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Employers' Guide to Payroll Deductions

Taxable Benefits

1998-1999



Is this guide for you?

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

- automobile benefits;
- housing, board, and lodging;
- housing and travel assistance in a prescribed zone;
- interest-free or low-interest loans;
- group term life insurance policies; and
- tuition fees.

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

This guide is to be used jointly with the *Employers' Guide to Payroll Deductions – Basic Information*.

Problem Resolution Program

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

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

You can find the telephone numbers for your tax services office listed under "Revenue Canada" in the Government of Canada section of your telephone book. The address of your tax centre is listed at the end of the *Employers' Guide to Payroll Deductions – Basic Information*.

If your problem is not resolved to your satisfaction after these steps, you should get in touch with the Problem Resolution Program coordinator of your tax services office.

Visually impaired persons can get this publication in braille or large print, or on audio cassette or computer diskette, by calling 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 reading this guide, please contact your Revenue Canada tax services office or tax centre.

La version française de cette publication est intitulée *Guide de l'employeur – Retenues sur la paie : Avantages imposables*.

Teletypewriter (TTY) users

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

We welcome your suggestions

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

Client Services Directorate
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Ordering publications

Throughout this guide, we mention other publications that cover topics in more detail. To order these publications, complete the order form at the back of the guide, and send it to your tax services office or tax centre. If you do not use the order form, you can order the publications from your tax services office by mail, telephone, or in person. You can also write or go to your tax centre.

You can find the telephone numbers for your tax services office listed under "Revenue Canada" in the Government of Canada section of your telephone book. The address of your tax centre is listed at the end of the *Employers' Guide to Payroll Deductions – Basic Information*.

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

Internet access

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

Table of Contents

	Page		Page
What's New?	4	2.21 Special work sites and remote work locations (board and lodging, and transportation)	23
Notice	4	2.22 Spouse's travelling expenses	24
Chapter 1 – Automobile Benefits and Allowances	5	2.23 Stock options	24
1.1 Definitions	5	2.24 Subsidized school services	25
1.2 Automobile benefits	6	2.25 Transportation to the job	25
Work sheet – <i>Calculating automobile benefits for</i> <i>1998 and later taxation years</i>	9	2.26 Travelling allowances to a part-time employee	25
1.3 Automobile allowances	11	2.27 Tuition fees, scholarships, and bursaries	26
Chapter 2 – Other Taxable Benefits	13	2.28 Uniforms and special clothing	26
2.1 Awards for employees' suggestions	13	2.29 Wage-loss replacement plans or premiums paid to an income maintenance plan	27
2.2 Counselling services	13	Chapter 3 – Housing and Travel Assistance Benefits Paid in a Prescribed Zone	27
2.3 Disability-related employment benefits	14	3.1 Housing	27
2.4 Discounts on merchandise and commissions on sales	14	3.2 Board, lodging, and transportation allowances at a special work site	28
2.5 Educational allowances for children	14	3.3 Travel assistance benefits	28
2.6 Emergency volunteers allowances and deduction ...	14	3.4 Payroll deductions	29
2.7 Gifts	15	Chapter 4 – Remitting GST/HST on Employee Benefits	29
2.8 Group term life insurance policies: Employer-paid premiums	15	4.1 Employee benefits	30
2.9 Holiday trips, other prizes, and incentive awards ...	15	4.2 Situations where you will not be considered to have collected GST/HST on taxable benefits	30
2.10 Housing, board, and lodging	16	4.3 When are you considered to have collected GST/HST?	30
2.11 Interest-free and low-interest loans	17	4.4 How do you calculate the amount of GST/HST you are considered to have collected?	30
2.12 Medical expenses	19	4.5 Input tax credits (ITC)	31
2.13 Moving expenses and relocation benefits	19	4.6 Property acquired before 1991 or from a non-registrant	32
2.14 Municipal officer's expense allowance	21	4.7 Summary	32
2.15 Parking	21	Benefits Chart	34
2.16 Premiums under a private health services plan	21	Order Form	
2.17 Premiums under provincial hospitalization, medical care insurance, and certain Government of Canada plans	22		
2.18 Professional membership dues	22		
2.19 Recreational facilities	22		
2.20 Registered retirement savings plans (RRSPs)	22		

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

What's New?

The new 1998 T4 slip

There is a new **Other information** area at the bottom of the T4. It contains unnumbered boxes where you will enter the codes and amounts that relate to taxable allowances and benefits that apply. You no longer enter footnotes on the T4. See Chapter 6 of the *Employers' Guide to Payroll Deductions – Basic Information* for detailed completion instructions.

Employee home relocation loans

Under proposed changes, benefits resulting from certain home relocation loans made to employees after February 23, 1998, are taxable. See Chapter 2 for details.

Relocation expenses

Under proposed changes, certain amounts paid to employees as reimbursement or compensation for relocation expenses are taxable benefits. See Chapter 2 for details.

Emergency volunteers allowances and deduction

Under proposed changes for 1998 and subsequent taxation years, the \$500 exemption applicable to allowances paid to a volunteer firefighter by a government, municipality, or other public authority will no longer exist.

The \$500 exemption will be replaced with a deduction of up to \$1,000 that volunteers will be able to claim when computing their income. If you are a public authority providing a compensation to an emergency volunteer, you have to identify the deductible portion of that amount. See Chapter 2 for more information.

Employer-paid education costs

We have developed new guidelines on employer-paid educational costs to help you determine if there is a taxable benefit to your employees. Generally, when the training is taken primarily for your benefit, there is no taxable benefit whether or not the training leads to a degree, diploma or certificate. A taxable benefit generally arises when the training is taken primarily for the employee's benefit. See Chapter 2 for more information.

Structure of the guide

- We have reorganized Chapter 2 entirely. Benefits are now presented in alphabetical order.
- The *Employers' Guide to Housing and Travel Assistance Benefits Paid in Prescribed Zones* has been cancelled. The relevant information is now in Chapter 3 of this guide.
- The information on remitting GST/HST on employee benefits can now be found in Chapter 4.

- We have included, at the end of Chapter 4, a chart that lists all taxable allowances and benefits discussed in this guide. The chart indicates which codes to use to report the taxable amounts, and if they are subject to GST/HST.

Notice

Business Number (BN)

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

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

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

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

Work sheet – Calculating automobile benefits for 1998 and later taxation years

Use the work sheet provided on pages 9 and 10 to calculate automobile benefits. Please note that the work sheet is available only in this guide.

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

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

You have to calculate the GST/HST on benefits you paid to employees based on the gross amount of the benefits without taking into account any amounts the employee reimbursed you for those benefits.

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

If you are a GST/HST registrant, you may have to remit the GST/HST relating to taxable benefits paid to your employees. For more information, see Chapter 4, "Remitting GST/HST on Employee Benefits."

Chapter 1 – Automobile Benefits and Allowances

1.1 Definitions

Read through the following definitions. They will help you understand the terms we use and the calculations we explain in this chapter.

Motor vehicle

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

Automobile

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

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:
 - has a seating capacity for not more than the driver and two passengers and in the year it is bought is used primarily to transport goods or equipment in the course of business; or
 - in the year it is bought is used 90% or more of the time to transport goods, equipment, or passengers in the course of business.

Automobile availability

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

Personal driving

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

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

Standby charge

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

Your automobile costs

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

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

Note

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

Leasing costs

Leasing costs in determining the standby charge include:

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

Leasing costs do not include liability and collision insurance costs.

Operating costs

■ Operating costs include:

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

■ Operating costs do not include:

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

1.2 Automobile benefits

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

- a standby charge for the year; and
- an operating cost benefit for the year;

minus

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

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

Note

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

If you are an employer registered for the GST/HST, see Chapter 4, "Remitting GST/HST on Employee Benefits."

Calculating a standby charge benefit

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

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

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.

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

Fleet operations

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

Automobiles you lease

Base the standby charge on:

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

Lump-sum lease payments

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

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

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

- add the terminal charge to the lease costs in the year you terminate the lease; or
- prorate the payment over the term of the lease and amend the T4 or T4A slips of those individuals who used the vehicle, provided that none of the relevant years are statute-barred (which means that the employee can still request an income tax adjustment for the years in question). These individuals can then write to their tax services office or tax centre and ask us to adjust their returns for those years.

You and the employees must agree on the method you choose. Whichever method you use, include GST/HST.

A lump-sum payment you receive at the end of a lease is considered as a terminal credit. When this occurs, the standby charge for the automobile has been overstated since the lease costs should have been lower. In this situation, you can:

- deduct the terminal credit from the lease costs in the year you terminate the lease; or

- amend the T4 and T4A slips of the individuals who used the automobile and give them a letter explaining the reduction, provided that none of the relevant years are statute-barred (which means that the employee can still request an income tax adjustment for the years in question). These individuals can then write to their tax services office or tax centre and ask us to adjust their returns for those years.

You and the employees must agree on the method you choose. Whichever method you use, include the GST/HST.

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 also 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 your automobile cost as the greater of the following two amounts:

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

Partnerships

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

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

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

Calculating an operating cost benefit

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

If you pay any amount of operating expenses for the personal use of an automobile you provide to an employee, you have to calculate the operating cost benefit using a charge based on a fixed rate for 1998 and later taxation years of 14¢ per kilometre of personal use (including GST and PST or HST).

Example

In 1998, your employee used a car to travel 4,000 kilometres for personal use. The operating cost benefit is:

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

Note

If you pay any amount of operating expenses for the personal use of an automobile you provide to an employee whose principal source of employment is selling or leasing automobiles, you have to calculate the operating cost benefit using a charge based on a fixed rate for 1998 and later taxation years of 11¢ per kilometre of personal use (including GST and PST or HST).

Reimbursement for operating costs

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

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

Example

In 1998, you provided 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 reimbursed 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 reimbursed \$800 of the expenses you paid in the year or no later than 45 days after the end of the year, you have to calculate the operating cost benefit as follows:

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

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

The operating cost benefit would be \$600.

Note

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

Optional calculation of the operating cost benefit

You can choose an optional method to calculate the vehicle's operating cost benefit if:

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

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

Note

In some cases, this optional calculation may result in a higher benefit amount than the regular calculation.

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

Withholding payroll deductions on automobile benefits

After you estimate the value of the automobile benefit, prorate the amount to the employee's pay periods. 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 (EI) premiums.

Reporting automobile benefits on the T4

When you pay a taxable automobile benefit, you have to report it on a T4 slip.

At the end of the year, or when the 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, enter code 34 and the amount of the benefit in one of the unnumbered boxes in

the **Other information** area of the T4. Also include this amount in box 14, "Employment income."

Shareholder's benefit

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

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

However, you must report the benefit in box 28 of a T4A slip when:

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

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

Motor vehicle benefit

The personal use of motor vehicles such as trucks, buses, etc., which are not included in the definition of automobiles may also be a taxable benefit. If you provide your employees with such vehicles for personal use, you must reasonably estimate the fair market value of that benefit, including GST/HST.

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

Work sheet – Calculating automobile benefits for 1998 and later taxation years

The following work sheet will help you calculate the value of an employee's automobile benefits. The amount you determine is the taxable benefit you have to report in box 14 and under code 34 on the T4 slip or, if applicable, in box 28 of the T4A slip. This work sheet is available only in this guide.

CALCULATING AUTOMOBILE BENEFITS FOR 1998 AND LATER TAXATION YEARS

Last name	First name	Social insurance number
Address		

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

Step 1 – Standby charge

Simplified calculation

Do this calculation if the following conditions are met:

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

Cost of automobile you provided *

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

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

Minus: Employee reimbursements attributable to standby charge \$ _____

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

Detailed calculation

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

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

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

Choose 1, 2, or 3

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

Reducing the standby charge (see d) above)

Amount from 1, 2, or 3 above	Number of days auto available to employee	Personal kilometres	Number of days auto available to employee	
\$ _____	$\times \left(\frac{\quad}{30^*} \right)$	_____	$\div \left(\left(\frac{\quad}{30^*} \right) \times 1,000 \right)$	= _____ \$ _____ 4

Minus: Employee reimbursements attributable to standby charge \$ _____ **5**

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

(see reverse)

Step 2 – Operating cost benefit

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

Basic calculation for 1998 and later taxation years

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

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

Personal kilometres driven x 11¢ = \$ _____ 6

or

- the employee occupies any other employment

Personal kilometres driven x 14¢ = \$ _____ 7

OR

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

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

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

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

Amount 6, 7, or 8 above \$ _____

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

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

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

1.3 Automobile allowances

An automobile allowance means any payment that employees receive from an employer for using their own motor vehicle in connection with or in the course of their office or employment, in addition to their salary or wages, without having to account for its use. An allowance is subject to tax unless it is a per-kilometre allowance that we consider reasonable.

There is no GST/HST on automobile allowances.

Non-taxable reasonable per-kilometre allowance

If the allowance paid to your employee is based on a per-kilometre rate that we consider reasonable, it is not taxable. When your employees complete their returns, they do not include this allowance in income. A non-taxable allowance is not subject to CPP and EI withholdings.

We consider an allowance for using 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, except in situations where you reimburse an employee for toll or ferry charges or supplementary business insurance if you have determined the allowance without including these reimbursements.

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

Automobile allowance rates

For 1998 and later taxation years, the rates are:

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

Per-kilometre allowances rate that we do not consider reasonable

If the allowance paid to your employee is based on a per-kilometre rate that we do not consider reasonable because it is either too high or too low, it is taxable. When your employees complete their returns, they have to include the allowance in income, and they may be able to deduct the allowable expenses. See "Employees' allowable expenses" later in this section.

Flat-rate allowances

If the allowance paid to your employee is based on a flat rate which is not related to the number of kilometres driven, it is taxable. When your employees complete their returns, they have to include the allowance in income, and they may be able to deduct the allowable expenses. See "Employees' allowable expenses" below.

Combination of flat-rate and reasonable per-kilometre allowances

If the allowance paid to your employee is a combination of flat-rate and reasonable per-kilometre allowances, only the flat-rate portion is taxable.

Employees in this situation would not usually be able to claim automobile expenses on their returns, since they received an allowance (the reasonable per-kilometre portion) that is excluded from their income.

However, we offer administrative relief to employees who receive both types of allowances. When completing their returns, they include both automobile allowances in income and they can claim allowable expenses.

Employees' allowable expenses

When employees claim allowable expenses on their returns, they have to complete Part A of Form T2200, *Declaration of Conditions of Employment*. You have to complete Part B and sign the forms to certify that your employees met the required conditions during the year. They do not have to submit this form with their return; however, they have to keep it in case we ask to see it.

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

Reimbursement for travel expenses

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

Advance for travel expenses

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

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.

Averaging allowances

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

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

We understand the administrative problems that can result from this. As a result, we are 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 **all** of the following conditions are met:

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

Employees have to account for the business kilometres they travelled and any advances they received. They must do so on the date 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 actual expenses.** You cannot simply report the excess advances on the employee's T4 slip.

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

Withholding payroll deductions on taxable automobile allowances

Add the amount of the taxable allowances and the value of other benefits to the employee's salary to determine the total amount subject to payroll deductions of tax, Employment Insurance (EI) premiums, and Canada Pension Plan (CPP) contributions per pay period. The taxable automobile allowances are insurable and are subject to EI premiums.

Reducing tax deductions at source on automobile allowances

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

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

- the type of employment for which you will pay the allowance;
- an estimate of the total automobile allowances the employee will receive in the year;

- an estimate of the business kilometres the employee will drive in the year;
- an estimate of the employee's automobile expenses for the year; and
- the amount for which the employee is requesting the waiver.

If you have a number of employees in the same situation, you can obtain a bulk waiver for the group. This way, employees do not have to request individual waivers. For more information, contact your tax services office.

Reporting automobile allowances on the T4

The following explains how to report automobile allowances on the T4 slip, depending on the type of allowance you pay your employees.

Reasonable per-kilometre allowance

If you paid your employee an allowance that is calculated **only** on a reasonable per-kilometre rate, it is not taxable. Do not report this amount on the employee's T4 slip.

Allowance based on a per-kilometre rate that we do not consider to be reasonable

If you paid your employee a per-kilometre allowance that you calculated on a rate that we do not consider reasonable, it is taxable. Enter the yearly total of this allowance under code **40** in the **Other information** area of the T4 slip. Also include this amount in box 14, "Employment income."

Flat-rate allowance

If you paid your employee a flat-rate allowance that is not based on the number of kilometres driven, it is not considered to be a reasonable allowance and it is taxable. Enter the yearly total of the flat-rate allowance under code **40** in the **Other information** area of the T4 slip. Also include this amount in box 14, "Employment income."

Flat-rate allowance and reasonable per-kilometre allowance

If you paid your employee a flat-rate allowance and a reasonable per-kilometre allowance, you have to treat them separately, as only one of them is taxable. Include the flat-rate allowance in income, and exclude the reasonable per-kilometre allowance from income. Report the yearly total of the allowances on the employee's T4 slip as follows:

- Enter the yearly total of the employee's flat-rate allowance under code **40** in the **Other information** area of the T4 slip. Also include this amount in box 14, "Employment income."
- Enter the yearly total of the employee's reasonable allowance under code **35** in the **Other information** area of the T4 slip. Do not include this amount in box 14, "Employment income," or in the amount you report under code 40.

Chapter 2 – Other Taxable Benefits

General information

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.

Pensionable earnings

Taxable benefits are generally pensionable and therefore subject to Canada Pension Plan (CPP) contributions, regardless of the fact that they may be paid in cash or in kind.

Insurable earnings

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

Taxable benefits in kind, however, are not insurable for EI purposes, except for the value of board and lodging enjoyed by an employee in a period during which you pay the employee cash earnings.

In some situations, non taxable benefits may still be insurable for EI purposes. See the individual sections in this chapter for detailed explanations.

Reporting of benefits

Unless otherwise noted, you must report taxable benefits on a T4 slip in box 14, "Employment income," and under code 40 in the Other information area of the T4, or in some cases on a T4A slip in box 28, "Other income."

If a benefit is non taxable, non pensionable and non insurable, do not report it on a T4 or T4A slip.

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

Goods and services tax (GST) or harmonized sales tax (HST) applies to many of the taxable benefits you include in employment income for income tax purposes. See the individual sections in this chapter to find out if GST/HST applies to the allowances and benefits you pay your employees.

The GST is 7% and the HST is 15% of the amount of the taxable benefit. However, this does not apply to:

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

Benefits Chart

The Benefits Chart on pages 34 and 35 indicates which codes you should use to report the taxable amounts, and if they are subject to GST/HST.

2.1 Awards for employees' suggestions

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

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

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

Notes

This taxable benefit is also pensionable. Deduct income tax and CPP contributions.

If the taxable benefit is paid in cash, it is insurable. Deduct EI premiums. If paid in kind, it is not insurable; do not deduct EI premiums.

2.2 Counselling services

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

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

Employee counselling services are exempt from tax 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 re-employment; and
- an employee's retirement.

Notes

Where the benefit is taxable, it is also pensionable. Deduct income tax and CPP contributions.

If the taxable benefit is paid in cash, it is insurable. Deduct EI premiums. If paid in kind, it is not insurable; do not deduct EI premiums.

2.3 Disability-related employment benefits

Benefits you provide to employees with a disability are generally not taxable.

Reasonable transportation costs between an employee's home and work location (including parking near that location) are not taxable if you pay them to or for an employee who is legally blind or has a severe and prolonged mobility impairment. 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 transit and parking that you provide or subsidize for these employees.

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

Note

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

2.4 Discounts on merchandise and commissions on sales

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

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

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

If a taxable benefit arises under any discount arrangement, and is not an exempt or zero-rated supply, add the GST/HST to the benefit.

Commissions that sales employees receive on merchandise they buy 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.

Note

Where the benefit is taxable, it is also pensionable. However, it is not insurable. Deduct income tax and CPP contributions, but do not deduct EI premiums on these amounts.

2.5 Educational allowances for children

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

However, the educational allowance **may not be taxable** 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 this exemption. For more information, contact your tax services office or tax centre.

There is no GST/HST on educational allowances.

Notes

Where the benefit is taxable, it is also pensionable. Deduct income tax and CPP contributions.

If the taxable benefit is paid in cash, it is insurable. Deduct EI premiums. If paid in kind, it is not insurable; do not deduct EI premiums.

2.6 Emergency volunteers allowances and deduction

Under proposed changes for 1998 and subsequent taxation years, the \$500 exemption applicable to allowances paid to a volunteer firefighter by a government, municipality, or other public authority will no longer exist.

The \$500 exemption will be replaced with a deduction of up to \$1,000, applicable to the total amount received from each public authority, that emergency service volunteers will be able to claim when computing their income. This deduction will apply to the following, as long as they were not employed by the public authority (other than as a volunteer) for the same or similar duties:

- volunteer firefighters;
- volunteer ambulance technicians; and
- emergency service volunteers who assist in the search or rescue of individuals or in other emergency situations and disasters.

You have to include the **entire** amount of the allowance on the volunteer's T4 slip in box 14, "Employment income" and under code 40 in the **Other information** area, even if the employee is entitled to a deduction.

Enter the deductible amount, i.e., the lesser of the allowance paid or \$1,000, under code 76 in the **Other information** area.

There is no GST/HST on emergency volunteers allowances.

Note

These taxable allowances are pensionable and insurable. Deduct income tax, CPP contributions, and EI premiums.

2.7 Gifts

A gift, either in cash or in kind, that you give an employee is considered a taxable benefit from employment. When the value of the gift 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.

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.

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

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

Notes

Where the benefit is taxable, it is also pensionable. Deduct income tax and CPP contributions.

If the taxable benefit is paid in cash, it is insurable. Deduct EI premiums. If paid in kind, it is not insurable; do not deduct EI premiums.

2.8 Group term life insurance policies: Employer-paid premiums

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

Definitions

Group term life insurance policy means a group life insurance policy where the only amounts payable by the insurer are policy dividends, experience rating refunds, and amounts payable upon the death or disability of an employee or former employee.

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

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

Calculation

Where the premiums are paid on a regular basis and the premium rate for each individual is not dependent on age or sex, the taxable benefit is the total of:

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

less

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

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

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

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

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

There is no GST/HST on this benefit.

Notes

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

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.

This taxable benefit is pensionable. However, it is not insurable. Deduct income tax and CPP contributions, but do not deduct EI premiums on these amounts.

2.9 Holiday trips, other prizes, and incentive awards

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

If you give an employee a prize or an award related to sales or other work performance, the amount the employee receives is 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 box 14 and under code 40 in the **Other information** area of the employee's T4 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 slip.

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

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

Notes

Where the benefit is taxable, it is also pensionable. Deduct income tax and CPP contributions.

If the taxable benefit is paid in cash, it is insurable. Deduct EI premiums. If paid in kind, it is not insurable; do not deduct EI premiums.

2.10 Housing, board, and lodging

Housing

If you provide an employee with a house, apartment, or similar accommodation rent-free or for less than the fair market value of such accommodation, the employee is considered as receiving a taxable benefit. As the employer, you have to estimate a reasonable amount for the benefit. This is usually the fair market value for the same type of accommodation minus any rent the employee paid.

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

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

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

Notes

If you provide housing benefits to employees in a prescribed zone, see Chapter 3.

The taxable housing benefit is pensionable. Deduct income tax and CPP contributions. If it is received by the employee in addition to cash earnings for the same pay period, it is insurable. Deduct EI premiums. If no cash earnings are paid during the pay period, it is not insurable; do not deduct EI premiums.

Member of the clergy

If by virtue of his or her employment, you provide a rent-free or low-rent residence or other accommodation to a member of the clergy who is in charge of, or ministers to, a diocese, parish, or congregation, you have to estimate the value of the benefit and report it on the individual's T4 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 when you calculate the income tax deductions required. For information about CPP and EI, see Chapters 2 and 3 of the *Employers' Guide to Payroll Deductions – Basic Information*.

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

Special circumstances that reduce the value of a housing benefit

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

■ Suitability of size

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

Note

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

■ Loss of privacy and quiet enjoyment

If the dwelling you provide to your employee contains things like equipment, public access, or storage facilities which infringe on your employee's privacy or quiet enjoyment of the dwelling, you can reduce the value of the housing benefit. The reduction has to reasonably relate to the degree of disturbance that affects your employee. In such cases, please contact your tax services office for more information.

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

Free or subsidized board and lodging

If you provide free board and lodging to an employee, the employee receives a taxable benefit. As a result, you must add to the employee's remuneration the fair market value of the board and lodging you provide. Report this amount on the employee's T4 slip in box 14 and under code 30 in the **Other information** area.

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 slip in box 14 and under code 30 in the **Other information** area.

Note

The taxable board and lodging benefit is pensionable. Deduct income tax and CPP contributions. If it is received by the employee in addition to cash earnings for the same pay period, it is insurable. Deduct EI premiums. If no cash earnings are paid during the pay period, it is not insurable; do not deduct EI premiums.

Subsidized meals

If you provide subsidized meals to an employee (e.g., in an employee dining room or cafeteria), these meals are **not** considered a taxable benefit if the employee pays a reasonable charge. A reasonable charge is one that covers the cost of the food, its preparation, and service. The value of the benefit is the cost of the meals **minus** any payment the employee makes. Include the taxable benefit in box 14 and under code 30 on the employee's T4 slip.

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

Note

Where the subsidized meals benefit is taxable, it is also pensionable. However, it is not insurable. Deduct income tax and CPP contributions, but do not deduct EI premiums on these amounts.

Exception to the rules

There is an exception to these rules when you provide board and lodging to an employee who works at a remote location or a special work site. For more information, see the section called "Special work sites and remote work locations (board and lodging, and transportation)" on page 23.

2.11 Interest-free and low-interest loans

You have to include in income any benefit that an individual receives as a result of an interest-free or low-interest loan because of an **office, employment, or shareholdings**. The benefit is the amount of interest that the individual would have paid on the loan for the year at the prescribed rates (see "Prescribed rates of interest" on page 19) **minus** the amount of interest that the borrower paid on the loan in the year (or no later than 30 days after the end of the year). Special rules apply to certain loans and to home-relocation loans (see "Home-relocation loans" and "Exceptions" later in this section).

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

There is no GST/HST on these benefits.

Note

The taxable benefit for interest-free or low-interest loans is also pensionable. However, it is not insurable. Deduct income tax and CPP contributions, but do not deduct EI premiums on these amounts.

Loans received because of employment

An employee receives a taxable benefit if he or she receives a loan because of an office or employment or intended office or employment. The loan can be received by the employee or the employee's spouse. A loan includes any other indebtedness (e.g., the unpaid purchase price of goods or services).

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

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

minus the total of the following two amounts:

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

Note

Sometimes these rules do not apply. For more information, see "Exceptions" on page 18.

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

Example of calculating the taxable benefit

Joshua is your employee. He borrowed \$150,000 from you on January 2, 1998. The prescribed rate for the loan for 1998 is 4% for the first quarter of the year, and 5% for the second, third and fourth quarters. Joshua paid you \$3,000 interest on the loan no later than 30 days after the end of the year. During the year, a company related to you paid \$1,000 interest on the loan for Joshua. Before the end of the same

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

a) Prescribed rate × loan amount for the period in the year:		
■ 4% × \$150,000 × 1/4 = \$1,500		
■ 5% × \$150,000 × 1/4 = 1,875		
■ 5% × \$150,000 × 1/4 = 1,875		
■ 5% × \$150,000 × 1/4 = 1,875	.....	\$7,125
plus		
b) Amount a third party paid	.....	<u>1,000</u>
		\$8,125
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	.....	\$3,125

Loans received because of shareholdings

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

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

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

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

minus

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

Note

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

Home-purchase loan

A loan for a home-purchase is any part of a loan to an employee that was used to acquire or repay another loan to acquire a dwelling to house that employee or a person related to that employee. This also applies to a shareholder or a person related to a shareholder.

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

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

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

Home-relocation loans

If you provided an employee or an employee's spouse with an interest-free or low-interest loan because the employee relocated to take up employment, see the section called "Home-relocation loans" on page 20.

Exceptions

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

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

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

If an employee receives a loan or incurs a debt because of employment, report the benefit on a T4 slip. Enter the amount of the benefit in box 14 and under code 36 in the **Other information area**.

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

Deductibility of deemed interest benefit

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

Prescribed rates of interest

The following chart shows the prescribed rates of interest for 1997 and 1998:

Quarterly rates		
Quarter	1997	1998
1st	4%	4%
2nd	3%	5%
3rd	4%	5%
4th	4%	5%

2.12 Medical expenses

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

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

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

Note

The taxable benefit for medical expenses is pensionable. Deduct income tax and CPP contributions. If it is paid in cash, it is insurable. Deduct EI premiums. If paid in kind, it is not insurable; do not deduct EI premiums.

2.13 Moving expenses and relocation benefits

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

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

If you paid your employees allowances for incidental moving expenses that they do not have to account for, see the section called "Non-accountable allowances" on the next page.

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

- the cost of house-hunting trips to the new location, which includes child and pet-care expenses while the employee is away;
- travelling costs (including a reasonable amount spent for meals and lodging) while the employee and members of the employee's household were moving from the old residence to the new residence;
- the cost to the employee of transporting or storing household effects while moving from the old residence to the new residence;
- costs to move personal items such as automobiles, boats, or trailers;
- charges and fees to disconnect telephones, television aerials, water, space heaters, air conditioners, gas barbecues, automatic garage doors, and water heaters;
- fees to cancel leases;
- mortgage discharge penalties;
- charges to connect and install utilities, appliances, and fixtures that existed at the old residence;
- adjustments and alterations to existing furniture and fixtures to arrange them in the new residence, which include plumbing and electrical changes in the new residence;
- automobile licences, inspections, and drivers' permit fees, if the employee owned these items at the former location;
- legal fees and land transfer tax to buy the new residence;
- the cost to revise legal documents to reflect the new address;
- reasonable temporary living expenses while waiting to occupy the new, permanent accommodation;
- long-distance telephone charges that relate to selling the old residence;
- amounts you paid or reimbursed before February 24, 1998, for mortgage interest, property taxes, heat, hydro, insurance, and grounds maintenance costs to keep up the old residence after the move, when all reasonable efforts to sell have not been successful;
- amounts you paid or reimbursed before February 24, 1998, for loss on selling the old residence, as outlined in paragraph 37 of Interpretation Bulletin IT-470, *Employees' Fringe Benefits*; and
- amounts you paid or reimbursed before February 24, 1998, for interest costs on bridge financing to buy the new residence, as long as all reasonable efforts have been made to sell the old residence.

If you pay or reimburse moving costs that we do not list above, the amounts may be considered as a taxable benefit to the employees. If you do not reimburse, or only partly reimburse, employees for moving expenses, the employees may be able to claim some of the moving expenses as a deduction from income when filing their returns.

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

If you or your employees would like more information, see Interpretation Bulletin IT-178, *Moving Expenses*, and Form T1-M, *Claim for Moving Expenses*.

Notes

Where the benefit is taxable, it is also pensionable. Deduct income tax and CPP contributions.

If the taxable benefit is paid in cash, it is insurable. Deduct EI premiums. If paid in kind, it is not insurable; do not deduct EI premiums.

1998 federal budget changes

Under proposed changes, the following relocation benefits paid after February 23, 1998, by an employer to an employee who relocates because of an office or employment will be included in income:

- any payment or reimbursement in excess of \$5,000 made in respect of mortgage interest, property taxes, heat, hydro, insurance, and grounds maintenance costs to keep up the old residence after the move, when all reasonable efforts to sell have not been successful;
- any payment or reimbursement made in respect of financing, such as higher mortgage interest payments at the new residence, bridge financing, and mortgage interest on the unsold former residence;
- any payment or compensation made in respect of:
 - a loss on the sale of the former residence, or
 - a decrease in value of the former residence, up to one-half of the amount that exceeds \$15,000.

There is no GST/HST on these relocation benefits.

These changes apply to the 1998 and subsequent taxation years as follows:

- where the employee commenced employment at the new work location **after September 1998**, the amount paid is taxable in 1998;
- where the employee commenced employment at the new work location **before October 1998**, the amount paid will be taxed only if the payment is received after year 2000.

Non-accountable allowances

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

Do not report the amount of the reimbursement. Report any part of the non-accountable allowance that is more than \$650 in box 14 and under code 40 in the **Other information** area of the T4 slip.

There is no GST/HST on these allowances.

Examples

- 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.

Home-relocation loans

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

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

To calculate the benefit for the home-relocation loan, see the section called "Loans received because of employment" on page 17. Include the amount of the taxable benefit in box 14 of the T4 slip and enter it under code 36 in the **Other information** area.

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

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

Note

We do not consider an interest benefit from a home-relocation loan paid before February 24, 1998, to be a taxable benefit for an employee when the following three conditions are met:

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

1998 federal budget changes

Under proposed changes, amounts paid after February 23, 1998, under the conditions stated in the note above are taxable and must be included in the employee's income.

These changes apply to the 1998 and subsequent taxation years as follows:

- where the employee commenced employment at the new work location after September 1998, the amount paid is taxable in 1998;
- where the employee commenced employment at the new work location before October 1998, the amount paid will be taxed only if the payment is received after year 2000.

Calculating the "Employee home-relocation loan 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 rates) as if the home-relocation loan were for \$25,000; or
- the benefit that you included in the employee's income for loans received because of employment in the year.

Enter the result under code 37 in the **Other information** area of the T4. This is the amount the employees can deduct on their returns as "Employee home-relocation loan deduction."

Note

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

2.14 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 14 and under code 40 in the **Other information** area of the T4 slip.

If the expense allowance is **not more than one-third** of the officer's salary and allowances, do not include this amount in the officer's income in box 14 or under code 40.

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

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

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

Note

Where the allowance is taxable, it is also pensionable. Deduct income tax and CPP contributions. An elected municipal officer's expense allowance is not insurable; do not deduct EI premiums.

2.15 Parking

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

There is GST/HST on this type of benefit.

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

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

To determine if an employee has received a benefit, each case must be examined based on the facts. If the employee is disabled, the parking benefit is generally not taxable. See "Disability-related employment benefits" on page 14.

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

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

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

Notes

Where the benefit is taxable, it is also pensionable. Deduct income tax and CPP contributions.

If the taxable benefit is paid in cash, it is insurable. Deduct EI premiums. If paid in kind, it is not insurable; do not deduct EI premiums.

2.16 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, CPP contributions, or EI premiums 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."*

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

An employer may be paying premiums or contributing to a provincial hospital or medical care insurance plan for an employee. If this is the case, the amount you pay is considered 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 slip. In the footnotes area, enter: "Box 28, Medical premium benefit: \$_____." In box 38, enter code 18. For more information, see Interpretation Bulletin IT-247, *Employer's Contribution to Pensioners' Premiums Under Provincial Medical and Hospital Services Plans*.

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

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

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

Note

Where the benefit is taxable, it is also pensionable. Deduct income tax and CPP contributions. Since this benefit is paid in kind, it is not insurable; do not deduct EI premiums.

2.18 Professional membership dues

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

In all other situations when you pay or reimburse an employee's professional membership dues, there is a taxable benefit to the employee.

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

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

Notes

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

Where the benefit is taxable, it is also pensionable. Deduct income tax and CPP contributions.

If the taxable benefit is paid in cash, it is insurable. Deduct EI premiums. If paid in kind, it is not insurable; do not deduct EI premiums.

2.19 Recreational facilities

If you supply recreational facilities (e.g., exercise rooms, swimming pools, gymnasiums) for all 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 supply recreational facilities to select groups or categories of employees for free or for a minimal fee while other employees are required to pay full fee, we consider that a taxable benefit is conferred to the employees who do not have to pay full fee.

You usually have to include the value of meals, lodging, or both, as a **taxable benefit** in your employees' remuneration if you provided it at a property you own (e.g., at a summer hotel, or hunting or fishing lodge you maintain).

Calculate the GST/HST on this type of benefit.

Club dues

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

There is no GST/HST on club dues.

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

Note

Where the benefit is taxable, it is also pensionable. Deduct income tax and CPP contributions. Since this benefit is paid in kind, it is not insurable; do not deduct EI premiums.

2.20 Registered retirement savings plans (RRSPs)

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

There is no GST/HST on this benefit.

Note

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

2.21 Special work sites and remote work locations (board and lodging, and transportation)

Generally, you include in an employee's income an allowance you paid to the employee, and the value of employer-provided board, lodging, and transportation. However, there are exceptions to these rules in specific circumstances. When an employee meets the conditions outlined in subsection 6(6) of the *Income Tax Act*, the employee is eligible to exclude from income the value of the following items:

- the value of employer-provided board and lodging, or a reasonable allowance received for expenses the employee incurred for board and lodging at a special work site or remote work location; and
- the value of certain employer-provided transportation or a reasonable allowance the employee received for certain transportation expenses.

Notes

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

If you exclude from income a benefit for board and lodging at a special work site or remote work location, it is not pensionable. Do not deduct income tax or CPP contributions.

If you pay your employee cash earnings for the same pay period, the benefit is insurable even though it is excluded from income. Deduct EI premiums. If no cash earnings are received by the employee for the same period, the benefit is not insurable; do not deduct EI premiums.

Special work sites

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

Board and lodging

You can exclude the allowance or value of board and lodging that you provide an employee who works at a **special work site** from income if the employee works away from home under all these conditions:

- a) the employee must have worked at a special work site where the duties the employee performed were of a temporary nature; and
- b) the employee maintained at another location a self-contained domestic establishment as the employee's principal place of residence:
 - that throughout the period, was available for the employee's occupancy and the employee did not rent it to any other person; and

– to which, by reason of distance, we could not reasonably expect the employee to have returned daily from the special work site; and

- c) the board and lodging you provided or the allowance the employee received must be for a period of at least 36 hours. This period can include time spent travelling between the employee's principal place of residence and a special work site. Also, the employee's duties required him or her to be away from the employee's principal place of residence or to be at the special work site.

Transportation

An employee can exclude from income the value of free or subsidized transportation, or a reasonable allowance received for the employee's transportation expenses, for a period described in c) above. This is only the case if the employee received board and lodging, or a reasonable allowance for board and lodging, from you for that period.

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

If an employee meets all of the conditions in a), b), and c) above, you and the employee should complete Form TD4, *Declaration of Exemption – Employment at Special Work Site*. This allows you to exclude the benefit or allowance from the employee's income. As long as you complete Form TD4, do not include the amounts in box 14 or under code 30 on the employee's T4 slip. After you complete Form TD4 with the employee, keep it with your payroll records.

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

Note

If the special work site is in a prescribed zone, see the section "Board, lodging, and transportation allowances at special work sites," on page 28 in Chapter 3.

Fishers

If you provide board, lodging, or transportation allowances to fishers, see Interpretation Bulletin IT-254, *Fishermen – Employees and Seafarers – Value of Rations and Quarters*.

Remote work locations

We usually consider a work location to be remote when the location:

- is 80 kilometres or more from the nearest established community with a population of at least 1,000 people; and
- lacks essential services at the location or within a reasonable commuting distance (e.g., basic food store, basic clothing store with merchandise in stock (not mail-order outlet), access to housing, certain medical assistance, and certain educational facilities).

Board and lodging

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

- the employee has to be located where we could not reasonably expect him or her to set up and maintain a self-contained domestic establishment because of the remoteness of the location and the distance from any established community;
- you have not provided a self-contained establishment for the employee; and
- the allowances have to be for a period of at least 36 hours when:
 - the employee's duties require the employee to be away from the principal place of residence; or
 - the employee has to be at the remote work location.

Transportation

An employee can exclude from income the value of free or subsidized transportation, or a reasonable allowance received for the employee's transportation expenses when he or she received an allowance or the value of board and lodging during that period.

To qualify, however, the transportation allowances you pay to an employee must be for a period of at least 36 hours when:

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

You must have paid the allowance for transportation between the remote work location and any location in Canada. If the remote work location is outside Canada, the allowance for transportation between that location and any location in Canada also qualifies for exemption.

When you provide board, lodging, or transportation under the above conditions, you do not have to report the equivalent value or any GST/HST that applies as remuneration to the employee on the T4 slip.

Note

We do not need Form TD4, *Declaration of Exemption – Employment at Special Work Site*, when there is an exemption for board, lodging, or transportation allowances you pay to employees who work at a remote work location. If you need help determining whether a location qualifies as remote, please contact your tax services office or tax centre.

Benefits that a third party supplies

It is possible that a third party may supply benefits for board, lodging, or transportation to the employees of another employer.

If this happens, and the allowance is **taxable**, the third party has to report the benefits on a T4A slip.

If the allowance is **not taxable**, a T4A slip is usually not required. If the benefits are paid in a prescribed zone, see the section called "Board, lodging, and transportation allowances at special work sites" on page 28 in chapter 3.

For more information, see Interpretation Bulletin IT-91, *Employment at Special Work Sites or Remote Work Locations*.

2.22 Spouse's travelling expenses

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

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

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

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

Notes

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*.

Where the benefit is taxable, it is also pensionable. Deduct income tax and CPP contributions.

If the benefit is paid in cash, it is insurable. Deduct EI premiums. If it is paid in kind, it is not insurable; do not deduct EI premiums.

2.23 Stock options

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

There is no GST/HST on this benefit.

Include this benefit in box 14 and report it under code 38 in the **Other information** area of the T4 slip.

Note

The stock option taxable benefit is pensionable. Deduct income tax and CPP contributions. Since this benefit is paid in kind, it is not insurable; do not deduct EI premiums.

Paragraphs 110(1)(d) and 110(1)(d.1) of the *Income Tax Act* entitle an employee to claim a stock option and shares deduction.

Under proposed changes, the rules governing stock option benefits and stock option and shares deductions will be extended to apply to options that are granted after February 1998 by mutual fund trusts to their employees to acquire trust units.

Make sure you use the correct code to indicate the applicable paragraph in the **Other information** area of the T4 slip, as explained in the following sections.

For paragraph 110(1)(d)

The employee receives the benefit in the same year he or she acquired the shares.

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

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

The employee's deduction is **one-quarter** of the amount of the benefit that arises because shares were acquired, or rights for shares were transferred or otherwise disposed of after 1989. Identify the amount of the deduction the employee can claim under paragraph 110(1)(d) of the *Income Tax Act* by entering it under code **39** in the **Other information** area of the T4 slip.

Note

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

For paragraph 110(1)(d.1)

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

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

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

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

The deduction that the employee can claim is **one-quarter** of the amount of the benefit for shares disposed of or exchanged after 1989. Identify the amount of the deduction the employee can claim under paragraph 110(1)(d.1) by

entering it under code **41** in the **Other information** area of the T4 slip.

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*.

2.24 Subsidized school services

In remote areas, employers are often responsible for essential community services that municipalities usually provide. If you provide free or subsidized school services for your employees' children, the employees **do not receive** a taxable benefit. Do not deduct income tax, CPP contributions, or EI premiums on these amounts.

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 for children."

2.25 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. Do not deduct income tax, CPP contributions, or EI premiums from these amounts. For more information, see the section called "Special work sites and remote work locations (board and lodging, and transportation)" on page 23.

2.26 Travelling allowances to a part-time employee

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

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

For more information, see Interpretation Bulletin IT-522, *Vehicle, Travel and Sales Expenses of Employees* (paragraph 57).

Note

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

2.27 Tuition fees, scholarships, and bursaries

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

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

The new guidelines consider three broad categories of training:

■ Specific employer-related training

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

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

■ General employment-related training

We will generally consider that other business related courses, although not directly related to your own business, are taken primarily for your benefit.

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

■ Personal interest training

We will continue to consider that courses for personal interest or technical skills not related to your business are taken primarily for the employee's benefit.

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

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

A student, during or right after employment with you, may arrange with you to receive a scholarship or bursary from you on condition that the student returns to your employ. In this situation, the amount of the scholarship or bursary is the student's employment income. In box 28 of a T4A 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.

Certain tuition fees may be subject to GST/HST. If paying or providing tuition fees results in a taxable benefit to an

employee and if the fees are subject to GST/HST, add the GST/HST to the value of the benefit.

For more information, see our Technical News N° 13 and Interpretation Bulletins IT-75, *Scholarships, Fellowships, Bursaries, Prizes, and Research Grants*, IT-470, *Employees' Fringe Benefits*, and its Special Release, IT-516, *Tuition Tax Credit*, and Information Circular 75-23, *Tuition Fees and Charitable Donations Paid to Privately Supported Secular and Religious Schools*.

Notes

Where the benefit is taxable, it is also pensionable. Deduct income tax and CPP contributions.

If the taxable benefit is paid in cash, it is insurable. Deduct EI premiums. If it is paid in kind, it is not insurable; do not deduct EI premiums.

2.28 Uniforms and special clothing

Employees do not receive a taxable benefit when:

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

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

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

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

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

Calculate the GST/HST on this type of benefit.

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

Notes

Where the benefit is taxable, it is also pensionable. Deduct income tax and CPP contributions.

If the taxable benefit is paid in cash, it is insurable. Deduct EI premiums. If it is paid in kind, it is not insurable; do not deduct EI premiums.

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

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

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

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

There is no GST/HST on this benefit.

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

Note

Where the benefit is taxable, it is also pensionable. Deduct CPP. Since this benefit is paid in kind, it is not insurable; do not deduct EI premiums.

Group disability benefits – Insolvent insurer

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

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

For more information, contact your tax services office.

Chapter 3 – Housing and Travel Assistance Benefits Paid in a Prescribed Zone

This chapter applies to you if:

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

The publication called *Northern Residents Deductions – Places in Prescribed Zones* contains the list of places in prescribed northern zones and prescribed intermediate zones.

This chapter does not apply to you if your employees are at a special work site or a remote work location that is **not** in a prescribed zone. These situations are covered in the section called "Special work sites and remote work locations (board and lodging, and transportation)" on page 23 of Chapter 2.

3.1 Housing

A housing benefit is any amount you pay on behalf of your employee or any cash payment you give your employee for rent or utilities. A housing benefit also includes any accommodation or utilities that you provide free of charge.

If you provide a housing benefit by some means other than a cash payment, the method you use to determine the value of the benefit depends on whether or not the place in a prescribed zone has a developed rental market.

Places with developed rental markets

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

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

Places without developed rental markets

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

If you provide both rent and utilities, and can calculate their cost as separate items, you have to determine their value separately. Then add both items to get the value of the housing benefit. If your employee reimburses you for all or part of his or her rent or utilities, determine the benefit as explained below. Then subtract any amount reimbursed by your employee, and include the amount that remains in his or her income.

Dwellings you own

If you own the dwelling that you provide rent-free to your employee, report the lesser of the following amounts as rent:

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

If you provide utilities using equipment that you own (e.g., electricity from a generator), report the lesser of the following amounts as utilities:

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

Dwellings you rent from a third party

If you rent a dwelling from a third party and provide it rent-free to your employee, report the lesser of the following amounts as rent:

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

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

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

Allowable ceiling amounts

There are allowable ceiling amounts for different types of accommodation. These ceiling amounts can help determine the value of a housing benefit that you provide in places in prescribed zones without developed rental markets.

They are considered to include any GST/HST that applies, so you do not have to calculate this amount. If the amount of the housing benefit you report is the fair market value, you have to calculate and report any GST/HST that applies. If the total of the fair market value plus the applicable GST/HST is more than the allowable ceiling amount, report the allowable ceiling as the housing benefit.

The publication called *Employers' Guide to Housing and Travel Assistance Benefits Paid in Prescribed Zones – 1998 Changes – Message to Employers* lists the 1998 ceiling amounts for rent and utilities.

Note

If more than one employee occupies the same dwelling, prorate the ceilings for the number of occupants in the dwelling.

3.2 Board, lodging, and transportation allowances at a special work site

If an employee received an amount that is excluded from income for allowances at a special work site, this amount may have an effect on his or her claim for the northern residency deduction.

You have to identify the amount excluded from income on the employee's T4 or T4A slip if the employee:

- works at a special work site in a place in a prescribed zone; and
- maintains his or her principal place of residence in a place outside a prescribed zone.

Enter the excluded amount under code 31 in the **Other information** area of the T4 slip.

If you complete a T4A for the employee, enter "Special work site," and the amount of the excluded benefit in the footnotes area.

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

Note

An amount that is excluded from income for allowances at a remote work location does not have any effect on the employee's claim for the northern residency deduction.

3.3 Travel assistance benefits

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

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

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

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

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

You have to report these benefits in box 14 and under code 32 in the **Other information** area of the T4.

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

An employee who qualifies for the northern residents travel deduction will use this amount to calculate his or her claim. The number of trips an employee can claim is limited to two in a year, unless the trips were for medical reasons. Therefore, you have to show the value of the medical travel benefits separately on the slip, as explained in the next section.

Medical travel assistance

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

You have to identify the value of medical travel benefits you provide to employees. Enter under code 33 in the **Other information** area of the T4 the medical portion of the travel assistance that you reported under code 32. In the

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

This way, we will know which portion, if any, of the amount you reported under code 32 or in box 28 is for medical travel. If you do not identify which portion of the benefit was for medical travel, we will consider all travel assistance as vacation (or other) travel, and the employee will not be entitled to claim a deduction for medical travel. In addition, we will limit the employee's deduction, as well as that of the members of the household, to two trips each.

Note

Amounts you pay or reimburse employees for medical travel or any associated cost under the terms of a private health services plan are not taxable benefits. You may have to make such payments because of an obligation you have under a collective agreement. If this is the case, you should not report them on employees' T4 slips.

3.4 Payroll deductions

Form TD1, *Personal Tax Credits Return*

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

The residency deduction is equal to the lower of:

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

Note

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

For 1998, employees living in a prescribed **northern zone** can claim the total of:

- a basic residency amount of \$7.50 per day for each day they live in the prescribed northern zone; and
- an additional residency amount of \$7.50 per day for each day they live in and maintain a dwelling in that area, if during that time no one else is claiming a basic residency amount for living in the same dwelling for the same period.

For 1998, employees living in a prescribed **intermediate zone** can claim 50% of the total of the above amounts.

Note

Employees who receive board and lodging benefits from employment at a special work site in a prescribed zone have to reduce their residency amount by the value of the benefit they receive if they maintain a principal residence that is not in a prescribed zone. The amount of that benefit will be shown under code 31 of the T4 slip.

To calculate the amount of tax you should deduct from employees who are claiming a residency deduction on Form TD1:

- reduce the residency amount by 50% if employees live in a prescribed **intermediate zone**. In addition, if the conditions in the above note apply, reduce the residency amount by the non-taxable board and lodging benefits from employment at a special work site;
- divide the employees' net deduction for the year (Section A amount minus the above adjustments) by the number of pay periods in the year;
- subtract the result from their gross earnings for each pay period; and
- refer to the tax tables that apply.

Housing benefits

To determine the gross earnings for each pay period of employees who receive a housing benefit, divide the value of the housing benefit by the number of pay periods. Then add this amount to the employees' salary, wages, other remuneration, or any other taxable benefits.

Note

The taxable housing benefit is pensionable. Deduct income tax and CPP contributions. If it is paid in cash, it is insurable. Deduct EI premiums. If paid in kind, it is not insurable; do not deduct EI premiums.

Travel assistance benefits

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

We may waive the requirement for you to make tax deductions if employees agree in writing, at the time they receive the payment, to use it entirely for vacation or medical travel. These cash payments are pensionable and insurable whether or not you make tax deductions. This means you have to deduct Canada Pension Plan contributions and Employment Insurance premiums.

Chapter 4 – Remitting GST/HST on Employee Benefits

You should read this chapter if you are an employer who is a GST/HST registrant. It will help you familiarize yourself with the GST/HST treatment of employee benefits.

If you are not a GST/HST registrant, you do not have to read this chapter.

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

4.1 Employee benefits

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

For the most part, the GST/HST treatment of these benefits is based on their treatment under the *Income Tax Act*.

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

Note

If you have available credits, you may be able to offset the GST/HST you would normally have to remit on employee benefits when you file your GST/HST return.

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

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

- when the goods or services that give rise to a taxable benefit are GST/HST-exempt or zero-rated;
- when the goods or services that give rise to a taxable benefit are an **allowance** included in the income of the employee under paragraph 6(1)(b) of the *Income Tax Act*, such as a non-reasonable allowance for automobile expenses; and
- when you are restricted from claiming an input tax credit (ITC) for GST/HST you paid or owe on the goods and services which give rise to the taxable benefit (see "ITC restrictions" on page 31).

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

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

in your non-commercial activities, and you elect to treat it as being used 90% or more in non-commercial activities of the business*.

*Note

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

4.3 When are you considered to have collected GST/HST?

You are considered to have collected GST/HST on a taxable benefit subject to GST/HST at the end of February in the year following the year in which you gave the benefit to the employee. This corresponds with the deadline for calculating employee taxable benefits for income tax purposes and for issuing T4 slips. For example, for taxable benefits you gave to your employees during the 1998 taxation year, you are considered to have collected GST/HST at the end of February 1999. You have to include this amount in your GST/HST return for the reporting period that includes the last day of February 1999.

Example

You are a GST/HST registrant and have a monthly reporting period. At the end of February 1999, you calculated the total taxable benefits given to your employees for 1998, including any GST and PST or HST. You are considered to have collected GST/HST on the taxable benefits at the end of February 1999. In your February 1999 GST/HST return, you have to include the GST/HST relating to the taxable benefits given to your employees in 1998. You have to file this return by the end of March 1999.

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

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

Value of the benefit for GST/HST purposes

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

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

Note

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

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

Amount of GST/HST considered to be collected

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

Automobile operating cost benefits

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

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

Benefits other than automobile operating cost

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

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

4.5 Input tax credits (ITC)

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

activities, see the guide called *General Information for GST/HST Registrants*.

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

ITC restrictions

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

Club memberships

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

Exclusive personal use

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

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

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

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

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

- if you are a **corporation**, an individual who is a shareholder or another individual related to the shareholder;
- if you are a **trust**, an individual who is a beneficiary or another individual related to the beneficiary.

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

For more information on ITCs relating to employee benefits, get GST Memorandum 400-3-2, *Employee and Shareholder Benefits*.

4.6 Property acquired before 1991 or from a non-registrant

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

Example

You bought a passenger vehicle from a non-registrant and made it available to your employee throughout 1998. The passenger vehicle is used more than 90% in the commercial activities of your business. You report the value of the benefit, including GST and PST or HST, on the employee's T4 slip. For GST/HST purposes, you will be considered to have collected GST/HST on this benefit even if you could not claim an ITC on the purchase of the passenger vehicle.

4.7 Summary

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

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

Step 2 – For each taxable benefit, establish whether one of the situations listed in the section called "Situations where you will not be considered to have collected GST/HST on taxable benefits given to employees," on page 30, applies. If one of these situations applies, you are not considered to have collected GST/HST on this benefit and, consequently, you will not have to remit any GST/HST on the benefit.

Step 3 – If you are considered to have collected GST/HST on a taxable benefit, you have to calculate the amount of GST/HST due (see "How do you calculate the amount of GST/HST you are considered to have collected?" on page 30).

Step 4 – Enter the amount of GST/HST due on your GST/HST return and send your remittance, if applicable, with your GST/HST return for the reporting period that includes the last day of February 1999*.

*Note

The GST/HST amount may be due in a different reporting period if the GST/HST is for a reimbursement made by an employee or an employee's relative in certain circumstances. For more information, see the note in the section "Value of the benefit for GST/HST purposes" on page 30.

The following examples will help you apply the GST/HST rules on employee benefits. Remember that if you have available credits, you may be able to offset the GST/HST you would normally have to remit on employee benefits when you file your GST/HST return.

Example 1: Automobile benefits in a non-participating province

As a corporation registered for GST/HST, you buy a vehicle that is used more than 50% in commercial activities, and is made available to your employee during 1998. The last establishment to which the employee ordinarily reported in the year for the corporation was in Ontario. Using the work sheet on page 9, you calculated a taxable benefit (including GST and PST) of \$4,800 on the standby charge, and an operating cost benefit of \$600. You received a reimbursement of \$1,800 from your employee for the automobile operating costs within 45 days following the end of 1998. You did not include this amount as a benefit.

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

Since the benefit is taxable under the *Income Tax Act*, and no situations described on page 30 (where you are not considered to have collected GST on taxable benefits) apply, you calculate the GST remittance as follows:

Standby charge benefit

Taxable benefit reported on T4 \$4,800

GST considered to have been

collected on benefit $4,800 \times 6/106 = \$271.70$

Operating cost benefit

Taxable benefit reported on T4 \$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 \$391.70

You are considered to have collected \$391.70 GST at the end of February 1999. You have to include this amount on your GST/HST return for the reporting period that includes the last day of February 1999.

Example 2: Automobile benefits in a participating province

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

Standby charge benefit

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

HST considered to have been collected on benefit..... $\$4,800 \times 14/114 = \589.47

Operating cost benefit

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

Employee partial reimbursement of operating cost.....\$1,800

Total value of the benefit\$2,400

HST considered to have been collected on benefit..... $\$2,400 \times 11\% = \264.00

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

You are considered to have collected \$853.47 HST at the end of February 1999. You have to include this amount on your GST/HST return for the reporting period that includes the last day of February 1999.

Example 3: Long service award

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

Example 4: Special clothing

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

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

Benefits Chart

This chart indicates which codes you should use to report the taxable amounts, and if they are subject to GST/HST. Remember that benefits in kind are not subject to GST/HST if they are exempt or zero-rated supplies.

Taxable allowance or benefit	Code	GST/HST
Automobile allowances ¹	40	no
Automobile standby charge and operating cost benefits	34	yes
Awards for employees' suggestions in cash	40	no
Awards for employees' suggestions in kind	40	yes
Discounts on merchandise	40	yes
Counselling services	40	yes
Educational allowances for children	40	no
Emergency volunteer allowances ²	40	no
Gifts in cash	40	no
Gifts in kind	40	yes
Group term life insurance policies: Employer-paid premiums	40	no
Holiday trips, others prizes, and incentive awards – in cash	40	no
Holiday trips, others prizes, and incentive awards – in kind	40	yes
Housing, board and lodging, cash allowance	30	no
Housing ³ , board and lodging, free or subsidized	30	yes
Interest-free and low-interest loans ⁴	36	no
Medical expenses	40	⁵
Moving expenses other than finance costs relocation benefits	40	yes
Moving expenses – finance costs relocation benefits	40	no
Moving expenses – non-accountable allowance in excess of \$650	40	no

Chart continues on next page ⇨

¹ Enter the non-taxable reasonable per-kilometre allowance under code 35.

² Enter the deductible amount under code 76.

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

⁴ Enter the home relocation loan deduction under code 37.

⁵ Some medical expenses are subject to GST/HST. Contact your tax service office or tax centre for more information.

Taxable Allowance or Benefit	Code	GST/HST
Municipal officer's expense allowance ⁶	40	no
Parking	40	yes
Premiums under provincial hospitalization, medical care insurance, and certain federal government plans	40	no
Professional fees	40	yes
Recreational facilities	40	yes
Recreational facilities – club membership dues	40	no
Registered retirement savings plans (RRSPs)	40	no
Spouse's travelling expenses	40	yes
Stock options ⁷	38	no
Travel assistance in a prescribed zone ⁸	32	yes
Travelling allowances to a part-time employee	40	no
Tuition fees, scholarships, and bursaries	40	⁹
Uniforms and special clothing	40	yes
Wage-loss replacement or income maintenance non-group plan premiums	40	no

⁶ Enter the exempt amount under code 70.

⁷ Enter the amount of the stock option and shares deduction under code 39 or 41, as the case may be.

⁸ Enter the amount of medical travel assistance under code 33.

⁹ Certain tuition fees are subject to GST/HST. If the fees you pay are subject to GST/HST, add it to the value of the benefit.