. Note that although an "automobile" is a kind of "motor vehicle," we treat them differently for tax purposes.

Automobile

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

An automobile **does not** include:

- an ambulance;
- clearly marked police or fire emergency-response vehicles;
- clearly marked emergency medical response vehicles that you use to carry emergency medical equipment and one or more emergency medical attendants or paramedics;
- a motor vehicle you bought to use primarily (more than 50% of the time) as a taxi, a bus used in a business of

transporting passengers, or a hearse in a funeral business;

- a motor vehicle you bought to sell, rent, or lease in a motor vehicle sales, rental, or leasing business, except for benefits arising from personal use of an automobile;
- a motor vehicle (other than a hearse) you bought to use in a funeral business to transport passengers, except for benefits arising from personal use of an automobile;
- a van, pick-up truck, or similar vehicle that:
 - can seat no more than the driver and two passengers, and in the year it is acquired or leased is used primarily to transport goods or equipment in the course of business; or
 - in the year it is acquired or leased, is used mainly (90% or more of the time) to transport goods, equipment, or passengers in the course of business; or

Note

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

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

Motor vehicle

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

Keeping records

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

Automobile and motor vehicle benefits

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

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

For more information, see “Automobile and motor vehicle allowances” on page 9.

If the vehicle you provide to your employee is not included in the definition of automobile as described on page 6, see “Benefit for motor vehicles not defined as an automobile” on page 9.

Personal driving

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

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

This includes:

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

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

Calculating automobile benefits

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

- a standby charge for the year; **and**
 - an operating expense benefit for the year;
- minus**
- any reimbursements employees make in the year for benefits you otherwise include in their income for the standby charge or the operating expenses.

Calculating a standby charge

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

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

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

Automobile you own

Base the standby charge on:

- 2% of the automobile’s cost to you;
- the number of 30-day periods in the year the automobile was available to the employee;
- the personal driving done while the automobile was available to the employee; and

- the amount of any payment (reimbursement) you got from the employee for the standby charge.

Your automobile costs

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

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

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

Availability

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

Fleet operations

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

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

Automobile you lease

Base the standby charge on:

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

Your leasing costs

Leasing costs of your automobile used in calculating the standby charge include:

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

Leasing costs do not include liability and collision insurance costs.

Lump-sum lease payments

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

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

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

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

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

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

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

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

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

Employees who sell or lease automobiles

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

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

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

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

Reducing the standby charge

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

Partnerships

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

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

Calculating an operating expense benefit

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

Operating expenses include:

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

Operating expenses **do not** include:

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

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

Optional calculation

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

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

If **all** of these three conditions are met, calculate the operating expense benefit of the automobile at **1/2 of the standby charge** before deducting any payments (reimbursements) your employee or a person related to your employee makes. In some cases, this optional calculation may result in a higher benefit amount than the fixed-rate calculation.

Fixed-rate calculation

The fixed rate for 2008 is 24¢ per kilometre of personal use (including GST/HST and PST).

If the employee's main source of employment is selling or leasing automobiles, the fixed rate for 2008 is 21¢ per kilometre of personal use (including GST/HST and PST).

Reimbursement for operating expenses

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

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

Example

In 2008, you provided your employee with an automobile. She drove 30,000 kilometres during the year, with 10,000 kilometres for personal use.

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

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

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

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

However, if she reimbursed you for **only** \$800 of the expenses you paid in the year or no later than 45 days after the end of the year, the operating expense benefit is \$1,600, calculated as follows:

$$10,000 \text{ km} \times 24\text{¢} = \$2,400$$

$$\$2,400 - \$800 = \$1,600$$

Note

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

Benefit for motor vehicles not defined as an automobile

If the vehicle you provide to your employee is not included in the definition of automobile, there is **no** standby charge or operating expense benefit for the availability of the motor vehicle.

A taxable benefit still applies for any personal use of the motor vehicle. You would have to reasonably estimate the fair market value of the benefit, including GST/HST.

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

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

Payroll deductions and GST/HST

Use the benefits chart on page 35 to check whether you have to include GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and EI premiums.

Reporting automobile or motor vehicle benefits on the T4 slip

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

Shareholder's benefit

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

Report the benefit on a T4 slip when:

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

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

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

Tools to help you calculate the automobile benefit

You can use either of the tools below to calculate the following amounts:

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

Automobile Benefits Online Calculator

The calculator is available at www.cra.gc.ca/autobenefits-calculator.

Worksheet

You can get Form RC18, *Calculating Automobile Benefits for 2008*, from our Web site at www.cra.gc.ca/forms or by calling 1-800-959-2221.

Automobile and motor vehicle allowances

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

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

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

Reasonable per-kilometre allowance

If you pay your employee an allowance based on a per-kilometre rate that we consider reasonable, **do not** deduct CPP contributions, EI premiums, or income tax.

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

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

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

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

Reasonable allowance rates

For 2008, they are:

- 52¢ per kilometre for the first 5,000 kilometres; and
- 46¢ per kilometre after that.

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

Per-kilometre allowance rates that we do not consider reasonable

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

Note

If you pay your employee an allowance that is unreasonably low **and** your employee does not claim allowable expenses on his or her individual return, you may not have to include it in his or her income.

Flat-rate allowance

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

Combination of flat-rate and reasonable per-kilometre allowances

If you pay your employee an allowance that is a combination of flat-rate and reasonable per-kilometre allowances, or any other personal reimbursement such as a fuel card, that cover the **same use** for the vehicle, the total combined allowance is a taxable benefit and has to be included in the employee’s income.

Example 1

You pay an allowance to your employee as follows:

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

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

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

Example 2

You pay an allowance to your employee as follows:

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

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

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

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

Reimbursement or advance for travel expenses

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

An **advance** is an amount you give to employees for expenses they will incur on your business. An **accountable advance** is an advance you give to an employee who has to

account for his or her expenses by producing vouchers and return any amount he or she did not spend.

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

Averaging allowances

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

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

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

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

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

At that time, you have to pay any amounts you owe the employee and the employee has to repay any amount over actual expenses. Where no repayment occurs, you cannot simply report the excess advances on the employee's T4 slip.

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

Payroll deductions and GST/HST

Use the benefits chart on page 35 to check whether you have to include GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and/or EI premiums.

Reducing tax deductions at source on automobile or motor vehicle allowances

In many cases, allowances that are not based solely on a reasonable per-kilometre rate can later be substantially offset by the employees' expense deductions on their individual returns. In these situations, employees can ask to reduce their tax deductions on their remuneration by

sending a completed Form T1213, *Request to Reduce Tax Deductions at Source*, or a written request to any tax services office along with the following information:

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

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

Reporting automobile or motor vehicle allowances on the T4 slip

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

Chapter 3 – Other benefits and allowances

Board and lodging

You may give your employee "board and lodging", which means that you provide him or her with accommodations and, in some cases, food. If you provide only meals to an employee, see "Meals" on page 19.

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

If you provide **subsidized** lodging, or subsidized board and lodging, to an employee, the employee receives a taxable benefit. As a result, you have to add to the employee's salary the fair market value of the board and lodging you provide **minus** any amount the employee paid. Report this amount in box 14, "Employment income" and in the "Other information" area under code **30** at the bottom of the employee's T4 slip.

Exceptions to the rules

There are certain situations that can affect the value of the taxable benefit your employee gets if you provide free or subsidized board and lodging. The exceptions are as follows:

- If you provide board and/or lodging allowances to players on sports teams or members of recreation programs, see “Board and lodging allowances paid to players on sports teams or members of recreation programs” below.
- If you provide board, lodging and/or transportation to an employee who works at a special work site or a remote location, see “Board, lodging, and transportation at special work sites and remote work locations” below.

Board and lodging allowances paid to players on sports teams or members of recreation programs

You can exclude up to \$306 per month from income for a board and lodging allowance for a participant or member of a sports team or recreational program if **all** the following conditions are met:

- you are a registered charity or a non-profit organization;
- participation with or membership on the team or to the program is restricted to persons under 21 years of age;
- the allowance is for board and lodging for members that are required to live away from their ordinary place of residence; and
- the allowance is not attributable to any services, such as coaching, refereeing, or other services to the team or program.

Do not report the monthly exclusion on the T4 slip.

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

It is possible for an employee to work at a location that can meet the requirements of both a remote work location and a special work site. However, the benefit can only be excluded from the employee’s income **once**.

Special work sites

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

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

Board and lodging

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

- the employee’s duties required him or her to be away from his or her principal place of residence or to be at the special work site;
- the employee had to have worked at a special work site where the duties performed were of a temporary nature;
- the employee kept at another location a self-contained domestic establishment as his or her principal place of residence:
 - that, throughout the period, was available for the employee’s occupancy, and the employee did not rent it to any other person; and
 - to which, because of distance, we could not reasonably expect the employee to have returned daily from the special work site; and
- the board and lodging, or the reasonable allowance for board and lodging, you provided to the employee had to have been for a period of at least 36 hours. This period can include time spent travelling between the employee’s principal place of residence and a special work site.

Transportation

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

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

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

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

Note

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

Remote work locations

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

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

Board and lodging

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

- the employee could not reasonably be expected to set up and keep a self-contained domestic establishment because of the remoteness of the location and the distance from any established community;
- you have not provided a self-contained domestic establishment for the employee; and
- the reasonable allowances were for a period of at least 36 hours when:
 - the employee had to be away from his or her principal place of residence because of his or her duties; or
 - the employee had to be at the remote work location.

Transportation

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

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

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

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

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

When there is an exemption for board, lodging, or transportation allowances you pay to employees who work at a remote work location, we **do not need** this form. If you need help determining whether a location qualifies as remote, contact us.

Payroll deductions and GST/HST

Use the benefits chart on page 35 to check whether you have to include GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and/or EI premiums.

Cellular phone service

If you provide your employee with a cellular phone or other handheld communication device to help carry out his or her duties, the business use is not a taxable benefit.

If part of the phone use is personal, you have to include the value of the personal use in your employee's income as a taxable benefit. The value of the benefit is based on the fair market value of the service **minus** any amounts your employee reimburses you. You can only use your cost to calculate the value of the benefit if it reflects the fair market value.

You, as the employer, are responsible for determining the percentage of business use and the fair market value. You have to be prepared to justify your position if we ask you to do so.

Payroll deductions and GST/HST

Use the benefits chart on page 35 to check whether you have to include GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and/or EI premiums.

Child care expenses

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

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

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

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

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

Payroll deductions and GST/HST

Use the benefits chart on page 35 to check whether you have to include GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and/or EI premiums.

Counselling services

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

Employee counselling services are not taxable if they relate to:

- an employee's re-employment;
- an employee's retirement; or
- an employee's wellness or mental or physical health (such as tobacco, drug, and alcohol abuse, stress management, and employee assistance programs) or that of a person related to an employee.

Note

This does not include amounts for using recreational or sporting facilities and club dues.

Payroll deductions and GST/HST

Use the benefits chart on page 35 to check whether you have to include GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and/or EI premiums.

Disability-related employment benefits

Benefits you provide to an employee who has a disability are generally not taxable.

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

- is legally blind; or
- has a severe and prolonged mobility impairment, which markedly restricts the individual's ability to perform a basic activity of daily living – generally, someone who is eligible to claim the Disability Tax Credit.

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

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

Payroll deductions and GST/HST

Use the benefits chart on page 35 to check whether you have to include GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and/or EI premiums.

Discounts on merchandise and commissions from personal purchases

If you sell merchandise to your employee at a **discount**, the benefit he or she gets from this is not usually considered a taxable benefit.

However, we consider discounts to be taxable when:

- you make a special arrangement with an employee or a group of employees to buy merchandise at a discount;

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

If you determine the discount is taxable or you sell merchandise to your employee **below cost**, the taxable benefit is the difference between the fair market value of the goods and the price the employees pay.

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

Payroll deductions and GST/HST

Use the benefits chart on page 35 to check whether you have to include GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and/or EI premiums.

Educational allowances for children

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

However, if the employee and his or her family have to live in a specific location away from their home and the schools in the area do not meet the educational needs of the employee's children, the educational allowance **may not be taxable** if **all** of the following conditions are met:

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

Payroll deductions and GST/HST

Use the benefits chart on page 35 to check whether you have to include GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and/or EI premiums.

Gifts and awards

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

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

Example 1

You give your employee a \$100 gift card or gift certificate to a department store. The employee can use this to choose whatever merchandise or service the store offers. We consider the gift card or gift certificate to be a taxable benefit to the employee because there is an element of choice.

Example 2

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

Policy for non-cash gifts and awards

You can give each employee up to two non-cash **gifts** per year, tax-free. For this policy to apply, the gift has to be for a special occasion such as a religious holiday, a birthday, a wedding, or the birth of a child.

You can also give each employee up to two non-cash **awards** per year, tax-free. For this policy to apply, the award has to be given for an employment-related accomplishment such as long or outstanding service, employees' suggestions, or meeting or exceeding safety standards.

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

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

Note

The \$500 threshold is **not** an exemption.

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

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

For more information, visit our Web site at www.cra.gc.ca/gifts.

Awards from a manufacturer

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

However, if the dealer passes on cash awards to an employee, the dealer has to report the cash payment in

box 14, "Employment income," and in the "Other information" area under code 40 at the bottom of the employee's T4 slip. If the dealer passes on non-cash awards to an employee, the dealer may not have to report the awards in the employee's income if the other conditions of the awards policy are met.

If a manufacturer gives a cash award or a non-cash award **directly to the employee** of a dealer or other sales organization, the manufacturer has to report the value of the award as a benefit in box 28, "Other income," on a T4A slip. This only applies if the value of the award is \$500 or more.

Payroll deductions and GST/HST

Use the benefits chart on page 35 to check whether you have to include GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and/or EI premiums.

Group term life insurance policies – Employer-paid premiums

This section applies to current, former and retired employees.

Note

Premiums you pay for employees' group life insurance that is not group term insurance or optional dependant life insurance are also a taxable benefit.

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

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

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

Calculating the benefit

If the premiums are paid regularly and the premium rate for each individual does not depend on age or gender, the benefit is:

- the premiums payable for term insurance on the individual's life; **plus**
- the total of all sales taxes and excise taxes that apply to the individual's insurance coverage;

minus

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

Note

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

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

Payroll deductions and GST/HST

Use the benefits chart on page 35 to check whether you have to include GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and/or EI premiums.

Reporting the benefit

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

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

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

Notes

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

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

Housing – Rent-free and low-rent

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

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

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

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

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

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

Note

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

Special circumstances that reduce the value of a housing benefit

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

■ Suitability of size

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

Note

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

■ Loss of privacy and quiet enjoyment

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

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

Clergy residence deduction

If your employee is a member of the clergy, he or she may be able to claim a deduction from income for his or her residence.

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

To claim the deduction, the employee has to complete Parts A and C of Form T1223, *Clergy Residence Deduction*.

You have to complete Part B and sign the form to certify that this employee has met the required conditions. The employee does not have to file the form with his or her return, but has to keep it in case we ask to see it.

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

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

Payroll deductions and GST/HST

Use the benefits chart on page 35 to check whether you have to include GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and/or EI premiums.

Interest-free and low-interest loans

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

The benefit is the amount of interest that the person would have paid on the loan for the year at the prescribed rates (see "Prescribed rates of interest" on page 18) **minus** the amount of interest that he or she actually paid on the loan in the year, or no later than 30 days after the end of the year.

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

Exceptions

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

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

Note

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

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

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

Loans received because of employment

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

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

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

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

minus the total of the following two amounts:

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

Note

Sometimes these rules do not apply. For more information, see "Exceptions" above.

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

Example of calculating the taxable benefit

Joshua is your employee. He borrowed \$150,000 from you at the beginning of the year. The prescribed rate of interest for the loan is 3% for the first quarter, 4% for the second and third quarters, and 5% for the fourth quarter. Joshua paid you \$2,000 interest on the loan no later than 30 days after the end of the year. During the year, a company related to you paid \$1,000 interest on the loan for Joshua. Before the end of the same year, Joshua repaid the \$1,000 to the company. Calculate the benefit to include in his income as follows:

- a) Prescribed rate × loan amount for the year:
 - 3% × \$150,000 × 1/4 = \$1,125
 - 4% × \$150,000 × 2/4 = \$3,000
 - 5% × \$150,000 × 1/4 = \$1,875.....\$6,000

plus

- b) Amount paid by a third party..... 1,000
\$7,000

minus

c) Interest paid (\$2,000 + \$1,000) = \$3,000
d) Amount Joshua repaid 1,000 4,000
Joshua's taxable benefit..... \$3,000

Loans received because of shareholdings

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

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

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

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

minus

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

Note

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

Home-purchase loan

A home-purchase loan is any part of a loan to an employee that the employee used to get or repay another loan to purchase a residence. The residence has to be for that employee or a person related to that employee. This also applies to a shareholder or a person related to a shareholder.

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

Once a home-purchase loan is established, the prescribed interest rate remains in effect for a period of five years. 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 when the loan or the debt was established.

If the term of repayment for a home-purchase loan is more than five years, the balance owing at the end of five years (from the day the loan was made) is considered a new loan.

Treat the outstanding balance as a new loan on that date. To calculate the benefit, use the prescribed rate in effect at that time.

Home-relocation loan

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

Payroll deductions and GST/HST

Use the benefits chart on page 35 to check whether you have to include GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and/or EI premiums.

Reporting the benefit

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

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

Deductibility of deemed interest benefit

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

Prescribed rates of interest

The following chart shows the prescribed rates of interest for 2007 and 2008.

Quarterly rates		
Quarter	2007	2008
1st	5%	4%
2nd	5%	4%
3rd	5%	3%
4th	5%	

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

Internet

If you provide your employee with Internet service at home to help carry out his or her employment duties, the business use is not a taxable benefit.

If part of the use is personal, you have to include the value of the personal use in your employee's income as a taxable

benefit. The value is based on the fair market value of the service **minus** any amounts the employee reimburses you. You can only use your cost to calculate the value of the benefit if it reflects the fair market value.

You, as the employer, are responsible for determining the percentage of business use and the fair market value. You have to be prepared to justify your position if we ask you to do so.

Payroll deductions and GST/HST

Use the benefits chart on page 35 to check whether you have to include GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and/or EI premiums.

Meals

Overtime meals or allowances

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

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

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

Subsidized meals

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

If the charge is not reasonable, the value of the benefit is the cost of the meals **minus** any payment the employee makes.

Include the taxable benefit in box 14, "Employment income," and in the "Other information" area under code **40** at the bottom of the employee's T4 slip.

Payroll deductions and GST/HST

Use the benefits chart on page 35 to check whether you have to include GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and/or EI premiums.

Medical expenses

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

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

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

Payroll deductions and GST/HST

Use the benefits chart on page 35 to check whether you have to include GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and/or EI premiums.

Moving expenses and relocation benefits

When you transfer an employee from one of your places of business to another, the amount you pay or reimburse the employee for certain moving expenses is not a taxable benefit. This includes any amounts you incurred to move the employee, the employee's family, and their household effects. This also applies when the employee accepts employment at a different location from the location of their former residence.

Also, if you pay certain expenses to move an employee, his or her family, and their household effects out of a remote work location when he or she has completed the employment duties there, the amount you pay is not a taxable benefit.

If you paid allowances to your employee for incidental moving expenses that he or she does not have to account for, see "Non-accountable allowances" on page 20.

Moving expenses paid by employer that are not a taxable benefit

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

- the cost of house-hunting trips to the new location, including child-care and pet-care expenses while the employee is away;
- travelling costs (including a reasonable amount spent for meals and lodging) while the employee and members of the employee's household were moving from the old residence to the new residence;
- the cost to the employee of transporting or storing household effects while moving from the old residence to the new residence;
- costs to move personal items such as automobiles, boats, or trailers;
- charges and fees to disconnect telephones, television or aerials, water, space heaters, air conditioners, gas barbecues, automatic garage doors, and water heaters;
- fees to cancel leases;
- the cost to the employee of selling the old residence (including advertising, notarial or legal fees, real estate commission, and mortgage discharge penalties);
- charges to connect and install utilities, appliances, and fixtures that existed at the old residence;

- adjustments and alterations to existing furniture and fixtures to arrange them in the new residence, including plumbing and electrical changes in the new residence;
- automobile licences, inspections, and drivers' permit fees, if the employee owned these items at the former location;
- legal fees and land transfer tax to buy the new residence;
- the cost to revise legal documents to reflect the new address;
- reasonable temporary living expenses while waiting to occupy the new, permanent accommodation;
- long-distance telephone charges that relate to selling the old residence; and
- amounts you paid or reimbursed for property taxes, heat, hydro, insurance, and grounds maintenance costs to keep up the old residence after the move, when all reasonable efforts to sell it have not been successful.

Moving expenses paid by employer that are a taxable benefit

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

If you do not reimburse, or only partly reimburse, an employee for moving expenses, the employee may be able to claim some of the moving expenses as a deduction from income when he or she files an individual return.

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

Housing loss

If you pay or reimburse your employee for a housing loss, the amount is a taxable benefit to the employee.

However, there is an exception for amounts paid in respect of an **eligible housing loss**. Generally, in these situations, only one-half of the amount that is more than \$15,000 is taxable.

Note

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

Example 1

In March 2008, you compensated Clara, your employee, for a \$40,000 loss she incurred on the sale of her house. The loss was an eligible housing loss. Clara started to work at her new workplace in June 2008.

The taxable benefit you will report on Clara's 2008 T4 slip will be \$12,500, calculated as follows:

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

Example 2

In June 2007, you agreed to compensate Paul, your employee, for any eligible housing loss that he incurred on the sale of his house. Paul started to work at his new work location on December 1, 2007.

Paul's eligible housing loss amounted to \$65,000. You paid out the compensation in two payments: \$30,000 in September 2007 and \$35,000 in February 2008.

Paul's taxable benefit in 2007 was \$7,500 (one-half of the amount paid in 2007 that is more than \$15,000).

Paul's taxable benefit in 2008 is \$17,500. This is calculated as follows:

- one-half of the total of amounts paid in 2007 and 2008 that is more than \$15,000
($\frac{1}{2} \times [\$65,000 - \$15,000] = \$25,000$);

minus

- the amount included in income in 2007 (\$7,500).

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

Payroll deductions and GST/HST

Use the benefits chart on page 35 to check whether you have to include GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and/or EI premiums.

Non-accountable allowances

Non-accountable allowances are those for which an employee does not have to account. We consider a non-accountable allowance for incidental relocation or moving expenses of **\$650 or less** to be a reimbursement of expenses that the employee incurred because of an employment-related move. Therefore, this type of allowance is not taxable. For us to consider it as a reimbursement for incidental expenses, the employee has to certify in writing that he or she incurred expenses for at least the amount of the allowance, up to a maximum of \$650.

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

Examples

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

area under code **40** at the bottom of the employee's T4 slip.

Home-relocation loans

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

- the employee or the employee's spouse or common-law partner moves to start work at a new location in Canada;
- the employee or the employee's spouse or common-law partner uses the loan to buy a new residence that is at least 40 kilometres closer to the new work location than the previous home;
- the employee or the employee's spouse or common-law partner receives the loan because of the employee's employment;
- the employee designates the loan as a home-relocation loan; and
- the loan is used to acquire a residence or a share of the capital stock of a cooperative housing corporation acquired for the sole purpose of acquiring the right to inhabit a residence owned by the corporation. The residence must be for the habitation of the employee and be his or her new residence.

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

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

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

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

Calculating the employee home-relocation loan deduction

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

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

Enter the result in the "Other information" area under code **37** at the bottom of the employee's T4 slip. This is the

amount the employee can deduct on his or her return as an "Employee home-relocation loan deduction."

Note

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

Municipal officer's expense allowance

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

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

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

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

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

Payroll deductions and GST/HST

Use the benefits chart on page 35 to check whether you have to include GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and/or EI premiums.

Parking

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

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

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

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

- you provide parking to your employee for business purposes; and

- your employee **regularly** has to use his or her own automobile or one you usually supply to perform his or her duties.

Note

Travel between work and home is not considered travel for business purposes.

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

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

Payroll deductions and GST/HST

Use the benefits chart on page 35 to check whether you have to include GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and/or EI premiums.

Private health services plan premiums

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

Note

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

Include the amounts that the employee paid on a T4 slip in the "Other information" area under code 85. The use of code 85 is optional. If you do not enter code 85, we may ask the employee to provide supporting documents.

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

Payroll deductions and GST/HST

Use the benefits chart on page 35 to check whether you have to include GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and/or EI premiums.

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

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

If you are the former employer of an employee who has retired, any amount you pay as a contribution to a

provincial or territorial health services insurance plan for the retired employee is a taxable benefit.

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

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

Payroll deductions and GST/HST

Use the benefits chart on page 35 to check whether you have to include GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and/or EI premiums.

Professional membership dues

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

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

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

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

Note

You should advise your employee that he or she cannot deduct from his or her employment income professional dues that you have paid or reimbursed.

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

Payroll deductions and GST/HST

Use the benefits chart on page 35 to check whether you have to include GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and/or EI premiums.

Recreational facilities and club dues

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

- You pay, reimburse, or subsidize the cost of a membership at a recreational facility, such as an exercise room, swimming pool, or gymnasium.

- You pay, reimburse, or subsidize the cost of memberships to a business or professional club (that operates fitness, recreational, sports, or dining facilities for the use of their members but their main purpose is something other than recreation).
- You pay, reimburse, or subsidize the cost of membership dues in a recreational facility of the employee's choice, up to a set maximum. In this case it is the employee who has paid for the membership, owns it, and has signed some kind of contract with the company providing the facility.
- You pay, reimburse, or subsidize the employee for expenses incurred for food and beverages at a restaurant, dining room lounge, banquet hall, or conference room of a recreational facility or club.
- You provide recreational facilities to a select group or category of employees for free or for a minimal fee, while other employees have to pay the full fee. A taxable benefit is conferred to the employees who do not have to pay the full fee.

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

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

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

Payroll deductions and GST/HST

Use the benefits chart on page 35 to check whether you have to include GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and/or EI premiums.

Registered retirement savings plans (RRSPs)

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

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

Payroll deductions

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

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

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

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

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

Security options

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

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

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

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

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

Payroll deductions and GST/HST

Use the benefits chart on page 35 to check whether you have to include GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and/or EI premiums.

Deferred security option benefit

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

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

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

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

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

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

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

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

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

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

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

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

You have to accept the employee election to defer the benefit and accept the revocation.

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

Payroll deductions and GST/HST

Use the benefits chart on page 35 to check whether you have to include GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and/or EI premiums.

Paragraph 110(1)(d)

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

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

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

Note

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

Paragraph 110(1)(d.1)

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

- when the agreement to sell or issue shares to the employee was concluded, the issuing or selling corporation was a Canadian-controlled private corporation;
- the employee acquired shares after May 22, 1985; and

- the employee dealt at arm's length with the corporation or any other corporation involved right after the agreement was concluded.

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

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

The deduction the employee can claim is **one-half** of the amount of the benefit for the shares disposed of. Identify the amount of the deduction by entering it in the "Other information" area under code **41** at the bottom of the employee's T4 slip.

Social events

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

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

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

Payroll deductions and GST/HST

Use the benefits chart on page 35 to check whether you have to include GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and/or EI premiums.

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

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

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

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

Payroll deductions and GST/HST

Use the benefits chart on page 35 to check whether you have to include GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and/or EI premiums.

Subsidized school services

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

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

Note

This does not include an educational allowance or educational costs you pay directly to your employee, as explained in "Educational allowances for children" on page 14 or "Tuition fees, scholarships, and bursaries" on page 26.

Tool reimbursement or allowance

If you make payments to your employee to offset the cost of tools that he or she requires to perform the work or you pay for tools on the employee's behalf, the amount of the payment is considered a taxable benefit and should be included in the employee's income.

Employed tradespersons (including apprentice mechanics) may be able to deduct part of the cost of eligible tools they purchased to earn employment income as a tradesperson.

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

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

Payroll deductions and GST/HST

Use the benefits chart on page 35 to check whether you have to include GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and/or EI premiums. Note that GST/HST payroll deductions are different depending on whether the benefit is a tool **allowance** or a tool **reimbursement**.

Transit passes

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

If your employee pays for some of the cost of purchasing public transit passes (for example through payroll deductions), you have to report both the total amount that you paid on behalf of the employee **and** the total amount that the employee paid.

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

Report the amount the employee paid on a T4 slip in the "Other information" area under code 84.

Payroll deductions and GST/HST

Use the benefits chart on page 35 to check whether you have to include GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and/or EI premiums.

Transportation to and from the job

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

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

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

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

Part-time employee

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

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

Payroll deductions and GST/HST

Use the benefits chart on page 35 to check whether you have to include GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and/or EI premiums.

Travelling allowance

Salesperson and clergy

You may pay a reasonable travel allowance for expenses other than for the use of an automobile (for example, meals, lodging, per diem allowance) to a salesperson or member of the clergy. You do not have to include the allowance in the employee’s income if it was for expenses related to the performance of duties of the office or employment and the employee is either:

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

Other employees

You may pay a reasonable travel allowance for expenses other than for the use of an automobile (for example, meals, lodging, per diem allowance) to an employee who is not a salesperson or member of the clergy. You have to include the allowance in the employee’s income unless the allowance is received by the employee for travelling away from the municipality and the metropolitan area where the employer’s establishment is located and where the employee ordinarily works or reports.

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

Payroll deductions and GST/HST

Use the benefits chart on page 35 to check whether you have to include GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and/or EI premiums.

Tuition fees, scholarships, and bursaries

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

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

The guidelines consider three broad categories of training:

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

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

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

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

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

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

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

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

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

You have to report on a T4A slip any scholarships, fellowships or bursaries you gave to an employee. For more information on reporting, see Guide RC4157, *Deducting Income Tax on Pension and Other Income, and Filing the T4A Slip and Summary*.

A student may fully exclude from income scholarships, fellowships, or bursaries he or she received as long as the student is entitled to claim the education tax credit. If applicable, the individual will exclude the amount from income on his or her individual return.

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

If you operate a scholarship program for the dependents of your employees, scholarship amounts awarded may be a taxable benefit to the employee.

For more information, see:

- *Technical News* No. 13;
- Interpretation Bulletin IT-75, *Scholarships, Fellowships, Bursaries, Prizes, Research Grants and Financial Assistance*;
- IT-470, *Employees' Fringe Benefits*;
- IT-516, *Tuition Tax Credit*;
- Information Circular IC75-23, *Tuition Fees and Charitable Donations Paid to Privately Supported Secular and Religious Schools*.

Payroll deductions and GST/HST

Use the benefits chart on page 35 to check whether you have to include GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and/or EI premiums.

Uniforms and special clothing

Your employee does not receive a taxable benefit when:

- you supply your employee with a distinctive uniform he or she has to wear while carrying out the employment duties; or
- you provide your employee with special clothing (including safety footwear) designed to protect him or her from hazards associated with the employment.

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

If you reimburse your employee for the cost of protective clothing he or she bought and you did not require receipts to support the purchases, the reimbursement is **not taxable** if:

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

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

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

Payroll deductions and GST/HST

Use the benefits chart on page 35 to check whether you have to include GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and/or EI premiums.

Wage-loss replacement plans or income maintenance plans

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

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

However, if you pay a premium for an employee for such plans that are **group plans**, the premium is not a taxable benefit for the employee if it is paid out of your own funds. This does not apply if you deduct the premium from the employee's salary and remit it to the plan.

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

Payroll deductions and GST/HST

Use the benefits chart on page 35 to check whether you have to include GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and/or EI premiums.

Group disability benefits – Insolvent insurer

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

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

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

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

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

See Guide T4039, *Northern Residents Deductions – Places in Prescribed Zones* for a list of places in prescribed northern zones and prescribed intermediate zones.

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

Accommodation or utilities provided by the employer

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

Places with developed rental markets

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

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

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

Places without developed rental markets

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

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

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

Accommodations you own

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

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

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

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

Accommodations you rent from a third party

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

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

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

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

Allowable ceiling amounts

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

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

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

For a list of the ceiling amounts for rent and utilities, see Publication RC4054, *Ceiling Amounts for Housing Benefits Paid in Prescribed Zones*.

Note

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

Board, lodging, and transportation at a special work site

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

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

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

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

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

Example

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

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

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

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

Note

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

Travel assistance benefits

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

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

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

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

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

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

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

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

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

Medical travel assistance

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

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

For a T4 slip, enter the entire travel assistance benefit under code **32** in the “Other information” area. Enter the medical portion under code **33**.

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

Notes

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

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

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

Payroll deductions

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

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

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

Form TD1, *Personal Tax Credits Return*

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

The residency deduction is equal to whichever is less:

- one-fifth (or 20%) of their net income for the year; or
- the residency amount they can claim.

Note

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

For 2008, an employee living in a prescribed **northern** zone can claim the total of:

- a basic residency amount of \$8.25 per day for each day he or she lives in the prescribed northern zone; and
- an additional residency amount of \$8.25 per day for each day he or she lives in and maintains a residence in that area, if during that time no one else is claiming a basic residency amount for living in the same residence for the same period.

For 2008, employees living in a prescribed **intermediate** zone can claim 50% of the total of the above amounts.

Note

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

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

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

Chapter 5 – Remitting GST/HST on employee benefits

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

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

However, as a result of an agreement between the governments of Canada and Quebec, Revenu Québec administers GST in that province. If your business is

located in Quebec, contact a Revenu Québec office for information on the GST treatment of employee benefits. You can find their offices by visiting www.revenu.gouv.qc.ca.

Employee benefits

Salaries, wages, commissions, and other cash payments (including gratuities) you make to employees are not subject to GST/HST.

However, non-cash compensation you provide to an employee, commonly referred to as fringe or employee taxable benefits may be subject to GST/HST. For the most part, the GST/HST treatment of these benefits is based on their treatment under the *Income Tax Act*.

Generally, if a benefit is taxable for income tax purposes, we consider you 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, we consider you to have collected GST/HST on that benefit. However, there are situations where you will not be considered to have collected GST/HST on taxable benefits given to employees. We explain these situations below.

Situations where we do not consider you to have collected GST/HST

We do not consider you to have collected GST/HST on taxable benefits provided to employees in the following situations:

- when the goods or services that give rise to a taxable benefit are GST/HST exempt or zero-rated;
- when a taxable benefit results from an **allowance** included in the income of the employee under paragraph 6(1)(b) of the *Income Tax Act*;
- when you are restricted from claiming an input tax credit (ITC) for GST/HST you paid or owe on the goods and services which give rise to the taxable benefit (see “ITC restrictions” on page 32); and
- when the goods or services that give rise to a taxable benefit are supplied outside Canada.

Example

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

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

- you are an **individual or partnership** and the passenger vehicle or the aircraft that you have **bought** is used less than 90% in the commercial activities of the business;
- you are **not an individual, a partnership, or a financial institution** and the passenger vehicle or aircraft that you **bought** is used 50% or less in the commercial activities of the business;
- you are a **financial institution** and elect to treat the passenger vehicle or aircraft you **lease** or **have bought** as being used exclusively in non-commercial activities of the business (see Note below); or
- you are **not a financial institution** and you **lease** the passenger vehicle or aircraft which you use 50% or more in non-commercial activities of the business, and you elect to treat it as being used 90% or more in such non-commercial activities.

Note

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

For more information about this election, contact us.

The date we consider you to have collected GST/HST

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

For example, for taxable benefits you provided to your employees during the 2008 tax year, you are considered to have collected GST/HST at the end of February 2009. You have to include this amount in your GST/HST return for the reporting period that includes the last day of February 2009.

Example

You are a GST/HST registrant and have a monthly reporting period. At the end of February 2009, you calculated the total taxable benefits provided to your employees for 2008, including any GST/HST and PST. You are considered to have collected GST/HST on the taxable benefits at the end of February 2009. In your February 2009 GST/HST return, you have to include the GST/HST relating to the taxable benefits provided to your employees in 2008. You have to file this return by the end of March 2009.

How to calculate the amount of GST/HST we consider you to have collected

The amount of GST/HST we consider you to have collected on a taxable benefit is based on a percentage of the value of

the benefit for GST/HST purposes. The percentage rate you use depends on whether or not it is for an automobile operating expense benefit and the province in which the employee ordinarily reported to work.

Value of the benefit

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

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

Notes

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

However, when an employee or an employee's relative has reimbursed an amount for a taxable benefit **other** than for a standby charge or the operating expense of an automobile, you are considered to have collected an amount equal to 5/105 for GST and 13/113 for HST. In this situation, you have to include GST/HST relating to this reimbursement in your GST/HST return for the reporting period that includes the date of the reimbursement.

Automobile operating expense benefits

If the last establishment where your employee ordinarily worked or to which he or she ordinarily reported in the year is located in a **participating province** (Newfoundland and Labrador, Nova Scotia, or New Brunswick), we consider you to have collected an amount equal to 9% of the value of the benefit for GST/HST purposes as calculated above.

If the last establishment where your employee ordinarily worked or to which he or she ordinarily reported in the year is located in a **non-participating province** (the rest of Canada), we consider you to have collected 3% of the value of the benefit for GST/HST purposes as calculated above.

Other benefits

If the last establishment where your employee ordinarily worked or to which he or she ordinarily reported in the year is located in a **participating province** (Newfoundland and Labrador, Nova Scotia, or New Brunswick), we consider you to have collected 12/112 of the value of the benefit for GST/HST purposes as calculated above.

If the last establishment where your employee ordinarily worked or to which he or she ordinarily reported in the year is located in a **non-participating province** (the rest of Canada), we consider you to have collected 4/104 of the value of the benefit for GST/HST purposes as calculated above.

Input tax credits (ITCs)

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

Generally, commercial activities include the supply of taxable goods and services. For more information about what are considered to be commercial activities, see Guide RC4022, *General Information for GST/HST Registrants*.

For employee benefits, you can usually claim an ITC for the GST/HST you paid or owe on goods and services you supply to your employees or their relatives as a benefit related to your commercial activities.

However, in some situations, you will not be able to claim an ITC for the GST/HST you paid or owe for benefits you gave to your employees. For information on these situations, read the rest of this section.

ITC restrictions

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

Club memberships

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

Exclusive personal use

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

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

- The consumption, use, or enjoyment of the good or service by the employee or the employee's relative does not give rise to a taxable benefit for income tax purposes and no amounts were payable by the employee for this benefit. The most common type of non-taxable benefit is moving expenses paid by an employer. Moving expenses that are considered non-taxable benefits are discussed in "Moving expenses and relocation benefits" on page 19.
- During the same GST/HST reporting period, you make a supply of the good or service to such a person for consideration that becomes due in that period and that is equal to its fair market value plus GST/HST.

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

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

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

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

For more information on ITCs relating to employee benefits, see GST Memorandum GST400-3-2, *Employee and Shareholder Benefits*.

Property acquired before 1991 or from a non-registrant

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

Example

You bought a passenger vehicle from a non-registrant and made it available to your employee throughout 2008. The passenger vehicle is used more than 90% in the commercial activities of your business. You report the value of the benefit, including GST/HST and PST, on the employee's T4 slip. For GST/HST purposes, you will be considered to have collected GST/HST on this benefit even if you could not claim an ITC on the purchase of the passenger vehicle.

Summary

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

Step 1 – Determine 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, we do not consider you to have collected any GST/HST on the benefit and you will not have to remit GST/HST on the benefit.

Step 2 – For each taxable benefit, determine whether any of the “Situations where we do not consider you to have collected GST/HST” on page 31 applies. If one of these situations applies, we do not consider you to have collected GST/HST on this benefit and you will not have to remit any GST/HST on the benefit.

Step 3 – If we consider you to have collected GST/HST on a taxable benefit, you have to calculate the amount of GST/HST due (see “How to calculate the amount of GST/HST we consider you to have collected” on page 31).

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 2009.

Note

If the GST/HST is for a reimbursement made by an employee or an employee's relative, the amount may be due in a different reporting period. For more information, see the note under “How to calculate the amount of GST/HST we consider you to have collected” on page 31.

Employee does not pay GST/HST on taxable benefits

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

Examples

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

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

As a corporation registered for GST/HST, you buy a vehicle that is used more than 50% in commercial activities and is made available to your employee during 2008. The last establishment where the employee ordinarily reported in the year for the corporation was located in **Ontario**.

You calculated a taxable benefit (including GST and PST) of \$4,800 on the standby charge and an operating expense benefit of \$600. Your employee reimbursed you \$1,800 for the automobile operating expenses within 45 days following the end of 2008. You did not include this amount as a taxable benefit.

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

Standby charge benefit

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

GST considered to have been collected on the benefit \$4,800 × 4/104 = \$184.62

Operating expense benefit

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

Employee's partial reimbursement
of operating expenses..... \$1,800

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

GST considered to have been
collected on the benefit $\$2,400 \times 3\% = \underline{\$72.00}$

**Total GST to be remitted on the automobile
benefit**..... \$256.62

You are considered to have collected GST in the amount of \$256.62 at the end of February 2009. You have to include this amount on your GST/HST return for the reporting period that includes the last day of February 2009.

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

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

Standby charge benefit

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

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

Operating expense benefit

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

Employee's partial reimbursement
of operating expenses \$1,800

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

HST considered to have been
collected on the benefit $\$2,400 \times 9\% = \underline{\$216.00}$

**Total HST to be remitted on the automobile
benefit** \$730.29

You are considered to have collected HST in the amount of \$730.29 at the end of February 2009. You have to include this amount on your GST/HST return for the reporting period that includes the last day of February 2009.

Example 3: Long service award

You bought a watch for \$560 (including GST/HST and PST) for your employee to mark the employee's 25 years of service. You reported a taxable benefit of \$560 in box 14 and under code **40** on the employee's T4 slip.

You could not claim an ITC because you bought the watch for the employee's exclusive personal use and enjoyment. Since you cannot claim an ITC, you are not considered to have collected GST/HST and, as a result, you will not have to remit GST/HST on the benefit.

Example 4: Special clothing

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

Benefits chart

This chart indicates whether the **taxable** allowances and benefits discussed in this guide are subject to CPP and EI withholdings, and shows which codes you should use to report them on the employee's T4 slip. The chart also indicates whether GST/HST has to be included in the value of the **taxable** benefit for income tax purposes. Cash reimbursements and non-cash benefits are subject to GST/HST, unless they are for exempt or zero-rated supplies. Cash allowances are not subject to GST/HST.

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

Continued on next page

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

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

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

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

⁵ Enter the home relocation loan deduction under code 37.

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

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

⁷ Enter the exempt amount under code 70.

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

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

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

For more information

If you need more help after you read this guide, visit www.cra.gc.ca or call 1-800-959-5525.

To get the most up-to-date payroll information and products, visit www.cra.gc.ca/payroll.

To get forms and publications, visit www.cra.gc.ca/forms or call 1-800-959-2221.

Teletypewriter users

If you use a teletypewriter (TTY), you can call our bilingual enquiry service at 1-800-665-0354.

Electronic mailing list

We can notify you immediately about new information on payroll deductions and remittances. To subscribe, free of charge, visit www.cra.gc.ca/lists.

Related publications

- T4032, *Payroll Deductions Tables or Tables on Diskette (TOD)*
- (T4001), *Employers' Guide – Payroll deductions and Remittances*.
- RC4120, *Employers' Guide – Filing the T4 Slip and Summary*
- RC4157, *Deducting Income Tax on Pension and Other Income, and Filing the T4A Slip and Summary*.
- RC4110, *Employee or Self-Employed?*
- RC4409, *Keeping Records*

Employer Visits Program

We offer an on-site consultative service to provide any help you may need with payroll deductions. As part of this program, we can visit you to help with problems you have. If you would like information about this service, call 1-800-959-5525.

My Business Account

My Business Account, CRA's online service, provides convenient and secure access to a growing range of personalized business account information and services. Once authorized, your employees or representatives can access your information through the "Represent a client" service at www.cra.gc.ca/representatives. For more information, visit www.cra.gc.ca/mybusinessaccount.

Addresses

Electronic Media Processing Unit

Ottawa Technology Centre
Canada Revenue Agency
875 Heron Road
Ottawa ON K1A 1A2

Ottawa Technology Centre

Canada Revenue Agency
875 Heron Road
Ottawa ON K1A 1G9

Tax services offices

To find out where to send your requests, visit www.cra.gc.ca/tso or call 1-800-959-5525

Tax centres

Jonquière Tax Centre
2251 René-Lévesque Boulevard
Jonquière QC G7S 5J1

Shawinigan-Sud Tax Centre
4695 – 12th Avenue
Shawinigan-Sud QC G9N 7S6

St. John's Tax Centre
290 Empire Avenue
St. John's NL A1B 3Z1

Sudbury Tax Centre
1050 Notre-Dame Avenue
Sudbury ON P3A 5C1

Summerside Tax Centre
275 Pope Road
Summerside PE C1N 6A2

Surrey Tax Centre
9755 King George Highway
Surrey BC V3T 5E1

Winnipeg Tax Centre
66 Stapon Road
Winnipeg MB R3C 3M2

Your opinion counts

If you have any comments or suggestions that could help us improve our publications, we would like to hear from you. Please send your comments to:



Taxpayer Services Directorate
Canada Revenue Agency
750 Heron Road
Ottawa ON K1A 0L5