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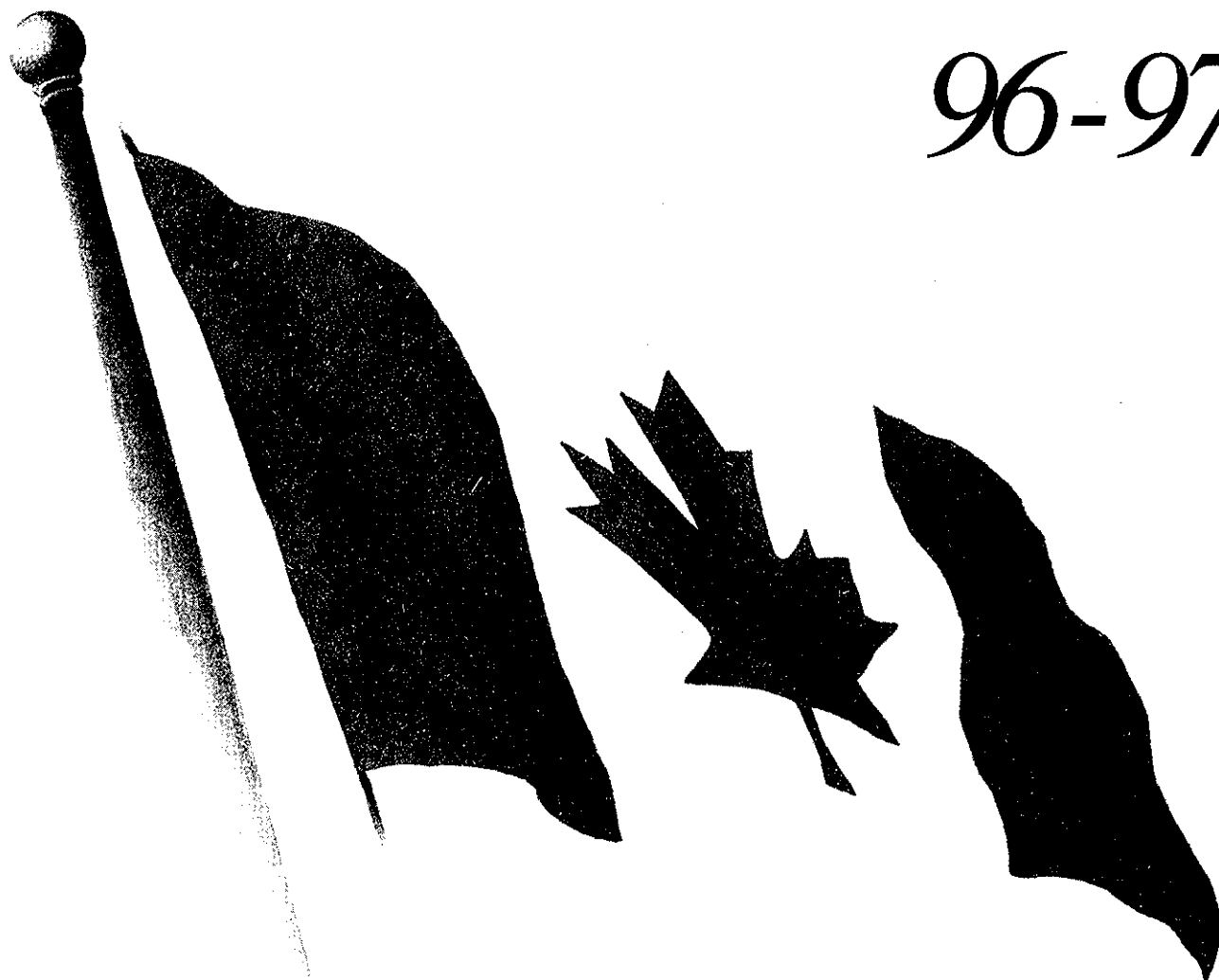
Revenu
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Canada

Employers' Guide to Payroll Deductions

Taxable Benefits

96-97



Problem Resolution Program

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

We deal with most of your payroll-related questions and concerns through regular channels. In other words, if you have a problem, call, write, or visit Client Services at your Revenue Canada tax services office or tax centre.

However, if, after contacting Client Services, your problem is not resolved to your satisfaction, you should get in touch with a Problem Resolution Program co-ordinator. You can find the phone numbers for your tax services office and tax centre listed under "Revenue Canada" in the Government of Canada section of the telephone book.

TTY users

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

We welcome your suggestions

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

Please send your comments to:

Revenue Canada
Client Services Directorate
Room 8000
400 Cumberland Street
Ottawa ON K1A 0L5

Ordering publications

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

Internet access

If you have Internet access, you can find many of our publications at: <http://www.rc.gc.ca>

Visually impaired persons can get this publication in braille or large print, or on audio cassette or computer diskette. To order, please call 1-800-267-1267 weekdays between 8:15 a.m. and 5:00 p.m. (Eastern Time).

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

Table of Contents

	Page		Page
What's New?	5	Sample Forms	
Notice	6	T4 Supplementary slip	28
Chapter 1 – Automobile Benefits	6	T4A Supplementary slip	28
Chapter 2 – Other Taxable Benefits	14	T4 Summary form	29
Chapter 3 – The GST and Employee Benefits	24	T4A Summary form	30
Appendix		Order Form	
List of the benefits for which you have to enter footnotes on T4 and T4A Supplementary slips	27		

Where do you find ...

	Page		Page
Automobile allowances	12	Loans received because of employment	17
Automobile allowance rates	12	Loans received because of shareholdings	17
Automobile benefits	6	Prescribed rates of interest	19
Automobile costs for the employer	7	Leasing costs	7
Awards for employees' suggestions	15	Medical expenses the employer pays	19
Calculating automobile benefits	9	Moving expenses	22
Definitions	6	Municipal officer's expense allowance	19
Disability-related employment benefits	21	Non-taxable allowances	12
Discounts on merchandise and commissions on sales	21	Operating cost benefit	8
Educational allowances	14	Partnerships	12
Employee counselling services	14	Payroll deductions and reporting automobile allowances	13
Employer-provided parking	23	Payroll deductions and reporting taxable automobile benefits	12
Fleet operations	7	Premiums under a private health services plan	22
Footnotes	27	Premiums under provincial hospitalization, medical care insurance, and certain federal government plans ...	19
Gifts	15	Professional fees	14
Goods and services tax (GST)		Recreational facilities	22
Calculating of the amount of GST you are considered to have collected	25	Reducing tax deductions at source on certain automobile allowances	14
Employee benefits	24	Registered retirement savings plan (RRSPs)	19
GST considered collected	24	Shareholders	12
GST not considered collected	24	Spouse's travelling expenses	20
Input tax credit (ITC)	25	Standby charge	7
Property acquired before 1991, or from a non-registrant	25	Stock options	19
Summary	26	Subsidized meals	16
Group term life insurance policies: Employer-paid premiums	15	Subsidized school services	23
Holiday trips, other prizes, and incentive awards	15	Transportation to the job	23
Housing and travel assistance benefits in a prescribed zone	16	Travelling allowances to a part-time employee	20
Housing, board, and lodging	16	Tuition fees, scholarships, and bursaries	21
Insolvent insurer	21	Uniforms and special clothing	23
Interest-free and low-interest loans	17	Volunteer firefighters	23
Deductibility of deemed interest benefit	19	Wage-loss replacement plans or premiums paid to an income maintenance plan	21
Home-relocation loans	18		
How do you report these benefits on interest-free and low-interest loans?	18		

What's New?

Changes to this guide

We have deleted former Chapter 3 called "Non-Resident." The information that was in this chapter is now covered in the *Employers' Guide to Payroll Deductions – Basic Information* and on the instruction sheet we provide with the T4A-NR Summary form.

We changed the title of chapter 3 to "The GST and Employee Benefits." If you are an employer registered for goods and services tax (GST), you should read this chapter. It will help you understand how to treat employee benefits under the GST.

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

Unemployment Insurance

The years 1996-1997 are the transition period for bringing in the new *Employment Insurance Act*. We have replaced the term **unemployment insurance** (UI) with **employment insurance** (EI) in this guide. All references to EI include UI.

Employment Insurance

The new *Employment Insurance Act* replaces the *Unemployment Insurance Act* and the *National Training Act*.

Effective January 1, 1997, the eligibility for employment insurance benefits will be calculated on all hours the employee worked in a year, rather than on weeks worked.

With an hours-based system, workers will pay premiums on every dollar they earn up to the annual maximum insurable earnings of \$39,000 for the years 1997 to 2000.

Taxable benefits and Employment Insurance

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

Proposed changes – GST reform package

Under proposed changes, for 1996 and later tax years, any tax payable by employers in buying or leasing an employer-provided automobile must be included in calculating the automobile standby charge benefit. The calculation must include any GST or provincial tax

actually payable by employers as well as tax that would have been so payable if the employers were not exempt from the payment of that tax because of the type of employers they are or the nature of the use of the property.

The amount of taxable benefit required to be included in employees' income under paragraph 6(1)(a) of the *Income Tax Act* is to be determined inclusive of the GST paid by employers for the property or service which gives rise to the benefit.

Paragraph 6(1)(e.1) of the *Income Tax Act* has been repealed and subsection 6(7) has been amended to reflect these changes.

Group term life insurance

For 1996 and later tax years, you have to prepare a T4A Supplementary slip if you provide group term life insurance taxable benefits to former employees or employees of a multi-employer benefit plan **only** if the group term life insurance taxable benefit is more than \$25.

T4 Supplementary slips for laser printers

If you use T4 Supplementary slips for laser printers supplied by Revenue Canada, see the instructions on the back of the slip.

If you need blank laser forms, contact your tax services office or tax centre.

How to order blank T4 and T4A Supplementary slips

To order blank T4 and T4A Supplementary slips, contact your tax services office or tax centre. You can find the addresses and telephone numbers listed under "Revenue Canada" in the Government of Canada section of the telephone book.

Notice

Business Number (BN)

The BN is a numbering system designed to replace with one number the multiple numbers that businesses use to do business with the federal government.

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

- corporate income tax;
- import/export;
- payroll deductions; and
- goods and services tax.

Revenue Canada business clients have to convert their accounts to the BN by December 31, 1996. Eventually, businesses will be able to use their BN, for other Revenue Canada accounts as well as other federal and provincial government programs.

Chapter 1 – Automobile Benefits

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

- a standby charge for the year¹; and

Under proposed changes, for 1996 and later tax years, any tax payable by employers in buying or leasing an employer-provided automobile must be included in calculating the automobile standby charge benefit. The calculation must include any GST and provincial tax actually payable by employers as well as tax that would have been payable if the employers were not exempt from the payment of the tax because of the type of employers they are or the nature of the use of the property.

Paragraph 6(1)(e.1) of the *Income Tax Act* has been repealed and subsection 6(7) has been amended to reflect these changes.

- an operating cost benefit for the year;

minus

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

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

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

Definitions

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

Automobile

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

An automobile **does not** include:

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

Motor vehicle

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

Automobile availability

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

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

Personal driving

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

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

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

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

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

Your automobile costs

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

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

Note

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

Leasing costs

Leasing costs in determining the standby charge include:

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

Leasing costs do not include liability and collision insurance costs.

Operating costs

Operating costs include:

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

Operating costs do not include:

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

Standby charge

Under proposed changes, for 1996 and later tax years, any tax payable by employers in buying or leasing an employer-provided automobile must be included in calculating the automobile standby charge benefit. The calculation must include any GST or provincial tax actually payable by employers as well as tax that would have been so payable if the employers were not exempt from the payment of that tax because of the type of employers they are or the nature of the use of the property.

Paragraph 6(1)(e.1) of the *Income Tax Act* has been repealed and subsection 6(7) has been amended to reflect these changes.

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

Automobiles you own

Base the standby charge on:

- 2% of the automobile's cost to you;
- the number of 30-day periods in the year the automobile was available to the employee (when you divide the number of days the automobile was available to the employee by 30, see the "Work sheet" provided at page 10 to know how to round off the resulting amount);
- the personal driving the employee did while the automobile was available to the employee; and
- the amount of any payment (reimbursement) you received from the employee for the standby charge.

Fleet operations

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

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

Automobiles you lease

Base the standby charge on:

- two-thirds of the cost of your automobile lease less the amount payable to the lessor for insuring against loss, damage, or liability resulting from use of the automobile;
- the number of 30-day periods in the year the automobile was available to the employee (when you divide the number of days the automobile was available to the

employee by 30, see the "Work sheet" provided at page 10 to know how to round off the resulting amount);

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

Lump-sum lease payments

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

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

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

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

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

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

Reducing the standby charge

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

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

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

You can choose the rate of 1.5% instead of 2% for the standby charge, and calculate the cost of your automobile as the greater of the following two amounts:

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

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

Operating cost benefit

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

If you pay any amount of operating expenses for the personal use of an automobile you provide to an employee, you have to calculate the operating cost benefit using a charge based on a fixed rate for 1996 and later tax years of 13¢ per kilometre of personal use. The fixed rate of 13¢ per kilometre includes GST.

Example

In 1996, your employee used a car to travel 4,000 kilometres for personal use. The operating cost benefit is:

$$4,000 \text{ km} \times 13¢ \text{ per km} = \$520$$

Reimbursement

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

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

Example

In 1996, you provide your employee with an automobile.

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

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

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

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

If the employee reimburses the total amount of \$1,000 in the year or no later than 45 days after the end of the year, you do not have to calculate an operating cost benefit for this employee.

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

$$10,000 \text{ km} \times 13¢ \text{ per km} = \$1,300$$
$$\$1,300 - \$800 = \$500$$

The operating cost benefit will be \$500.

For 1996 and later tax years, the fixed rate you use to calculate the value of the benefit an employee drives from the personal use of your automobile for employees whose principal source of employment is selling or leasing automobiles is 10¢ per kilometre.

Note

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

Optional calculation of the operating cost benefit

You can reduce the vehicle's operating cost benefit if:

- you include a standby charge in your employee's income;
- your employee uses the automobile more than 50% for business purposes; and
- your employee notifies you in writing, before the end of the tax year, to use this method.

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

Reimbursement

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

Work sheet – Calculating automobile benefits

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

CALCULATING AUTOMOBILE BENEFITS FOR 1996 AND LATER TAX YEARS

Last name	First name	Social insurance number
Address		

Please read the following instructions carefully:

1. PST means provincial sales tax. GST means goods and services tax.
2. For the meaning of **cost of automobile**, see the definitions at the beginning of this chapter.
3. You must determine the number of days the automobile was available to the employee for the entire calendar year (including weekends and holidays).
4. * When you divide the total days available by 30, round off the result to the nearest whole number if it is more than one.
 Examples: Available 20 days ÷ 30 = 0.67 (do not round off).
 Available 130 days ÷ 30 = 4.33 (round to 4).
 Available 135 days ÷ 30 = 4.50 (round to 4).
 Available 140 days ÷ 30 = 4.67 (round to 5).
5. The highest average cost of automobiles is one of the following amounts, whichever is more:
 - a) the average cost of all automobiles you acquired to sell or lease in the year; or
 - b) the average cost of all **new** automobiles you acquired to sell or lease in the year.
6. Calculate the standby charge at a reduced rate if you meet the following conditions:
 - a) you require employees to use the automobile to perform their duties;
 - b) the employee uses the automobile at least 90% of the time for business purposes; and
 - c) the number of personal-use kilometres in a taxation year is less than 12,000 kilometres.
7. Keep in mind that the optional calculation in "Step 2 - Operating cost benefit" may not be beneficial in all cases.

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

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

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

(see reverse)

Step 2 - Operating cost benefit

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

Basic calculation for 1996 and later tax years

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

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

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

OR

- ii) the employee occupies any other employment

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

OR

Optional calculation

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

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

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

Amount 1, 2, or 3 above \$
 Minus: Employee reimbursements attributable to the operating cost benefit made no later than 45 days after the end of the year \$
 Operating cost benefit (if negative, enter "0") \$ (B)

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

Payroll deductions and reporting taxable automobile benefits

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

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

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

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.

Shareholders

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

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

However, you must report the benefit on a T4A Supplementary slip when:

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

Automobile allowances

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

There is no GST on automobile allowances.

Non-taxable allowances

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

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

- it is based solely on the number of business kilometres driven in a year;
- the rate per kilometre is reasonable; and
- you did not reimburse the employee for expenses that relate to the same use.

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

Note

The type of vehicle and the driving conditions usually determine whether we consider a motor vehicle allowance to be reasonable. The automobile allowance rates per kilometre that we usually consider reasonable are the amounts prescribed in section 7306 of the *Income Tax Regulations*.

For 1996 and later tax years, the rates are:

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

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

Reimbursement

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

Advance

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

Note

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

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

Payroll deductions and reporting automobile allowances

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

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

Do not include this amount in income. It is not taxable and is not subject to income tax deductions, Canada Pension Plan (CPP) contributions, or Employment Insurance (EI) premiums. Do not report this amount on the employee's T4 Supplementary slip.

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

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

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

In this case, the total amount is subject to income tax, CPP, and EI deductions. Include the yearly total of these allowances in box 14, "Employment income before deductions," and in box 40, "Other taxable allowances and benefits," on your employee's T4 Supplementary slip. When your employees complete individual income tax returns, they may be able to deduct the allowable expenses, if they meet the conditions of paragraph 8(1)(f) or (h.1) of the *Income Tax Act*. Each of your employees has to complete a Form T2200, *Declaration of Conditions of Employment*. You have to sign the forms to certify that your employees met the required conditions during the year. They do not have to submit this form with their income tax return. However, they have to keep it in case we ask to see it.

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

We consider these allowances to be two separate allowances. **Include** the flat-rate allowance in income, and **exclude** the reasonable per-kilometre allowance from income. Employees in this situation would not usually be able to claim automobile expenses, since they received an allowance that you excluded from their income. However, we offer administrative relief to

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

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

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

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

Averaging allowances

An automobile allowance must be based on a reasonable per-kilometre amount to be excluded from an employee's income. A flat-rate or lump-sum automobile allowance can not be averaged at the end of the year to determine a reasonable per-kilometre rate.

To comply with the rules on automobile allowances, employees must file expense claims with you on an ongoing basis to claim a per-kilometre allowance. However, we understand the administrative problems that can result from this. As a result, we are providing you with an alternative. If you make accountable advances to employees for automobile expenses, you do not have to include them in the employee's income if the following conditions are met:

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

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

Employees have to account for the business kilometres they travelled and any advances they received. They must do so on the date they cease employment in the year, or by the calendar year end, whichever is earlier. At that time, you have to pay any amounts you owe the employee, and the employee must repay any amount over expenses.

We cannot accept your simply reporting the excess advances on the employee's T4 Supplementary slip.

Reducing tax deductions at source on automobile allowances

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

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

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

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

Chapter 2 – Other Taxable Benefits

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

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

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

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

Note

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

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

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

Educational allowances

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

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

There is no GST on the educational allowances.

Employee counselling services

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

Calculate the GST on such a benefit as 7% of the benefit before any provincial sales tax.

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

- the mental or physical health (e.g., tobacco, drug, and alcohol abuse, as well as stress management) of an employee or a person related to an employee (this does not include amounts for using recreational or sporting facilities and club dues);
- an employee's reemployment; and
- an employee's retirement.

Professional fees

If you pay or reimburse professional membership dues because membership in the organization or association is a condition of employment, there is no taxable benefit to the employee. Whether or not membership is a condition of employment depends on each situation. As the employer, you are responsible for making this determination. You must be prepared to justify your position if we ask you to do so. In all other situations when you pay or reimburse an employee's professional membership dues, there is a taxable benefit to the employee.

Gifts

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

If the gift is all in cash, do not collect GST. If any part of the gift is in kind, calculate the GST on the benefit as 7% of the benefit before any provincial sales tax.

Note

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

When the gift's value is more than \$100, or if the gift is not for Christmas (or an occasion like Christmas) or a wedding, the value of the gift is a taxable benefit.

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

Awards for employees' suggestions

Many employers have plans to encourage the making of suggestions by employees for the improvement of processes, the saving of materials, etc., under which awards or payments are made to employees for acceptable ideas. Such awards, where there is no acquisition of capital property, are income of the employees. This is the case even when suggestions are not directly connected with the employees' duties.

There is no GST on the part of an award that you give in cash. However, if any part of the award is in kind, the GST on the benefit is 7% of the amount included in the benefit before any provincial sales tax.

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

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

Group term life insurance policies: Employer-paid premiums

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

The employee benefit is the total of the following items:

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

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

You have to report this benefit for current employees on a T4 Supplementary slip, and for former employees on a T4A Supplementary slip. The \$500 reporting threshold for T4A Supplementary slips described in Chapter 6 of the *Employers' Guide to Payroll Deductions – Basic Information* will not apply.

For 1996 and later tax years, if you provide group term life insurance taxable benefits to former employees or employees of a multi-employer benefit plan, you have to prepare a T4A Supplementary slip, **only** if the benefit is more than \$25. Enter the group term life insurance benefits in box 28, "Other income," of the T4A Supplementary slip.

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

There is no GST on this benefit.

Note

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

Holiday trips, other prizes, and incentive awards

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

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

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

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

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

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

Housing, board, and lodging

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

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

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

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

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

There is an exception to these rules when you provide board and lodging to an employee who works at a remote location or a special work site. For more information, see "Employment at special work sites and remote work locations" in Chapter 8 of the *Employers' Guide to Payroll Deductions – Basic Information*.

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

Subsidized meals

If you provide subsidized meals to an employee (e.g., in an employee dining room or cafeteria), **we do not** consider these meals as a taxable benefit as long as the employee pays a reasonable charge. A reasonable charge is one that covers the cost of the food, its preparation, and service. The value of the benefit is the cost of the meals **minus** any payment the employee makes. Include the taxable benefit in box 14 and box 30, "Housing, board, and lodging," on the employee's T4 Supplementary slip.

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

Housing and travel assistance benefits in a prescribed zone

Reporting

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

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

Note

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

- b) **Other travel assistance** – This benefit is for travel for any purpose other than business or medical reasons. It includes travel for vacation, bereavement, and compassionate reasons. Include this amount in boxes 32 and 14 of the T4 Supplementary slip.
- c) **The valuation of the housing benefit** – You have to put a value on and report all housing benefits you provide to your employee. This includes any utilities

you subsidize or provide. Include this amount in boxes 30 and 14 of the T4 Supplementary slip.

- d) **Board and lodging at a special work site that we also consider as a prescribed zone** – Do not include in boxes 30 and 14 of the T4 Supplementary slip any board and lodging benefits an employee receives while working at a special work site. Show this amount as a footnote only. In the footnotes area, enter "Box 30, Special work site \$_____."

Note

Include the GST at the rate of 7% to related benefits.

Benefits supplied by a third party

If you are a **third party** (a prime contractor or an subcontractor) and you supply benefits for board and lodging, or transportation to employees of another subcontractor, there are special instructions for reporting on the T4A Supplementary slip. For details, see "How to complete the T4A Supplementary slip," box 28 – item 13, in Chapter 6 of the *Employers' Guide to Payroll Deductions – Basic Information*.

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

Interest-free and low-interest loans

You have to include in income any benefits that an individual receives as a result of an interest-free or low-interest loan because of an **office, employment, or shareholdings**. The benefit is the amount of interest that the individual would have paid for the year at the prescribed interest rates (see "Prescribed rates of interest" later in this section) **minus** the amount of interest that the borrower pays on the loan in the year (or no later than 30 days after the end of the year). Some loans (see "Exceptions" later in this section) are excepted from this rule, and special rules apply to home-relocation loans (see "Home-relocation loans" later in this chapter.)

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

There is no GST on these benefits.

Loans received because of employment

We consider an employee as receiving a taxable benefit if the *employee receives a loan because of an office or employment or intended office or employment*. Any individual can receive the loan, including the employee or the employee's spouse. A loan includes any other indebtedness (e.g., the unpaid purchase price of goods or services).

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

- a) the interest on each loan and debt, calculated at the prescribed rate for the period in the year during which it was outstanding;
- b) interest on the loan or debt that was paid or payable for the year by you the employer (for this purpose, an

employer is a person or partnership that employed or intended to employ the individual, and also includes a person related to the person or partnership);

minus the total of the following two amounts:

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

Note

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

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

Example of calculating taxable benefit

Joshua is your employee. He borrowed \$150,000 from you on January 2, 1996. The prescribed rate for the loan for 1996 is 7% for the first quarter of the year, 6% for the second quarter, and 5% for the third and the fourth quarters. Joshua paid you \$3,000 interest on the loan no later than 30 days after the end of the year. During the year, a company related to you paid \$1,000 interest on the loan for Joshua's. Before the end of the same year, Joshua repaid \$1,000 to the company. You determine the benefit to include in Joshua's income as follows:

a) Prescribed rate × loan amount for the period in the year:		
■ 7% × \$150,000 × 1/4 = \$2,625		
■ 6% × \$150,000 × 1/4 = 2,250		
■ 5% × \$150,000 × 1/4 = 1,875		
■ 5% × \$150,000 × 1/4 = 1,875		\$8,625
plus		
b) Amount a third party paid		<u>1,000</u>
		\$9,625
minus		
c) Amount of interest paid (\$3,000 + \$1,000) =		\$4,000
d) Amount Joshua repaid	<u>1,000</u>	<u>5,000</u>
Joshua's taxable benefit.....		\$4,625

Loans received because of shareholdings

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

- the loan is received by a person or a partnership (except when the person is a corporation resident in Canada, or

the partnership is one in which each partner is a corporation resident in Canada);

- this person or partnership is:
 - a shareholder of a corporation;
 - connected with a shareholder of a corporation; or
 - a member of a partnership or a beneficiary of a trust that was a shareholder of a corporation; and
- because of these shareholdings, the person or partnership receives a loan from or incurs a debt to that corporation, a related corporation, or a partnership of which that corporation or any related corporation was a member.

If these conditions are met, we consider that the person or partnership (i.e., shareholder) received a benefit in the tax year which is equal to:

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

minus

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

Note

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

Exceptions

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

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

Home-relocation loans

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

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

Calculating the deduction

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

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

The result is the amount the employees can deduct on their income tax returns as "Employee home-relocation loan deduction."

Note

- The deduction for the home-relocation loan is only available for the first five years of the loan.
- A loan for a home-purchase is any part of a loan to an employee that was used to acquire or repay another loan to buy a dwelling to house that employee or a person related to that employee. This also applies to a shareholder or a person related to a shareholder.
- For a home-purchase loan or a home-relocation loan, the amount of interest you calculate as a benefit for loans received because of employment should not be more than the interest that would have been charged at the prescribed rate in effect when the employee made the loan or incurred the debt.
- A home-purchase loan or a home-relocation loan may have a term of repayment that is more than five years. In this case, we consider the balance owing at the end of five years (from the day the loan was made) to be a new home-purchase loan that the person receives on that date. To determine the benefit, use the prescribed rate in effect at that time.

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

Report the benefits in this way:

- If an employee receives a loan or incurs a debt because of employment, report the benefit on a T4 Supplementary slip. Enter the amount of the benefit in box 36 and box 14. Make sure you identify the amount the employee can deduct. In the footnotes area, enter: "Box 36, Home loan \$_____."
- If a person or partnership that was a shareholder (or was related to a shareholder) receives a loan or incurs a debt, you generally have to report the benefit on a T4A Supplementary slip. Enter the amount in box 28, "Other income," on the borrower's T4A Supplementary slip. In the footnotes area, enter: "Box 28, Benefit under subsection 80.4(2) \$_____." In box 38, enter code 17.

Deductibility of deemed interest benefit

The taxable benefit you include in an individual's income (see the previous sections, "Loans received because of employment" or "Loans received because of shareholdings") is the borrower's interest expense for the year. If the borrower uses the funds to earn income from business, property, or employment, the borrower may be able to deduct this interest from income. You still have to include the full benefit in the earnings you report on the T4 or T4A Supplementary slips.

Prescribed rates of interest

The following chart shows the prescribed rates of interest for 1992 to 1996:

Quarterly rates					
Quarter	1992	1993	1994	1995	1996
1st	9%	8%	5%	6%	7%
2nd	8%	7%	4%	8%	6%
3rd	7%	6%	6%	9%	5%
4th	6%	5%	7%	7%	5%

Medical expenses you pay

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

There is no GST on this benefit.

Note

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

Municipal officer's expense allowance

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

If the expense allowance is **more than one-third** of the officer's salary and allowances, the excess amount is a taxable benefit. Enter it in box 40, and include the amount in box 14 of the T4 Supplementary slip. In the footnotes area of the T4 Supplementary slip, enter: "Municipal officer's allowance, not included in box 40, \$_____."

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

There is no GST on this type of allowance.

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

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

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

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

Also, if you are the former employer of an employee who has retired, any amount you pay as a contribution to a provincial health services insurance plan for the retired employee is a taxable benefit. Report this benefit in box 28 of a T4A Supplementary slip. In the footnotes area, enter: "Box 28, Medical premium benefit: \$_____." In box 38, enter code 18. For more information, see Interpretation Bulletin IT-247, *Employer's Contribution to Pensioners' Premiums Under Provincial Medical and Hospital Services Plans*.

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

There is no GST on this type of benefit.

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

Registered retirement savings plans (RRSPs)

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

There is no GST on this benefit.

Stock options

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

There is no GST on this benefit.

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

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

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

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

For paragraph 110(1)(d)

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

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

- a corporation agreed to sell or issue to the employee a share of its capital stock or the capital stock of another corporation that it does not deal with at arm's length;
- the employee dealt at arm's length with these corporations right after the agreement was made;
- the share was a prescribed share (as defined in the *Income Tax Regulations*) when issued or sold; and
- the price of the share is not less than its fair market value when the agreement was made.

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

Note

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

For paragraph 110(1)(d.1)

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

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

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

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

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

Note

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

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

Spouse's travelling expenses

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

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

The GST on this type of benefit is 7% of the amounts you included in the benefit before any provincial sales tax.

Note

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

Travelling allowances to a part-time employee

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

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

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

Tuition fees, scholarships, and bursaries

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

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

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

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

For more information, see Interpretation Bulletins IT-75, *Scholarships, Fellowships, Bursaries, Prizes and Research Grants*, IT-470, *Employees' Fringe Benefits* and its Special Release, IT-516, *Tuition Tax Credit*, and Information Circular 75-23, *Tuition Fees and Charitable Donations Paid to Privately Supported Secular and Religious Schools*.

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

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

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

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

There is no GST on this benefit.

Disability-related employment benefits

Certain benefits you provide to employees with a disability are not taxable.

Reasonable transportation costs between an employee's home and work location (including parking near that location) are not taxable if you pay them to or for an employee who is legally blind or who has a severe and prolonged mobility impairment. The effects of the impairment must be such that the individual's ability to perform a basic activity of daily living is markedly restricted.

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

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

Note

Do not deduct tax, Canada Pension Plan contributions or Employment Insurance premiums from these disability-related employment benefits.

Group disability benefits – Insolvent insurer

Tax change announced on April 26, 1995

The proposed change provides that, for purposes of paragraph 6(1)(f) of the *Income Tax Act*, a **top-up disability payment** includes a payment made by an employer directly to an individual to replace all or part of the periodic payments that, because of an insurer's insolvency, are no longer being made to the individual under a disability policy where the employer made contributions under the policy. This treatment will permit the continued deduction of contributions made by the employee to be taken into account in determining the amount to be included in the employee's income from employment under paragraph 6(1)(f).

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

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

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

Discounts on merchandise and commissions on sales

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

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

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

If you sell merchandise to employees at below cost, the taxable benefit is the difference between the fair market value of the goods and the price the employees paid.

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

If a taxable benefit arises under any discount arrangement, the GST on the benefit is 7% of the benefit before any provincial sales tax.

Premiums under a private health services plan

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

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

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

Recreational facilities

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

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

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

Moving expenses

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

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

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

We do not consider the following expenses to be a taxable benefit to your employees if you paid or reimbursed them:

- the cost of house-hunting trips to the new location, which includes child and pet-care expenses while employees are away;
- travelling costs (including a reasonable amount spent for meals and lodging) while employees and members of the employees' households were moving from old residences to new residences;
- the cost to employees of transporting or storing household effects while moving from their old residences to new residences;
- costs to move personal items such as automobiles, boats, or trailers;
- charges and fees to disconnect telephones, television aerials, water, space heaters, air conditioners, gas barbecues, automatic garage doors, and water heaters;
- fees to cancel leases;
- mortgage discharge penalties;
- mortgage interest, property taxes, heat, hydro, insurance, and grounds maintenance costs to keep up old residences after the move, when all reasonable efforts to sell them have not been successful;
- charges to connect and install utilities, appliances, and fixtures that existed at old residences;
- adjustments and alterations to existing furniture and fixtures to arrange them in new residences, which include plumbing and electrical changes in new residences;
- automobile licences, inspections, and drivers' permit fees, if employees owned these items at the former location;
- legal fees and land transfer tax to buy new residences;
- the cost to revise wills, if needed because of the move;
- reasonable temporary living expenses while waiting to occupy new, permanent accommodations;
- long-distance telephone charges that relate to selling old residences;
- loss on selling old residences as outlined in paragraph 37 of Interpretation Bulletin IT-470, *Employees' Fringe Benefits*; and
- interest costs on bridge financing to buy new residences, as long as all reasonable efforts have been made to sell old residences.

If you pay or reimburse moving costs that we do not list above, we may consider the amounts to be a taxable benefit to the employees. The GST on this type of benefit is 7% of the benefit before any provincial sales tax.

Allowances that employees do not have to account for are called **non-accountable allowances**. We consider a non-accountable allowance for incidental relocation or

moving expenses of **up to \$650** to be a reimbursement of expenses that employees incurred because of the move. Therefore, this type of allowance is not taxable. For us to consider it as a reimbursement for incidental expenses, employees have to certify in writing that they incurred expenses for at least the amount of the allowance, up to a maximum of \$650.

Example

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

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

There is no GST on these allowances.

If you do not reimburse, or only partly reimburse, employees for moving expenses, the employees may be able to claim some of the moving expenses as a deduction from income when filing their income tax returns. If you or your employees would like more information, see Interpretation Bulletin IT-178, *Moving Expenses*, and its Special Release, and Form T1-M, *Claim for Moving Expenses*. Both are available at any tax services office or tax centre.

Subsidized school services

In remote areas, employers are often responsible for essential community services that municipalities usually provide. If you provide free or subsidized school services for your employees' children, **we do not consider** the employees as receiving a taxable benefit. This does not include an educational allowance you pay directly to your employees, as we discussed earlier in this chapter under the heading "Educational allowances."

Transportation to the job

For security or other reasons, there are times when public and private vehicles are neither allowed nor practical at an employment location. As a result, you may need to provide your employees with transportation from pick-up points to that location. This transportation is **not** a taxable benefit. For more information, see "Employment at special work sites and remote work locations" in Chapter 8 of the *Employers' Guide to Payroll Deductions – Basic Information*.

Uniforms and special clothing

We do not consider employees to be receiving a taxable benefit when:

- you supply them with a distinctive uniform they have to wear while they carry out their employment duties; or

- you provide them with special clothing (including safety footwear) designed to protect them from hazards associated with the employment.

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

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

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

If these three conditions are not met, the payments are a **taxable** benefit. The GST on this type of benefit is 7% of the benefit before any provincial sales tax.

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

Volunteer firefighters – Expense allowance

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

Employer-provided parking

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

The GST on this type of benefit is 7% of the benefit before any provincial sales tax.

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

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

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

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

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

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

Chapter 3 – The GST and Employee Benefits

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

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

Employee benefits

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

For the most part, the GST 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 will consider that you 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 at the rate of 7%, we consider that you collected the GST on the taxable benefit. However, there are situations where you will not be considered to have collected the GST on taxable benefits given to employees. We explain these situations below.

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

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

- goods and services that give rise to a taxable benefit are GST-exempt or zero-rated;
- goods and services that give rise to a taxable benefit are an **allowance** included in the income of the employee under paragraph 6(1)(b) of the *Income Tax Act*, such as a non-reasonable allowance for automobile expenses;

- you cannot claim an input tax credit for the GST you paid or owe on the goods and services which give rise to the taxable benefit (see “Input Tax Credit (ITC)” later in this chapter for situations in which you cannot claim this credit);

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

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

*Note

To make this election, complete Form GST 30, *Election for Passenger Vehicles or Aircraft to be Deemed to be Used Exclusively in Non-Commercial Activities*, or a statement containing the same information. You do not have to file this form or statement, but you must keep it with your records for audit purposes. For more information about this election, see GST Memorandum 400-3-2-1, *Automobile Benefits*, or contact us.

When are you considered to have collected the GST?

We consider that you collected the GST on a taxable benefit subject to GST at the end of February in the year following the year in which you gave the benefit. This corresponds with the deadline for calculating employee benefits for income tax purposes and for issuing T4 Supplementary slips. For example, for taxable benefits you gave to your employees during the 1996 taxation year, we consider that you collected the GST at the end of February 1997. You have to include this amount in your GST return for the reporting period that includes the last day of February 1997.

Example

You are a GST registrant and have a monthly reporting period. At the end of February 1997, you calculated the total taxable benefits given to your employees for 1996, including any GST and PST. We consider that you collected the GST on the taxable benefits at the end of February 1997. In your February 1997 GST return, you have to include the GST relating to the taxable benefits given to your employees in 1996. You have to file this return by the end of March 1997.

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

To calculate the amount of GST you are considered to have collected on a taxable benefit, you have to calculate the value of the benefit for GST purposes. Under proposed changes, for 1996 and later tax years, the value of the benefit for GST purposes is the total of the following two amounts:

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

For automobile operating cost benefits, the amount of GST you are considered to have collected is equal to 5% of the value calculated above. In all other cases, the amount of GST that you are considered to have collected is equal to 6/106 of the value calculated above.

Note

When an employee or an employee's relative has refunded the entire taxable benefit for a standby charge or operating cost of an automobile, and consequently, there is no benefit reported on the T4 Supplementary slip, the value of the benefit for GST purposes is equal to the amount of the reimbursement. However, when an employee or an employee's relative has refunded an amount for a taxable benefit **other** than in respect of a standby charge or operating cost of an automobile, you are considered to have collected the GST on this benefit for an amount equal to 7/107 of the reimbursed amount. In this situation, you have to include the GST relating to that benefit in your GST return for the reporting period that includes the date of reimbursement.

Input tax credit (ITC)

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

For employee benefits, you can usually claim an ITC for the GST 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 you paid or owe for benefits you gave to your employees. For information on these situations, read the following section.

ITC restrictions

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

Club memberships

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

Exclusive personal use

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

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

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

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

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

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

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

Property acquired before 1991 or from a non-registrant

Generally, if you acquired property before 1991, you did not pay GST. Also, you do not generally pay any GST when

you acquire property from a non-registrant. Consequently, you cannot claim an ITC under these circumstances. However, if you make this property available to your employee and the benefit is taxable for income tax purposes, you may still be considered to have collected the GST on this benefit.

Example

You bought a passenger vehicle in 1990 and made it available to your employee throughout 1996. The passenger vehicle is used more than 90% in the commercial activities of your business. You report the value of the benefit, including GST and PST, on the employee's T4 Supplementary slip. For GST purposes, you will be considered to have collected the GST on this benefit even if you could not claim an ITC on the purchase of the passenger vehicle.

Summary

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

Step 1 – Establish whether the benefit is taxable under the *Income Tax Act*, and subject to the GST at the rate of 7% (see the previous chapters). If the benefit is not taxable or is not subject to the GST, you are not considered to have collected any GST on the benefit and consequently you will not have to remit any GST on the benefit.

Step 2 – For each taxable benefit, establish whether one of the situations listed in the section called "Situations where you will not be considered to have collected the GST on taxable benefits given to employees" on page 24, applies. If one of these situations applies, you are not considered to have collected the GST on this benefit and consequently, you will not have to remit any GST on the benefit.

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

Step 4 – Enter the amount of GST due on your GST return and send your remittance, if applicable, with your GST return for the reporting period that includes the last day of February 1997*.

*Note

The GST amount may be due in a different reporting period if the GST is in respect of a reimbursement made by an employee or an employee's relative in certain circumstances. For more information, see the note in the section "How do you calculate the amount of GST you are considered to have collected?" on page 25. The following examples will help you apply the GST rules on employee benefits.

Example 1: Vehicles the employer buys

As a corporation registered for the GST, you buy a vehicle that is used more than 50% in commercial activities, and is made available to your employee during 1996. Using the

worksheet on page 10 called "Calculating Automobile Benefits," you calculated a taxable benefit (including GST and PST) of \$4,800 on the standby charge, and an operating cost benefit of \$600. You received a reimbursement of \$1,800 from your employee in respect of the automobile operating costs within 45 days following the end of 1996. You did not include this amount as a benefit.

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

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

Standby charge

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

GST considered to be
collected on benefit $\$4,800 \times 6/106 = \271.69

Operating cost

Taxable benefit reported on
T4 Supplementary slip \$600

Employee partial reimbursement of
operating cost \$1,800

Total value of the benefit \$2,400

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

**Total GST to be remitted on the automobile
benefit** **\$391.69**

You are considered to have collected \$391.69 at the end of February 1997. You have to include this amount on your GST return for the reporting period that includes the last day of February 1997.

Example 2: Gifts

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

Example 3: Special clothing

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

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

Appendix

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

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

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

- a flat-rate automobile allowance and a reasonable per-kilometre automobile allowance..... 13
- board and lodging at a special work site that we also consider as a prescribed zone 17
- interest-free and low-interest loans (employee and shareholder) 18
- medical travel assistance 16
- municipal officer's expense allowance 19
- premiums under provincial hospitalization, medical care insurance, and certain federal government plans 19
- stock options 19
- scholarships, bursaries, or fellowships 21

Sample Forms

T4 Supplementary slip

Revenu Canada		Revenu Canada		T4 - 1996 Supplementary		STATEMENT OF REMUNERATION PAID		ÉTAT DE LA RÉMUNÉRATION PAYÉE		R							
14	Employment income before deductions Revenus d'emploi avant retenues	16	Employer's CPP contributions Cotisations de l'employé au RPC	17	Employee's QPP contributions Cotisations de l'employé au RAO	18	Employee's EI premiums Cotisations de l'employé à l'AE	20	Registered pension plan contributions Cotisations à un régime de pension agréé	22	Income tax deducted Impôt sur le revenu retenu	24	EI insurable earnings Gains assurables d'AE	26	CPP/QPP pensionable earnings Gains donnant droit à pension - RPC/RAO	28	Exempt CPP/QPP EI Exemption
30	Housing, board, and lodging Logement, pension et repas	32	Travel in a prescribed zone Voyage dans une zone visée par règlement	34	Personal use of employer's auto Usage personnel de l'auto de l'employeur	36	Interest-free and low-interest loan Prêts sans intérêt ou à faible intérêt	38	Stock option benefits Avantages tirés d'une option d'achat d'actions	40	Other taxable allowances and benefits Autres allocations et avantages imposables	42	Employment commissions Commissions d'emploi				
44	Union dues Cotisations syndicales	46	Charitable donations Dons de bienfaisance	50	Pension plan or DPSP registration number Numéro d'agrément d'un RPDB ou d'un régime de pension	52	Pension adjustment Facteur d'équivalence	10	Province of employment Province d'emploi	12	Social insurance number Numéro d'assurance sociale	If your SIN is not in box 12, see the back of this slip. Si votre NAS ne figure pas à la case 12, lisez le verso de ce feuillet.					
Employee's name and address - Nom et adresse de l'employé						Employer's name - Nom de l'employeur											
Surname (in capital letters) Nom de famille (en lettres majuscules)			First name Prénom			Initials Initiales			58 Employee no. - N° de l'employé			54 Business No. - N° d'entreprise					
Footnotes - Notes :																	

0762 Return with T4 Summary return
À retourner avec la déclaration T4 Sommaire **1**

T4A Supplementary slip

Revenu Canada		Revenu Canada		T4A - 1996 Supplementary		STATEMENT OF PENSION, RETIREMENT, ANNUITY, AND OTHER INCOME		ÉTAT DU REVENU DE PENSION, DE RETRAITE, DE RENTE OU D'AUTRES SOURCES		To be kept by the employer or payer À conserver par l'employeur ou le payeur		4	
16	Pension or superannuation Prestations de retraite ou autres pensions	18	Lump-sum payments Paiements forfaitsaires	20	Self-employed commissions Commissions d'un travail indépendant	22	Income tax deducted Impôt sur le revenu retenu	24	Annuities Rentés	26	Retiring allowances Allocations de retraite	28	Other income Autres revenus
30	Patronage allocations Répartitions selon l'apport commercial	32	Registered pension plan contributions (past service) Cotisations à un régime de pension agréé (services passés)	34	Pension adjustment Facteur d'équivalence	36	Pension plan registration number Numéro d'agrément du régime de pension	46	Charitable donations Dons de bienfaisance	12	Social insurance number Numéro d'assurance sociale	38	Footnote codes Codes de notes
Recipient's name and address - Nom et adresse du bénéficiaire						Employer's or payer's name - Nom de l'employeur ou du payeur							
Surname (in capital letters) Nom de famille (en lettres majuscules)			First name Prénom			Initials Initiales			14 Recipient's number Numéro du bénéficiaire			61 Business Number - Numéro d'entreprise	
Footnote codes and explanation - Explication des codes de notes													

T4 Summary form



Revenu Canada / Revenu Canada

See the information on the back of this form. / Lisez les renseignements donnés au verso de ce formulaire.

T4
SUMMARY
SOMMAIRE

SUMMARY OF REMUNERATION PAID
(For the year ending December 31, 1996)
SOMMAIRE DE LA RÉMUNÉRATION
(Pour l'année se terminant le 31 décembre 1996)

0505 44111

Copy 1 / Copie 1

You have to file the T4 Summary on or before February 28, 1997.

Vous devez produire votre déclaration T4 Sommaire au plus tard le 28 février 1997.

Important Employer's name and Business Number has to be the same as on your PD7A remittance form. Le nom et le numéro d'entreprise de l'employeur doivent être les mêmes que ceux qui figurent sur le formulaire de versement PD7A.	Business Number Numéro d'entreprise	Name and address of employer Nom et adresse de l'employeur	
	Tax centre Centre fiscal	TSO code Code du BSF	

T4 Supplementary slips totals If your return has more than 300 T4 slips, complete a T4 Segment form. See the instructions in the Employers' Guide to Payroll Deductions - Basic Information.		Totaux des feuillets T4 Supplémentaire Pour les déclarations renfermant plus de 300 feuillets T4, remplissez un formulaire T4 Segment. Consultez le Guide de l'employeur - Retenues sur la paie - Renseignements de base.	
Total number of T4 slips filed Nombre total de feuillets T4 produits	88		
Employment income before deductions Revenus d'emploi avant retenues	14		Of the total number at left, indicate how many T4 slips are for employees whose addresses are in the U.S.A. Du total inscrit à gauche, indiquez le nombre de feuillets T4 émis pour des employés dont l'adresse est aux E.-U.
Registered pension plan contributions Cotisations à un régime de pension agréé	20		
Pension adjustment Facteur d'équivalence	52		
EI insurable earnings Gains assurables d'AE	24		
Employee's CPP contributions Cotisations de l'employé au RPC	16		
Employer's CPP contributions Cotisations de l'employeur au RPC	27		
Employee's EI premiums Cotisations de l'employé à l'AE	18		
Employer's EI premiums Cotisations de l'employeur à l'AE	19		
Income tax deducted Impôt sur le revenu retenu	22		

Departmental use only Total deductions reported (16 + 27 + 18 + 19 + 22) Total des retenues déclarées (16 + 27 + 18 + 19 + 22)		80	
Minus: remittances - Moins: versements		82	
Difference - Différence			
Overpayment Paiement en trop	84		
* Balance due Solde à payer	86		
* If you have not paid the total deductions reported, include the balance with this completed return. You may have to pay a penalty for late payment if you have any balance owing. Si vous n'avez pas payé le montant total des retenues déclarées, veuillez joindre le solde à payer à cette déclaration. Tout solde à payer est assujéti à une pénalité pour paiement tardif.			
Revenue Canada-issued registration number(s) for RPP or DPSP - Numéro(s) d'agrément émis par Revenu Canada pour le ou les RPA ou RPDB			
71	72	73	
Canadian-controlled private corporations or unincorporated employers: Enter the SIN of the proprietor(s) or principal owner(s). Sociétés privées sous contrôle canadien ou employeurs non contrôlés: inscrivez le NAS du ou des propriétaires.			
74	75		

Person to contact about this return - Personne avec qui communiquer au sujet de cette déclaration		Telephone number - Numéro de téléphone	
76	77	78	79
First name - Prénom	Surname - Nom de famille	Area code - Indicateur régional	

Certification - Attestation

I, _____ certify that the information given in this T4 return (T4 Summary and related T4 Supplementary slips) is, to the best of my knowledge, correct and complete.

Je, _____ atteste que les renseignements fournis dans cette déclaration T4 (la déclaration T4 Sommaire et les feuillets T4 Supplémentaire connexes) sont, à ma connaissance, exacts et complets.

Date _____ Signature of authorized person - Signature d'une personne autorisée _____ Position or office - Titre ou poste _____

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

90	1	Last to current Précédente à courante	91	1	No Non	93		Date
2		No action Aucune mesure	2		Yes Oui	94		A
3		Other Autre	96		Type Genre			B
			97	1	No Non	2	Yes Oui	
						98	1	No Non
						2	Yes Oui	

Memo - Note _____

Late-filing penalty
Pénalité pour production tardive _____

Prepared by - Établi par _____ Date _____

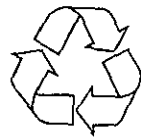


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