



Canada Revenue
Agency

Agence du revenu
du Canada

Employment Expenses

Includes forms GST370, T777, TL2, and T2200

2004

Before You Start

Is this guide for you?

Use this guide if you are an employee and your employer requires you to pay expenses to earn your employment income. This guide will help you calculate the expenses you can deduct. It also gives you all the information you need to claim the employee goods and services tax/harmonized sales tax (GST/HST) rebate. For details, see Chapter 9 beginning on page 19.

You deduct most of your employment expenses on line 229 of your *T1 General Income Tax and Benefit Return*. If you did not receive a General package in the mail, you can get a package beginning in February for the province or territory where you resided on December 31, 2004, from any postal outlet in that province or territory.

If you are self-employed, see guide T4002, *Business and Professional Income*, for more information.

Where can you get the forms you need?

In the middle of this guide, you will find copies of some of the forms you may have to complete. The following explains which forms you will need to complete:

- **Form T777, *Statement of Employment Expenses***
Use Form T777 to calculate your allowable employment expenses. Include Form T777 with your return.
- **Form TL2, *Claim for Meals and Lodging Expenses***
Form TL2 is used by transport employees, such as employees of airline, railway, bus, trucking, or other transport companies. You will have to complete Form TL2 if you are deducting expenses and your employer's principal business is transporting goods, passengers, or both. Your employer has to sign the form. Most transport employees will complete Form TL2. You do not have to submit this form with your return. However, keep it in case we ask to see it.
- **Form T2200, *Declaration of Conditions of Employment***
You will have to complete Form T2200 if you are deducting employment expenses. Your employer also has to complete and sign Part B of the form. If you have more than one employer, ask each employer to complete and sign a form. You do not have to submit this form with your return. However, keep it in case we ask to see it.

- **Form GST370, *Employee and Partner GST/HST Rebate Application***

If you are an employee of a GST/HST registrant and you are deducting expenses from your employment income on your return, you may be able to claim a rebate of the GST/HST you paid on these expenses. To claim the rebate, you must complete Form GST370. Include Form GST370 with your return. For more details, see page 21.

What if you need help?

In this guide, we use plain language to explain the most common situations. If you need more help after reading this guide, you can visit our Web site at www.cra.gc.ca or call 1-800-959-8281.

Throughout this guide, we mention guides, forms, interpretation bulletins, and information circulars that give more detailed information on specific topics. You can get any of the publications mentioned in this guide by visiting our Web site at www.cra.gc.ca/forms or by calling us at 1-800-959-2221.

Your opinion counts!

We review our publications every year. If you have any comments or suggestions that would help us improve them, we would like to hear from you.

Please send your comments to:

**Client Services Directorate
Canada Revenue Agency
Lancaster Road
Ottawa ON K1A 0L5**

What's New for 2004?

Change of name – In this publication, we use the name “Canada Revenue Agency” and the acronym “CRA” to

represent the Canada Customs and Revenue Agency. This reflects recent changes in the structure of the Agency.

Visually impaired persons can get our publications in braille, large print, or etext (computer diskette), or on audio cassette by visiting our Web site at www.cra.gc.ca/alternate or by calling **1-800-267-1267** weekdays from 8:15 a.m. to 5:00 p.m. (Eastern Time).

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Chapter 1 – Keeping Records

You have to keep records for each year you claim expenses. These records must include **all** of the following:

- a daily record of your expenses, together with your receipts and any cancelled cheques;
- any ticket stubs for travel;
- invoices;
- any monthly credit card statements; and
- a record of each motor vehicle you used for employment. This record must show both the total kilometres you drove and the kilometres you drove for employment purposes in the year.

Your receipts for the purchase of merchandise or services have to show the following:

- the date you made the purchase;
- the name and address of the seller or supplier;
- your name and address; and
- a full description of the goods or services you bought.

Keep a record of the motor vehicles or musical instruments you bought and sold. This record has to show who sold you the motor vehicle or musical instrument, the cost, and the date you bought it.

If you sell or trade a motor vehicle or musical instrument, show the date you sold or traded it on your bill of sale. Also, show the amount you received from the sale or trade-in.

Do not send in your records or receipts with your return. However, keep them in case we ask to see them. If you do not keep the necessary information, we may reduce your claim.

Generally, you have to keep your records (whether paper or electronic) for at least **six years** from the end of the taxation year to which they apply. If you want to destroy your records before the six-year period is up, you must first get written permission from the Director of your tax services office. To do this, either use Form T137, *Request for Destruction of Books and Records*, or make your own written request. If you need more details, see Information Circular 78-10, *Books and Records Retention/Destruction*. You can find the address of your tax services office on our Web site at www.cra.gc.ca/contact or in the government section of your telephone book.

Chapter 2 – Employees Earning Commission Income

Employees who sell goods or negotiate contracts for an employer can deduct some of the amounts they paid to earn commission income.

However, except for interest and capital cost allowance (CCA) on your vehicle, the total of the expenses you can

deduct cannot be more than the commissions or similar amounts you received in the year.

If your total commission expenses (except interest and CCA on your vehicle) are more than your commissions or similar amounts you received, there is another method you can use to claim expenses. For example, it might be to your advantage to claim only travelling expenses (food and lodging), motor vehicle expenses (including interest and CCA on your vehicle), and certain other expenses if applicable, such as the cost of supplies or office rent. If you deduct expenses this way, your claim is not limited to the commissions you received in the year. However, to do so, you have to meet the conditions for claiming travelling expenses and motor vehicle expenses. We discuss these conditions on page 8.

Example

Evan works for a company that sells video equipment. During 2004, he recorded the following information:

Salary he received	\$ 25,000
Commissions he received	5,000
Total employment income	<u>\$ 30,000</u>
Expenses:	
Advertising and promotion	\$ 1,000
Travelling expenses	6,000
Capital cost allowance	1,500
Interest on car loan	500
Total expenses	<u>\$ 9,000</u>

Evan's total expenses of \$9,000 are more than his commissions of \$5,000. Therefore, his claim for expenses is limited to \$5,000 plus the CCA of \$1,500 and interest of \$500, for a total claim of \$7,000. However, he may choose to claim only the travelling expenses of \$6,000. Using this method, Evan also claims the CCA of \$1,500 and interest of \$500, for a total claim of \$8,000.

Employment conditions

To deduct the expenses you paid to earn commission income, you have to meet **all** the following conditions:

- Under your contract of employment, you had to pay your own expenses.
- You were normally required to work away from your employer's place of business.
- You were paid in whole or in part by commissions or similar amounts. These payments were based on the volume of sales made or the contracts negotiated.
- You did not receive a non-taxable allowance for travelling expenses. Generally, an allowance is non-taxable as long as it is a reasonable amount. For example, an allowance for a motor vehicle is usually non-taxable when it is based solely on a reasonable per-kilometre rate.

- You keep with your records a completed copy of Form T2200, *Declaration of Conditions of Employment*, that has been signed by your employer.

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

Deductible expenses

This guide includes Form T777, *Statement of Employment Expenses*. Use it to calculate your total employment expenses. Once you calculate the employment expenses you can deduct, enter the amount on line 229 of your return. Include Form T777 with your return.

Your employment expenses include any GST and provincial sales tax, or HST, you paid on these expenses. You may be able to get a rebate of the GST/HST you paid. We discuss this rebate in Chapter 9 beginning on page 19.

The following describes the types of deductible expenses in the order they appear on Form T777.

Accounting and legal fees

You can deduct reasonable accounting fees you paid for help preparing and filing your return. You can also deduct legal fees you paid in the year to collect or establish a right to collect any amount that, if received, you would include as employment income on your return. However, you have to reduce your claim by any amount awarded to you, or any reimbursement you received for your legal expenses. You do not have to meet the conditions listed in the section called "Employment conditions" on page 5 to deduct legal and accounting fees.

See Interpretation Bulletin IT-99, *Legal and Accounting Fees*, for more details.

Advertising and promotion

You can deduct expenses for advertising and promotion, including amounts you paid for business cards, promotional gifts, and advertisements.

Allowable motor vehicle expenses (including capital cost allowance)

We explain motor vehicle expenses on page 12. We cover capital cost allowance on page 16.

Food, beverages, and entertainment expenses

Food and beverages – You can deduct food and beverage expenses as long as your employer requires you to be away for at least 12 hours. To qualify, you must be away from the municipality and the metropolitan area (if there is one) of your employer's location where you normally report for work. These amounts are subject to the 50% limit discussed on this page in the section called "Entertainment expenses."

The 50% limit also applies to the cost of food, beverages, and entertainment you paid for when you travelled on an airplane, train, or bus, as long as the ticket price did not include such amounts.

If you need more information, see Interpretation Bulletin IT-518, *Food, Beverages and Entertainment Expenses*.

Entertainment expenses – You can deduct the cost of entertaining clients. Expenses you can deduct include food, beverages, tickets, and entrance fees to entertainment or sporting events. You can also deduct tips, cover charges, room rentals to provide entertainment, such as hospitality suites, and the cost of private boxes at sports facilities.

The most you can deduct is 50% of the lower of:

- the amount you actually paid; or
- an amount that is reasonable in the circumstances.

If you need more information, see Interpretation Bulletin IT-518, *Food, Beverages and Entertainment Expenses*.

Lodging

You can deduct lodging expenses if your work conditions require you to travel away from your employer's place of business and pay your own lodging expenses.

Parking

You can deduct parking costs related to earning your commission income. Generally, you cannot deduct the cost of parking at your employer's office, such as monthly or daily parking fees. These are personal costs.

Do not include parking costs as part of your allowable motor vehicle expenses. Enter them on the "Parking" line on Form T777.

Supplies

You can deduct the cost of supplies. Supplies are only those materials you use directly in your work, and for nothing else.

Supplies include items such as pens, pencils, paper clips, stationery, stamps, street maps, and directories. Supplies do not include items such as briefcases or calculators.

You can deduct expenses you paid for telegrams and long-distance telephone calls that reasonably relate to the earning of commission income. However, you cannot deduct the monthly basic rate for your home telephone.

You cannot deduct the cost of special clothing you wear or have to wear for your work. Generally, you cannot deduct the cost of any tools that are considered to be equipment. However, if you are an apprentice mechanic as described in Chapter 6 beginning on page 11, you may be able to deduct the cost of eligible tools you purchased to earn employment income as an eligible apprentice mechanic.

For more information, see Interpretation Bulletin IT-352, *Employee's Expenses, Including Work Space in Home Expenses*.

Other expenses

Licences – Deduct annual licence fees if you must have a licence to perform your work. For example, real estate and insurance salespeople can deduct the cost of their annual licences.

Bonding premiums – You can deduct payments for bonding and liability insurance premiums.

Medical underwriting fees – You can deduct expenses you paid for items such as X-rays and heart diagrams related to underwriting your customers' risks.

Computers and other equipment – If you lease computers, cellular telephones, fax machines, or other equipment, you can deduct the percentage of the lease costs that reasonably relates to earning your commission income.

You can also deduct the percentage of airtime expenses for a cellular telephone that reasonably relates to earning your commission income. However, you cannot deduct amounts you paid to connect or license the cellular telephone.

If you buy a computer, cellular telephone, fax machine, or other such equipment, you cannot deduct the cost. Also, you cannot deduct capital cost allowance or interest you paid on money you borrowed to buy this equipment.

Salaries – You can deduct the salary you paid to your substitute or assistant.

You may have to withhold income tax, Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) contributions, and Employment Insurance (EI) premiums from the salary you paid. Report, on a T4 slip, the salary and amounts you withheld. For more information, see the guide T4001, *Employers' Guide: Payroll Deductions (Basic Information)*.

As the employer, you can also deduct as an expense your share of the CPP or QPP contributions and the EI premiums.

Office rent – You can deduct office rent you paid to earn your commission income. Do not confuse office rent with work-space-in-the-home expenses, which we explain below.

Training costs – You can deduct the cost of a training course as an employment expense. The course has to maintain, upgrade, or update your existing skills or qualifications that relate to your employment.

You cannot deduct the cost of a training course as an employment expense if the course is for personal reasons, the cost is unreasonable, or you receive a lasting benefit from the course. For example, you receive a lasting benefit when you take a course to get a credit towards a degree, diploma, professional qualification, or similar certificate.

If you cannot deduct the cost of a training course as an employment expense, you can claim it as a tuition amount as long as you meet the conditions described in pamphlet P105, *Students and Income Tax*.

For more details, see Interpretation Bulletin IT-357, *Expenses of Training*.

Travel fare – You can deduct the full amount you paid for travel fare, such as your airline, bus, or train ticket, as long as you paid it solely to earn commission income.

Work-space-in-the-home expenses

You can deduct expenses you paid in 2004 for the employment use of a work space in your home, as long as you meet **one** of the following conditions:

- The work space is where you mainly do your work.
- You use the work space only to earn your employment income. You also have to use it on a regular and continuous basis for meeting clients or customers.

You can deduct a part of your maintenance costs, such as the cost of electricity, heating, cleaning materials, property taxes, and home insurance. However, you **cannot** deduct mortgage interest or capital cost allowance.

To calculate the percentage you can deduct, use a reasonable basis, such as the area of the work space divided by the total area.

If your office space is in a rented house or apartment where you live, deduct the percentage of the rent and any maintenance costs you paid that relates to the work space.

The amount you can deduct for work-space-in-the-home expenses cannot be more than your employment income after you deduct all employment expenses except work space expenses. You cannot use work space expenses to increase or create a loss from employment.

You can only deduct work space expenses from the income to which the expenses relate, and not from any other income.

If you cannot deduct all your work space expenses in the year, you can carry forward the expenses. You can deduct these expenses in the following year as long as you are reporting income from the same employer. However, you cannot increase or create a loss from employment by carrying forward work space expenses.

If you need more information, see Interpretation Bulletin IT-352, *Employee's Expenses, Including Work Space in Home Expenses*.

Chapter 3 – Employees Earning a Salary

This chapter describes the expenses you can deduct if you earn a salary. If you earn commission income, see Chapter 2 beginning on page 5.

Deductible expenses

This guide includes Form T777, *Statement of Employment Expenses*. Use it to calculate your total employment expenses. Once you calculate the employment expenses you can deduct, enter the amount on line 229 of your return. Include Form T777 with your return.

Your employment expenses include any GST and provincial sales tax, or HST, you paid on these expenses. You may be able to get a rebate of the GST/HST you paid. We discuss this rebate in Chapter 9 beginning on page 19.

The following describes the types of deductible expenses in the order they appear on Form T777.

Accounting and legal fees

You can deduct any legal fees you paid in the year to collect or establish a right to collect any amount that, if received, you would include as employment income on your return. However, you have to reduce your claim by any amount awarded to you or reimbursement you received for your legal expenses.

In some cases, you may also be able to deduct certain accounting fees. See Interpretation Bulletin IT-99, *Legal and Accounting Fees*, for more details.

Allowable motor vehicle expenses (including capital cost allowance)

You can deduct your motor vehicle expenses if you meet **all** the following conditions:

- You were normally required to work away from your employer's place of business or in different places.
- Under your contract of employment, you had to pay your own motor vehicle expenses.
- You did not receive a non-taxable allowance for motor vehicle expenses. Generally, an allowance is non-taxable when it is based solely on a reasonable per-kilometre rate.
- You keep with your records a completed copy of Form T2200, *Declaration of Conditions of Employment*, that has been signed by your employer.

Sometimes, your employer will include an unreasonably low allowance as income on your T4 slip even though you do not want to claim any expenses. When this happens, have your employer complete and sign Part B of Form T2200, or get a letter from your employer stating that the allowance was unreasonably low. On line 229, deduct as an expense an amount equal to the allowance.

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

We explain motor vehicle expenses on page 12, and capital cost allowance on page 16.

Travelling expenses

Travelling expenses include food, beverage, and lodging expenses but not motor vehicle expenses. You can deduct travelling expenses as long as you meet **all** the following conditions:

- You were normally required to work away from your employer's place of business or in different places.
- Under your contract of employment, you had to pay your own travelling expenses.
- You did not receive a non-taxable allowance for travelling expenses. Generally, an allowance is non-taxable as long as it is a reasonable amount and is for travelling away from the municipality and metropolitan area (if there is one) of your employer's location where you normally work, or to which you normally report.
- You keep with your records a completed copy of Form T2200, *Declaration of Conditions of Employment*, that has been signed by your employer.

You can deduct food and beverage expenses if your employer requires you to be away for at least 12 hours from the municipality and the metropolitan area (if there is one) of your employer's location where you normally report for work.

The most you can deduct for food and beverage expenses is 50% of the lower of:

- the amount you actually paid; or
- an amount that is reasonable in the circumstances.

The 50% limit also applies to the cost of food and beverages you paid for when you travelled on an airplane, train, or bus, as long as the ticket price did not include such amounts.

If you are a transport employee claiming a deduction for meals and lodging, see Form TL2, *Claim for Meals and Lodging Expenses*, included with this guide.

If you want more information about travelling expenses, see Interpretation Bulletin IT-522, *Vehicle, Travel and Sales Expenses of Employees*, or Interpretation Bulletin IT-518, *Food, Beverages and Entertainment Expenses*.

Parking

You can deduct parking costs related to earning your employment income as long as you meet all the conditions listed in the section called "Allowable motor vehicle expenses (including capital cost allowance)" on this page. Generally, you cannot deduct the cost of parking at your employer's office, such as monthly or daily parking fees. These are personal costs.

Do **not** include parking costs as part of your allowable motor vehicle expenses. Enter them on the "Parking" line on Form T777.

Supplies

You can deduct the cost of supplies if you meet **all** the following conditions:

- Under your contract of employment, you had to provide and pay for the supplies.
- You used the supplies directly in your work.
- Your employer has not repaid and will not repay you for these expenses.
- You keep with your records a completed copy of Form T2200, *Declaration of Conditions of Employment*, that has been signed by your employer.

Supplies are only those materials you use directly in your work, and for nothing else.

Supplies include items such as pens, pencils, paper clips, stationery, stamps, street maps, and directories. Supplies do **not** include items such as briefcases or calculators.

You can deduct expenses you paid for telegrams and long-distance telephone calls, as long as you paid them to earn employment income. However, you cannot deduct the monthly basic rate for a telephone.

You can also deduct the percentage of the airtime expenses for a cellular telephone that reasonably relates to earning your employment income. However, you cannot deduct amounts you paid to connect or license the cellular telephone or the cost of fees related to Internet service.

If you buy or lease a cellular telephone, fax machine, computer, or other such equipment, you cannot deduct the

cost. Also, you cannot deduct capital cost allowance or interest you paid on money borrowed to buy this equipment.

You **cannot** deduct the cost of special clothing you wear or have to wear for your work. Also, you cannot deduct the cost of any tools that are considered to be equipment. However, if you are an apprentice mechanic as described in Chapter 6 beginning on page 11, you may be able to deduct the cost of eligible tools you purchased to earn employment income as an eligible apprentice mechanic.

For more information, see Interpretation Bulletin IT-352, *Employee's Expenses, Including Work Space in Home Expenses*.

Other expenses

Salaries – You can deduct the salary you paid to your substitute or assistant if you meet **all** the following conditions:

- Under your contract of employment, you had to pay for extra help.
- Your employer has not repaid and will not repay you for these expenses.
- You keep with your records a completed copy of Form T2200, *Declaration of Conditions of Employment*, that has been signed by your employer.

You may have to withhold income tax, Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) contributions, and Employment Insurance (EI) premiums from the salary you paid. Report, on a T4 slip, the salary and amounts you withheld. For more information, see the guide, T4001, *Employers' Guide: Payroll Deductions (Basic Information)*.

As the employer, you can also deduct as an expense your share of the CPP or QPP contributions and the EI premiums.

Office rent – You can deduct office rent if you meet **all** the following conditions:

- Under your contract of employment, you had to rent an office and pay the expenses.
- Your employer has not repaid and will not repay you for these expenses.
- You keep with your records a completed copy of Form T2200, *Declaration of Conditions of Employment*, that has been signed by your employer.

You can deduct office rent you paid if you paid it to earn your employment income. Do not confuse office rent with work-space-in-the-home expenses, which we discuss below.

Work-space-in-the-home expenses

You can deduct expenses you paid in 2004 for the employment use of a work space in your home, as long as you had to pay for them under your contract of employment. These expenses must be used directly in your work and your employer has not reimbursed and will not reimburse you. Also, you must meet **one** of the following conditions:

- The work space is where you mainly do your work.
- You use the work space only to earn your employment income. You also have to use it on a regular and continuous basis for meeting clients or customers.

You can deduct a part of your maintenance costs, such as the cost of electricity, heating, and cleaning materials. However, you **cannot** deduct mortgage interest, property taxes, home insurance, or capital cost allowance.

To calculate the percentage of work space expenses you can deduct, use a reasonable basis, such as the area of the work space divided by the total area.

If your office space is in a rented house or apartment where you live, deduct the percentage of the rent and any maintenance costs you paid that relates to the work space.

The amount you can deduct for work-space-in-the-home expenses cannot be more than your employment income after you deduct all employment expenses except work space expenses. You cannot use work space expenses to increase or create a loss from employment.

You can only deduct work space expenses from the income to which the expenses relate, and not from any other income.

If you cannot deduct all your work space expenses in the year, you can carry forward the expenses to the following year, as long as you are reporting income from the same employer. However, you cannot increase or create a loss from employment by carrying forward work space expenses.

Interpretation Bulletin IT-352, *Employee's Expenses, Including Work Space in Home Expenses*, has more information.

Chapter 4 – Employees Working in Forestry Operations

You can deduct expenses for buying and using a power saw (including a chain saw or tree trimmer) if you had to pay for them under your contract of employment and if your employer will not be reimbursing you. Also, you have to meet **both** of the following conditions:

- You work in forestry operations; and
- You use the power saw to earn your employment income.

You can deduct the cost of a power saw in the year you buy it. However, you have to subtract from the purchase price of the new power saw the value of any trade-in or any amount you received from the sale of any power saw during the year.

When you file your return, attach a statement that breaks down the cost of running the power saw. Also, keep with your records a completed copy of Form T2200, *Declaration of Conditions of Employment*, that has been signed by your employer.

Expenses to operate a power saw include any GST and provincial sales tax, or HST, you paid. Enter your power saw expenses on line 229 of your return. You may be able to get a rebate of the GST/HST you paid. For more details, see Chapter 9 beginning on page 19.

You cannot deduct expenses for travelling from your home to a place where you are required to report to work on a regular basis. These expenses are personal. For example, you cannot deduct expenses for travelling from your home to a

forest camp or to a cutting site if you go to that place on a regular basis. However, the motor vehicle expenses for travelling from a forest camp set up by your employer to the cutting site are incurred in the course of employment and the expenses are therefore deductible if you meet the conditions described in the section called “Allowable motor vehicle expenses (including capital cost allowance)” on page 8.

You cannot deduct the cost of horses and harnesses, snowmobiles, or all-terrain vehicles because these are capital expenditures. Also, you cannot deduct capital cost allowance or interest you paid on money borrowed to buy them.

Chapter 5 – Employed Artists

This chapter has two parts. Part 1 deals with employed artists’ expenses in general. Part 2 deals with musical instrument costs.

Part 1 – Artists’ employment expenses

You can deduct expenses you paid in 2004 to earn employment income from an artistic activity if you did **any** of the following:

- composed a dramatic, musical, or literary work;
- performed as an actor, dancer, singer, or musician in a dramatic or musical work;
- performed an artistic activity as a member of a professional artists’ association that the Minister of Canadian Heritage has certified; or
- created a painting, print, etching, drawing, sculpture, or similar work of art. For income tax purposes, it is not an artistic activity when you reproduce these items.

These expenses include any GST and provincial sales tax, or HST, you paid. You may be able to get a rebate of the GST/HST you paid. We discuss this rebate in Chapter 9 beginning on page 19.

The amount you can claim is limited to the **lesser** of:

- a) the expenses you actually paid in 2004; or
- b) the lesser of:
 - \$1,000; and
 - 20% of your employment income from artistic activities;

minus the following amounts you deducted from your income from an artistic activity:

 - allowable musical instrument costs (see Part 2 on this page);
 - interest for your motor vehicle (see the section called “Interest expense” on page 13); and
 - capital cost allowance for your motor vehicle (see Chapter 8 beginning on page 16).

If you have expenses you cannot claim because of the 20% or \$1,000 limit, you can deduct them from artistic income you earn in a future year. Also, you can deduct amounts you carry forward from previous years from your artistic

income earned in 2004, as long as the total expenses are within the above-noted limits for 2004.

Enter the amount you can deduct on the “Artists’ employment expenses” line of Form T777, *Statement of Employment Expenses*.

If you earn artistic income from more than one employer, total your income and expenses before you calculate your claim. In other words, you cannot make a separate claim for each employer.

Note

As an employed artist, you can deduct expenses described in Chapter 3 if you meet the required conditions. If you can deduct expenses described in Chapter 3, you can choose to deduct these expenses separately from the other expenses you paid to earn artistic income. However, choose the option that gives you the greatest deduction in 2004, since you cannot carry forward expenses that you can deduct in 2004.

Example

Amirah’s 2004 employment income from artistic activities was \$20,000. During 2004, she paid expenses of \$950 for advertising, \$1,550 for travelling, and \$350 for musical instrument costs to earn this income. Amirah meets the requirements for deducting her travelling expenses as explained in Chapter 3, and her musical instrument costs as discussed in Part 2 below. She should deduct these expenses separately, since this gives her a greater deduction for 2004. Amirah calculates her artists’ employment expenses as follows:

- a) \$950 (advertising expenses); or
- b) the lesser of:
 - \$1,000; and
 - \$4,000 (20% of \$20,000);

minus \$350 (musical instrument costs).

Amount b) is \$1,000 minus \$350 = \$650.

The lesser of a) or b) is \$650.

Amirah calculates the amount to enter on line 229 of her return as follows:

Travelling expenses	\$ 1,550
Artists’ employment expenses	650
Allowable musical instrument costs	350
Total to enter on line 229	\$ 2,550

Part 2 – Musical instrument costs

If you are an employed musician, your employer may require you to provide your own musical instrument. If this is the case, you can deduct expenses you paid that relate to the musical instrument. Your musical instrument expenses include any GST and provincial sales tax, or HST, you paid on these expenses. You may be able to get a rebate of the GST/HST you paid. For more details, see Chapter 9 beginning on page 19.

Deductible expenses

The amounts you can deduct for your musical instrument are:

- maintenance costs;
- rental fees;
- insurance costs; and
- capital cost allowance (if you own the instrument).

Enter the amount you can deduct on the "Musical instrument costs" line and/or the "Capital cost allowance for musical instruments" line of Form T777 as appropriate.

However, the amount you deduct cannot be more than your income for the year from your employment as a musician after deducting all employment expenses (except musical instrument expenses).

How to calculate your expenses

When you use your musical instrument for both employment and other purposes, divide the total instrument costs among the different uses. For example, if you are using your instrument for employment, self-employment, and personal purposes, separate all three uses. You cannot deduct personal expenses.

Enter the total expenses related to your employment income on line 229 of your return.

Use the self-employment portion of your musical instrument costs to calculate the net self-employment income you report on line 137 of your return. For more information, see guide T4002, *Business and Professional Income*.

Capital cost allowance

Use the back of Form T777 to calculate the amount of capital cost allowance you can claim for your musical instrument. For more information, see Chapter 8 beginning on page 16.

Change in use

There are special rules for calculating the capital cost of depreciable property. These rules can apply when there is a change in use of the property from an income-earning purpose to some other purpose, or vice versa. We discuss this in more detail in Chapter 8 beginning on page 16.

For more information, see Interpretation Bulletin IT-525, *Performing Artists*.

Chapter 6 – Employed Apprentice Mechanics

You may be able to deduct the cost of eligible tools you purchased in 2004 to earn employment income as an eligible apprentice mechanic. This cost includes any GST and provincial sales tax, or HST, you paid. You may be able to get a rebate of the GST/HST you paid. We discuss this rebate in Chapter 9 beginning on page 19. When completing Form GST370, *Employee and Partner GST/HST Rebate Application*, see if Situation 6 on page 22 applies to you.

You are an eligible apprentice mechanic if you:

- are registered in a program established in accordance with the laws of a province or territory that leads to a designation under those laws as a mechanic **licensed to repair self-propelled motorized vehicles** (such as automobiles, aircraft, boats, snowmobiles, etc.); and
- are employed as an apprentice mechanic.

An eligible tool is a tool (including associated equipment such as a tool box) that:

- you acquired for use in connection with your employment as an eligible apprentice mechanic;
- was not used for any purpose before you acquired it; and
- your employer certified as being necessary for you to provide as a condition of, and for use in, your employment as an eligible apprentice mechanic.

You have to complete Form T2200, *Declaration of Conditions of Employment*. Have your employer complete questions 10 and 11 of Part B of the form in order to certify that the tools being claimed were purchased and provided by you as a condition of your employment as an eligible apprentice mechanic. Attach to Form T2200 a list of the tools being claimed. You do not have to submit Form T2200 or your list of tools with your return. However, keep them in case we ask to see them.

Deduction for tools

If you were an eligible apprentice mechanic at any time in 2004, use the following formula to calculate your maximum deduction for the cost of eligible tools you purchased in 2004:

$$\text{Maximum deduction for eligible tools}^* = (A - B) + C$$

where

- A** = the total cost of eligible tools that you purchased in 2004**
- B** = the lesser of:
1. the total cost of eligible tools that you purchased in 2004 as calculated in **A**; and
 2. the greater of:
 - \$1,000; and
 - 5% of your employment income as an eligible apprentice mechanic
- C** = the amount, if any, of the maximum deduction for eligible tools that you calculated for 2003 that you did **not** claim in 2003 (your carry forward amount from 2003, if any)

*This claim **cannot** exceed your net income for 2004 from all sources (the claim cannot create a non-capital loss).

If you become employed as an eligible apprentice mechanic for the **first time during 2004, you will be able to increase the value of **A** in the above calculation by the cost of eligible tools you purchased in October to December of 2003.

Enter your claim on the "Apprentice mechanic tools expenses" line of Form T777, *Statement of Employment Expenses*.

If you do not wish to claim the maximum deduction, you can carry forward the unused portion for use against income earned in a future year. You can deduct the unused amount against any type of income in a future year even if you are no longer employed as an eligible apprentice mechanic at that time.

Example 1

The Motor Company hires Lee as an eligible apprentice mechanic on November 1, 2003. Based on the tools he purchased during 2003, Lee calculated his maximum deduction for eligible tools in 2003 to be \$3,500. He only claimed \$1,500 of this amount on his 2003 return. In 2004, Lee receives \$18,000 in income from his job as an eligible apprentice mechanic. In 2004, he received income of \$4,000 from other sources.

During 2004, Lee purchases two eligible tools for \$4,500.

Lee calculates his maximum deduction for eligible tools in 2004 as follows:

Maximum deduction for eligible tools	=	(A - B) + C
where		
A	=	\$4,500
B	=	the lesser of:
		1. \$4,500; and
		2. the greater of:
		■ \$1,000; and
		■ \$900 (5% of \$18,000)
C	=	\$2,000

Therefore, Lee's maximum deduction in 2004 is \$5,500 ($[\$4,500 - \$1,000] + \$2,000$). Lee's claim for the year cannot exceed his net income of \$22,000 ($\$18,000 + \$4,000$). Lee claims his deduction at line 229 of his return.

Disposition of tools

You may decide to sell any or all of the eligible tools for which you claimed a deduction. If so, you must include, in your income in the year of disposition, the amount by which the proceeds of disposition of each tool exceed the adjusted cost of the eligible tool sold. For the purposes of this calculation, adjust the original cost of each eligible tool you purchased by applying the following formula:

Adjusted cost of an eligible tool	=	D - (D × [(A - B)/A])
where		
D	=	the original cost of each eligible tool that you purchased in 2004
A - B	=	the deductible portion of the cost of all eligible tools that you purchased in 2004
A	=	the total cost of all eligible tools that you purchased in 2004

Complete a separate calculation for each eligible tool you purchased in 2004.

Example 2

In Example 1 on this page, Lee purchased two eligible tools during 2004 for \$4,500. Tool A and Tool B cost \$2,500 and \$2,000, respectively. Lee must calculate the adjusted cost of these tools. He calculates the adjusted cost of Tool A as follows:

Adjusted cost of Tool A	=	D - (D × [(A - B)/A])
where		
D	=	\$2,500
A - B	=	\$4,500 - \$1,000 = \$3,500 (from Example 1)
A	=	\$4,500

By applying this formula, the adjusted cost of Tool A is:

$$\begin{aligned} & \$2,500 - (\$2,500 \times [\$3,500/\$4,500]) \\ &= \$2,500 - \$1,944 \\ &= \$556. \end{aligned}$$

Similarly, the adjusted cost of Tool B is \$444 ($\$2,000 - (\$2,000 \times [\$3,500/\$4,500])$).

Assume that Lee sells Tool A in 2005 for \$2,200. Since the proceeds of disposition of Tool A (\$2,200) is greater than its adjusted cost (\$556), he would have to include in income in 2005 the amount of \$1,644 ($\$2,200 - \556).

Chapter 7 – Motor Vehicle Expenses

You can deduct expenses you paid to run a motor vehicle you use to earn employment income. Your motor vehicle expenses include any GST and provincial sales tax, or HST, you paid on these expenses. You may be able to get a rebate of the GST/HST you paid. For more details, see Chapter 9 beginning on page 19.

If you are an employee earning **commission income**, you can deduct expenses for your vehicle as long as you meet the conditions outlined in the section called "Employment conditions" on page 5.

If you are an employee earning a **salary**, you can deduct expenses for your vehicle as long as you meet the conditions outlined in the section called "Allowable motor vehicle expenses (including capital cost allowance)" on page 8.

Keeping records

Since you can deduct motor vehicle expenses only when they are reasonable and you have receipts to support them, keep a record for each vehicle you used. The record should include the total kilometres you drove as well as the kilometres you drove to earn employment income. The record for each trip you took to earn employment income should list the date, destination, purpose, and number of kilometres. Be sure to record the odometer reading of each vehicle at the beginning and again at the end of the year.

If you change motor vehicles during the year, record the odometer reading of each vehicle at the time you buy, sell, or trade it. Be sure to write down the dates as well.

Deductible expenses

The types of expenses you can deduct include:

- fuel and oil;
- maintenance and repairs;
- insurance;
- licence and registration fees;
- capital cost allowance (see Chapter 8 beginning on page 16);
- eligible interest you paid on a loan used to buy the motor vehicle; and
- eligible leasing costs.

Enter these amounts in the “Calculation of Allowable Motor Vehicle Expenses” area of Form T777.

What kind of vehicle do you own?

For tax purposes, there are three types of vehicles you should know about. They are **motor vehicles**, **automobiles**, and **passenger vehicles**.

The kind of vehicle you use may affect the expenses you can deduct. If you own or lease a passenger vehicle, there may be a limit on the amounts you can deduct for capital cost allowance (CCA), interest, and leasing costs. We explain the limits for CCA on page 17, leasing costs on page 14, and interest expense on this page.

Motor vehicle

A motor vehicle is an automotive vehicle designed or adapted for use on highways and streets. It is not a trolley bus, or a vehicle designed or adapted to be operated exclusively on rails.

Automobile

An automobile is a motor vehicle designed or adapted primarily to carry people on highways and streets. It seats a driver and no more than eight passengers.

An automobile does **not** include:

- an ambulance;
- clearly marked police and fire emergency-response vehicles;
- a motor vehicle you bought to use mainly (more than 50%) as a taxi, a bus to transport passengers, or a hearse in a funeral business;
- a motor vehicle you bought to sell, rent, or lease in a motor vehicle sales, rental, or leasing business;
- a motor vehicle (except a hearse) you bought to use in a funeral business to transport passengers; or
- certain vans, pick-up trucks, or similar vehicles (see the “Vehicle definitions chart” on page 14 for details).

Passenger vehicle

A passenger vehicle is an automobile you bought after June 17, 1987, or leased under a lease you entered into, extended, or renewed after June 17, 1987.

An automobile you bought or leased under the terms of a written agreement entered into before June 18, 1987, is not a passenger vehicle.

Most cars, station wagons, vans, and some pick-up trucks are passenger vehicles. They are subject to the limits for CCA, interest, and leasing costs. The “Vehicle definitions chart” on page 14 should help you determine what type of vehicle you have. It does not cover every situation, but should give you a better idea of how we define vehicles bought or leased after June 17, 1987.

Joint ownership

If you and somebody else own or lease the same passenger vehicle, the limits on CCA, interest, and leasing costs still apply. The total amount the joint owners can claim cannot be more than the amount that would be allowed if only one person had owned or leased the vehicle.

Employment use of a motor vehicle

If you use a motor vehicle for both employment and personal use, you can deduct only the percentage of expenses related to earning income. To support the amount you can deduct, keep a record of both the total kilometres you drove and the kilometres you drove to earn employment income. We consider driving back and forth between home and work as personal use.

If you use more than one motor vehicle to earn employment income, calculate the expenses for each vehicle separately.

Interest expense

You can deduct interest you paid on money you borrowed to buy a motor vehicle, automobile, or passenger vehicle that you use to earn employment income. Include the interest you paid when you calculate your allowable motor vehicle expenses.

If you use a **passenger vehicle** to earn employment income, there is a **limit** on the amount of interest you can deduct.

Use the “Available interest expense for passenger vehicles chart” to calculate the amount you can deduct. Enter your available interest expense amount on line 10 of Form T777.

Available interest expense for passenger vehicles chart	
Total interest paid in the year	\$ _____ A
\$10.00* × the number of days for which interest was paid	\$ _____ B
The available interest expense is the lower of amount A or amount B.	
*Note	
– Use \$8.33 for passenger vehicles bought after December 31, 1996, and before January 1, 2001.	
– In all other cases, use \$10.00.	

Vehicle definitions chart			
Type of vehicle	Seating (includes driver)	Business use in year bought or leased	Vehicle definition
Coupe, sedan, station wagon, sports car, or luxury car	1 to 9	1% to 100%	passenger
Pick-up truck used to transport goods or equipment	1 to 3	more than 50%	motor
Pick-up truck (other than above)*	1 to 3	1% to 100%	passenger
Pick-up truck with extended cab used to transport goods, equipment, or passengers	4 to 9	90% or more	motor
Pick-up truck with extended cab (other than above)*	4 to 9	1% to 100%	passenger
Sport-utility used to transport goods, equipment, or passengers	4 to 9	90% or more	motor
Sport-utility (other than above)	4 to 9	1% to 100%	passenger
Van or minivan used to transport goods or equipment	1 to 3	more than 50%	motor
Van or minivan (other than above)	1 to 3	1% to 100%	passenger
Van or minivan used to transport goods, equipment, or passengers	4 to 9	90% or more	motor
Van or minivan (other than above)	4 to 9	1% to 100%	passenger

*A vehicle in this category is considered a **motor vehicle** if it is used primarily for the transportation of goods, equipment, or passengers while earning or producing income at a remote work location or at a special worksite that is at least 30 kilometres from the nearest community having a population of at least 40,000.

Leasing costs

You can deduct amounts you paid to lease a motor vehicle you used to earn employment income. Include the leasing costs you paid when you calculate your allowable motor vehicle expenses.

If you use a passenger vehicle to earn employment income, there is a limit on the amount of the leasing costs you can deduct. Use one of the charts below to calculate your eligible leasing costs. The chart you use will depend on when you leased your vehicle. Choose the chart that applies to you. Contact us if you are still using a passenger vehicle to earn employment income that was leased before

January 1, 1991. Enter your eligible leasing costs on line 11 of Form T777.

Note

Most leases do not include items such as insurance, maintenance, and taxes. You have to pay these amounts separately. Therefore, list these expenses separately on Form T777. Do not include them on line 1 when you complete the applicable chart.

If the lease agreement for your passenger vehicle includes items such as insurance, maintenance, and taxes, include them as part of the lease charges on line 1 when you complete the applicable chart.

Chart A			
Eligible leasing costs for passenger vehicles leased after December 31, 2000			
1.	Enter the total lease charges paid for the vehicle in 2004.....	\$ _____	1
2.	Enter the total lease payments deducted for the vehicle before 2004	\$ _____	2
3.	Enter the total number of days the vehicle was leased in 2004 and previous years.....	_____	3
4.	Enter the manufacturer's list price	\$ _____	4
5.	\$35,294 + GST and PST, or HST on \$35,294.....	\$ _____	5
6.	Enter the amount from line 4 or line 5, whichever is more \$ _____ × 85%	▶ \$ _____	6
7.	(\$800 + GST and PST, or HST on \$800) × line 3 = \$ _____ ÷ 30 = \$ _____ - line 2	▶ \$ _____	7
8.	(\$30,000 + GST and PST, or HST on \$30,000) × line 1 = \$ _____ ÷ line 6	▶ \$ _____	8
Your eligible leasing cost is the lower of the amounts on line 7 or line 8.			

Chart B

Eligible leasing costs for passenger vehicles leased after December 31, 1999, and before January 1, 2001

1. Enter the total lease charges paid for the vehicle in 2004.....	\$	_____	1
2. Enter the total lease payments deducted for the vehicle before 2004	\$	_____	2
3. Enter the total number of days the vehicle was leased in 2004 and previous years.....		_____	3
4. Enter the manufacturer's list price	\$	_____	4
5. \$31,765 + GST and PST, or HST on \$31,765.....	\$	_____	5
6. Enter the amount from line 4 or line 5, whichever is more \$ _____ × 85%		_____	6
7. (\$700 + GST and PST, or HST on \$700) × line 3 = \$ _____ ÷ 30 = \$ _____ – line 2		_____	7
8. (\$27,000 + GST and PST, or HST on \$27,000) × line 1 = \$ _____ ÷ line 6		_____	8

Your eligible leasing cost is the lower of the amounts on line 7 or line 8.

Chart C

Eligible leasing costs for passenger vehicles leased after December 31, 1997, and before January 1, 2000

1. Enter the total lease charges paid for the vehicle in 2004.....	\$	_____	1
2. Enter the total lease payments deducted for the vehicle before 2004	\$	_____	2
3. Enter the total number of days the vehicle was leased in 2004 and previous years.....		_____	3
4. Enter the manufacturer's list price	\$	_____	4
5. \$30,588 + GST and PST, or HST on \$30,588.....	\$	_____	5
6. Enter the amount from line 4 or line 5, whichever is more \$ _____ × 85%		_____	6
7. (\$650 + GST and PST, or HST on \$650) × line 3 = \$ _____ ÷ 30 = \$ _____ – line 2		_____	7
8. (\$26,000 + GST and PST, or HST on \$26,000) × line 1 = \$ _____ ÷ line 6		_____	8

Your eligible leasing cost is the lower of the amounts on line 7 or line 8.

Chart D

Eligible leasing costs for passenger vehicles leased after December 31, 1996, and before January 1, 1998

1. Enter the total lease charges paid for the vehicle in 2004.....	\$	_____	1
2. Enter the total lease payments deducted for the vehicle before 2004	\$	_____	2
3. Enter the total number of days the vehicle was leased in 2004 and previous years.....		_____	3
4. Enter the manufacturer's list price	\$	_____	4
5. \$29,412 + GST and PST, or HST on \$29,412.....	\$	_____	5
6. Enter the amount from line 4 or line 5, whichever is more \$ _____ × 85%		_____	6
7. (\$550 + GST and PST, or HST on \$550) × line 3 = \$ _____ ÷ 30 = \$ _____ – line 2		_____	7
8. (\$25,000 + GST and PST, or HST on \$25,000) × line 1 = \$ _____ ÷ line 6		_____	8

Your eligible leasing cost is the lower of the amounts on line 7 or line 8.

Chart E

Eligible leasing costs for passenger vehicles leased after December 31, 1990, and before January 1, 1997

1. Enter the total lease charges paid for the vehicle in 2004.....	\$ _____	1
2. Enter the total lease payments deducted for the vehicle before 2004	\$ _____	2
3. Enter the total number of days the vehicle was leased in 2004 and previous years.....	_____	3
4. Enter the manufacturer's list price	\$ _____	4
5. \$28,235 + GST and PST, or HST on \$28,235.....	\$ _____	5
6. Enter the amount from line 4 or line 5, whichever is more \$ _____ × 85%	▶ \$ _____	6
7. (\$650 + GST and PST, or HST on \$650) × line 3 = \$ _____ ÷ 30 = \$ _____ – line 2 ▶	\$ _____	7
8. (\$24,000 + GST and PST, or HST on \$24,000) × line 1 = \$ _____ ÷ line 6	▶ \$ _____	8

Your eligible leasing cost is the lower of the amounts on line 7 or line 8.

Example

On February 1, 2004, Vivian, a resident of Ontario, began leasing a car that meets the definition of a passenger vehicle. She used the car to earn employment income. Vivian will complete Chart A using the following information for 2004:

- Monthly lease payment..... \$ 500
- Lease payments for 2004..... \$ 5,500
- Number of days the car was leased in 2004 334
- Manufacturer's suggested list price..... \$28,000
- GST (\$35,294 × 7% = \$2,471) and PST (\$35,294 × 8% = \$2,824)..... \$ 5,295
- GST (\$800 × 7% = \$56) and PST (\$800 × 8% = \$64)..... \$ 120
- GST (\$30,000 × 7% GST = \$2,100) and PST (\$30,000 × 8% = \$2,400) \$ 4,500

Chart A

1. Total lease charges paid for the vehicle in 2004	\$ 5,500	1
2. Total lease payments deducted for the vehicle before 2004.....	\$ 0	2
3. Total number of days the vehicle was leased in 2004 and previous years	334	3
4. The manufacturer's list price.....	\$ 28,000	4
5. \$35,294 + \$5,295	\$ 40,589	5
6. Enter the amount from line 4 or line 5, whichever is more \$ 40,589 × 85%	▶ \$ 34,500	6
7. (\$800 + \$120 = \$920) × 334 = \$ 307,280 ÷ 30 = \$ 10,243 – line 2 ▶	\$ 10,243	7
8. (\$30,000 + \$4,500 = \$34,500) × 5,500 = \$ 189,750,000 ÷ 34,500	▶ \$ 5,500	8

Vivian would enter \$5,500 (the lower of the amounts on line 7 or line 8) on line 11 of Form T777.

Repayments and imputed interest

When you lease a passenger vehicle, you may have either a repayment owing to you, or you may have **imputed interest**. If this is your situation, you cannot use the preceding leasing charts. Instead, contact us.

Imputed interest is interest that would be owing to you if you were paid interest on money you deposited to lease a passenger vehicle. You can only calculate imputed interest for leasing costs on a passenger vehicle if **all** the following apply:

- you made one or more deposits for the leased passenger vehicle;
- all deposits are refundable; and
- the deposits total more than \$1,000.

Chapter 8 – Capital Cost Allowance (Depreciation)

You cannot deduct the cost of a property, such as a vehicle or musical instrument that you use to earn your income. However, you can deduct a percentage of the property's cost. The portion of the cost you can deduct or claim is called **depreciation** or, for income tax purposes, **capital cost allowance (CCA)**.

Definitions

You may need to know the meaning of certain terms before you can determine your claim for CCA.

Capital cost is the amount on which you first claim CCA. Generally, the capital cost of the property is what you pay for it. Capital cost also includes items such as delivery charges, the GST and provincial sales tax, or HST.

Depreciable property is any property on which you can claim CCA. Depreciable properties are usually grouped into classes. Your CCA claim is based on the class of your property.

Fair market value is usually the highest dollar value you can get for your property in an open and unrestricted market, between a willing buyer and a willing seller who are acting independently of each other.

Proceeds of disposition is usually the amount you received or will receive for your property. In most cases, it refers to the sale price of the property. When you trade in a property to buy a new one, your proceeds of disposition are the amount you receive for the trade-in.

Undepreciated capital cost (UCC) is the balance of the capital cost left for further depreciation at any given time. The amount of CCA you claim each year will lower the UCC of the property.

Can you claim CCA?

If you are an employee earning **commission income**, you can claim CCA on your vehicle if you meet the conditions outlined in the section called “Employment conditions” on page 5.

If you are an employee earning a **salary**, you can claim CCA on your vehicle if you meet the conditions outlined in the section called “Allowable motor vehicle expenses (including capital cost allowance)” on page 8.

If you are an **employed musician**, you can claim CCA on a musical instrument if you had to provide the musical instrument as a condition of employment.

You do not have to claim the maximum amount of CCA in any given year. You can claim any amount you wish, from zero up to the maximum allowed for the year.

Use the back of Form T777, *Statement of Employment Expenses*, to calculate your CCA claim. You will find two copies of Form T777 in this guide.

Interpretation Bulletin IT-522, *Vehicle, Travel and Sales Expenses of Employees*, has more details about CCA.

Classes of depreciable properties

Depreciable properties are usually grouped into classes. To claim CCA, you should know about the following classes.

Class 8

The maximum CCA rate for this class is 20%. Musical instruments are included in Class 8.

Class 10

The maximum CCA rate for this class is 30%.

You include motor vehicles, automobiles, and some passenger vehicles in Class 10. We define motor vehicles,

automobiles, and passenger vehicles in the section called “What kind of vehicle do you own?” on page 13.

Your passenger vehicle can belong to either Class 10 or Class 10.1. You only include a passenger vehicle in Class 10.1 if it meets certain conditions. We explain these conditions below.

Class 10.1

The maximum CCA rate for this class is 30%.

The maximum capital cost of each vehicle that may be included in Class 10.1 is \$30,000 plus GST and provincial sales tax (PST), or HST.

Include your passenger vehicle in Class 10.1 if it meets **one** of the following conditions:

- you acquired it after August 31, 1989, and before January 1, 1997, and it cost you more than \$24,000;
- you acquired it after December 31, 1996, and before January 1, 1998, and it cost you more than \$25,000;
- you acquired it after December 31, 1997, and before January 1, 2000, and it cost you more than \$26,000;
- you acquired it after December 31, 1999, and before January 1, 2001, and it cost you more than \$27,000; or
- you acquired it after December 31, 2000, and it cost you more than \$30,000.

If your passenger vehicle does not meet **any** of the above conditions, then it belongs in Class 10.

To determine what class your passenger vehicle belongs to, do **not** include the GST and PST, or HST, when calculating the cost of the vehicle. This applies to all passenger vehicles bought after December 31, 1990.

The following compares the two CCA classes for vehicles:

	Class 10	Class 10.1
CCA rate	30%	30%
Group all vehicles in one class	yes	no
List each vehicle separately	no	yes
Maximum capital cost	no	yes
50% rule on acquisitions	yes	yes
Half-year rule on sale	no	yes
Recapture on sale or trade-in	yes	no
Terminal loss on sale or trade-in	no	no

Because of the differences between Class 10 and Class 10.1, the capital cost allowance schedule on the back of Form T777 is divided into two separate parts (Part A and Part B).

Use **Part A** to calculate CCA for both Class 8 and Class 10 property, since the rules for these two classes are similar.

Use **Part B** to calculate CCA on Class 10.1 property only. List each vehicle that belongs in Class 10.1 on a separate line. Calculate CCA separately for each vehicle listed.

How to calculate capital cost allowance

The following information will help you complete Part A and Part B of the capital cost allowance schedule.

If this is the first year you are claiming CCA, skip column 2 and start with column 3. If this is not the first year you are claiming CCA, start with column 2. Then complete the rest of the columns as they apply.

Part A – Classes 8 and 10 property

Column 2 – Undepreciated capital cost at the beginning of the year

If you claimed CCA in any previous year, record in this column the undepreciated capital cost (UCC) of the property at the end of last year. For instance, if you completed Part A in 2003, you would have recorded this amount in column 10. However, if you received a GST/HST rebate for a vehicle or musical instrument in 2004, you have to reduce your opening UCC by the amount of the rebate.

Column 3 – Cost of acquisitions during the year

If you acquired depreciable property in 2004, enter the total capital cost of the property on the appropriate line.

If you owned property for personal use and then started using it for employment in 2004, there is a change in use. In most cases when this happens, the amount you will enter in column 3 is the fair market value of the property.

For example, Ernest bought a car in 2000 for \$19,000. In 2004, he started using it for employment. By checking car dealerships and the newspapers, Ernest determines its fair market value is \$11,000. Therefore, he enters \$11,000 in column 3.

To determine what class your passenger vehicle belongs to, use the price of the car before you add GST and any provincial sales tax (PST), or HST. However, once you determine that your vehicle belongs to Class 10, add the GST and PST, or HST, that you paid in the vehicle's capital cost.

For example, on June 21, 2004, you bought a passenger vehicle for \$28,000 plus GST of \$1,960 and PST of \$2,240. Your vehicle belongs in Class 10 even though its capital cost is \$32,200 (\$28,000 + \$1,960 + \$2,240), since your cost before the GST and PST was \$28,000. You would enter \$32,200 in column 3 for Class 10 property.

For information on Class 10.1 property, see the section called "Part B – Class 10.1 property" on page 18.

Column 4 – Proceeds of disposition during the year

For depreciable property you disposed of in 2004, enter the lesser of:

- the proceeds of disposition of the property, **minus** the related outlays and expenses; or
- the capital cost of the property.

Column 5 – Undepreciated capital cost after acquisitions and dispositions

Enter the amount you get after you add column 2 to column 3, and subtract column 4.

You cannot claim CCA when the amount in column 5 is:

- negative; or
- positive, and you do not have any property in the class at the end of the year.

Recapture of capital cost allowance – If the amount in column 5 is negative, you have a recapture of CCA. Include the amount as income on line 104 of your return for 2004.

Terminal loss – If the amount in column 5 is positive and you no longer own any property in that class, you have a terminal loss. You cannot deduct the terminal loss from income.

Column 6 – Adjustments for current-year acquisitions

You can only claim CCA on 50% of your net acquisitions (acquisitions **minus** dispositions) of Class 8 or Class 10 properties in 2004. This is known as the **50% rule**. In column 6, enter 50% of the amount you get when you subtract column 4 from column 3. If column 4 is more than column 3, enter "nil" in column 6.

Column 7 – Base amount for capital cost allowance claim

Enter the amount you get when you subtract column 6 from column 5. Base your CCA claim, if any, on the amount in this column. You can only claim CCA on the balance remaining in column 7 when the amount is positive and you still have property in the class at the end of the year.

Column 9 – Capital cost allowance for the year

You can only claim CCA if you were still using the property for employment at the end of 2004. If you started using a property for employment part way through the year, you can claim CCA on the property for the full year. You do not have to limit your CCA claim to the part of the year you used the property for employment. If you stopped using the property for employment during the year, you cannot claim any CCA on the property for the year.

Enter the CCA you want to claim for 2004. The most you can claim for a Class 10 property is 30% of the amount in column 7. The most you can claim for a Class 8 property is 20% of the amount in column 7.

Column 10 – Undepreciated capital cost at the end of the year

Enter the amount you get when you subtract column 9 from column 5. This is your undepreciated capital cost at the end of 2004.

Part B – Class 10.1 property

List each vehicle that belongs in Class 10.1 on a separate line.

Column 2 – Undepreciated capital cost at the beginning of the year

If you claimed CCA in any previous year for a Class 10.1 vehicle, record in this column the undepreciated capital cost

(UCC) of that vehicle at the end of last year. For instance, if you completed Part B in 2003, you would have recorded this amount in column 8. However, if you received a GST/HST rebate for that vehicle in 2004, you have to reduce your opening UCC by the amount of the rebate.

Column 3 – Cost of acquisitions during the year

To determine what class your passenger vehicle belongs to, use the price of the car before you add the GST and any PST, or HST. However, include the GST and PST, or HST, in the vehicle's capital cost.

For a passenger vehicle you acquired in 2004 that cost you more than \$30,000 before GST and PST, or HST, the amount you record is \$30,000 plus the GST and PST, or the HST, that you would have paid on \$30,000.

For example, if you bought a passenger vehicle on July 24, 2004, that cost \$31,000 before the GST and PST, or HST, your vehicle belongs in Class 10.1. Assume the GST on \$30,000 is \$2,100 and the PST is \$2,400. Your capital cost is \$34,500 (\$30,000 + \$2,100 + \$2,400). You enter \$34,500 in column 3.

There is a limit on the capital cost of a Class 10.1 vehicle you acquire from a person with whom you have a non-arm's-length relationship. Generally, such a relationship happens when the person from whom you acquire the vehicle is a relative. A non-arm's-length relationship can also happen in certain business relationships.

In this case, the capital cost is the **least** of the following three amounts:

- the fair market value of the vehicle at the time you acquired it;
- \$30,000 plus the GST and PST, or the HST, that you would have paid on \$30,000 if you had acquired the vehicle in 2004; and
- the seller's cost amount of the vehicle immediately before you acquired it. The cost amount can vary depending on what the seller used the vehicle for before you acquired it. If the seller used the vehicle to earn income, the cost amount will be the undepreciated capital cost of the vehicle immediately before you acquired it. When the seller was not using the vehicle to earn income, the cost amount will usually be the original cost of the vehicle.

Column 4 – Proceeds of disposition during the year

For a Class 10.1 vehicle you disposed of in 2004, record the **lesser** of:

- the proceeds of disposition of the property, **minus** the related outlays and expenses; or
- the capital cost of the vehicle.

Column 5 – Base amount for capital cost allowance claim

Base your CCA claim, if any, on the amount in this column.

If you owned the vehicle in 2004 and still owned it at the end of 2004, enter in column 5 the same amount you entered in column 2.

You can only claim CCA on 50% of the capital cost of a Class 10.1 vehicle you acquired in 2004. This is known as

the **50% rule**. In column 5, enter 50% of the amount in column 3, as long as you still owned the vehicle at the end of 2004. If you acquired and disposed of the same Class 10.1 vehicle in 2004, enter "nil" in column 5.

For a Class 10.1 vehicle you disposed of in 2004, you may be able to claim 50% of the CCA that would be allowed if you had still owned the vehicle at the end of the year. This is known as the **half-year rule on sale**.

You can use the half-year rule if you owned, at the end of your 2003 tax year, the class 10.1 vehicle you sold in 2004. If you meet this condition, enter 50% of the amount from column 2 in column 5.

Column 7 – Capital cost allowance for the year

Claim CCA if you were still using the vehicle for employment at the end of 2004. If you started using a vehicle for employment part way through the year, you can claim CCA on the vehicle for the full year. You do not have to limit your CCA claim to the part of the year that you used the vehicle for employment.

Record the CCA you want to claim for 2004. The most you can claim is 30% of the amount in column 5.

Column 8 – Undepreciated capital cost at the end of the year

Calculate the undepreciated capital cost at the end of 2004 as follows:

- For a Class 10.1 vehicle you owned in 2003 and still owned at the end of 2004, enter the amount you get after you subtract the amount in column 7 from the amount in column 2.
- For a Class 10.1 vehicle you acquired during 2004 and still owned at the end of 2004, enter the amount you get after you subtract the amount in column 7 from the amount in column 3.
- For a Class 10.1 vehicle you disposed of during 2004, enter "nil" in column 8. The recapture and terminal loss rules do not apply to a Class 10.1 vehicle.

Chapter 9 – Employee Goods and Services Tax/Harmonized Sales Tax (GST/HST) Rebate

Provincial sales taxes in Nova Scotia, Newfoundland and Labrador, and New Brunswick were harmonized with the goods and services tax (GST) to create the harmonized sales tax (HST). For the rest of this chapter, we call these the participating provinces.

As an employee, you may have incurred expenses in the course of your employment duties. Some of these expenses you paid may have included GST/HST. If you deducted these expenses from your employment income, you may be able to get a rebate of the GST/HST you paid on these expenses. Claim the rebate on line 457 of your tax return.

If the GST/HST rebate is for your expenses, include the rebate in your income for the year you received it. Report the amount on line 104 of your tax return.

If the GST/HST rebate is for a vehicle or musical instrument you bought, it will affect your claim for capital cost allowance in the year you receive the rebate. If this applies to you, reduce the undepreciated capital cost of your vehicle or musical instrument by the amount of the rebate at the beginning of the year in which you receive the rebate (see Example beginning on page 24). For more details, see the section called “How to complete Form GST370, *Employee and Partner GST/HST Rebate Application*” on page 21. Do not include the rebate on line 104 of your tax return.

It is important for you to keep proper records so you can identify the expenses that included GST/HST. See Chapter 1 on page 5 for more information on keeping records.

Do you qualify for the rebate?

As an employee, you may qualify for a rebate if:

- you paid GST/HST on certain employment-related expenses and deducted those expenses on your tax return; and
- your employer is a GST/HST registrant.

You do not qualify for a GST/HST rebate if your employer:

- is not a GST/HST registrant; or
- is a listed financial institution as defined in the *Excise Tax Act* (for example, an entity that was at any time during the year a bank, an investment dealer, a trust company, an insurance company, a credit union, or a corporation whose principal business was lending money).

Expenses that qualify for the rebate

You can only apply for a rebate of the GST/HST you paid on expenses that you deducted on your tax return. You must have paid the GST/HST before claiming the rebate. Common examples of eligible expenses are described in chapters 2, 3, 4, 5, and 6 of this guide.

Non-eligible expenses

Non-eligible expenses include the following:

- Expenses on which you did not pay GST/HST, such as:
 - most goods and services you acquired before 1991;
 - most expenses you incurred outside Canada (e.g., gasoline, accommodation, meals, and entertainment);
 - certain expenses such as basic groceries; and
 - expenses that are not subject to GST/HST including medical underwriting fees, insurance premiums, bonding premiums, mortgage interest, residential rents, interest, motor vehicle licence and registration fees, and salaries.
- Expenses you incurred when your employer was not a GST/HST registrant.

- Expenses that relate to an allowance you received from your employer that is not reported in Area C of the GST/HST rebate application—for example, an allowance that was not included in your income as a taxable benefit because it was a reasonable allowance.
- Any personal-use portion of an eligible expense.
- An expense or part of an expense for which you were reimbursed or are entitled to be reimbursed by your employer.

Capital cost allowance

You can claim a GST/HST rebate based on the amount of capital cost allowance (CCA) you claimed on motor vehicles and musical instruments on which you paid GST/HST. If you claim CCA on more than one property of the same class, you have to calculate the portion of CCA that relates to the property that qualifies for a rebate.

You cannot claim a rebate for CCA claimed on motor vehicles and musical instruments you bought before 1991, since you did not pay GST/HST on them.

In most cases, you cannot claim a GST/HST rebate on the CCA claimed on motor vehicles and musical instruments that relates to any allowance your employer paid you on those properties. However, you can claim a rebate if it relates to an allowance your employer reports in Area C of the rebate application form. You cannot claim a rebate on CCA claimed on property for which you received a non-taxable allowance.

If you paid 7% GST when you bought your motor vehicle or musical instrument, you can claim a rebate of 7/107 of the CCA you claimed on your return. If you paid 15% HST, you can claim a rebate of 15/115 of the CCA you claimed on your return.

In certain cases, you may have to do an additional calculation if you bought your motor vehicle or musical instrument outside a participating province and brought the property into a participating province. For more information, read the section called “Situation 5 – Property and services brought into a participating province” on page 22.

Filing deadline

You should file your rebate application with your tax return for the year in which you deduct the expenses.

However, if you do not file your application when you file your tax return, you have up to four years from the end of the year to which the expenses relate to file an application. We use the calendar year in which you incur the expense to determine the four-year period for employees.

If you do not file your application with your tax return, send in a letter with the application. Give details such as your social insurance number and the tax year to which the application relates.

Rebate restriction

You can only file **one** GST/HST rebate application for each tax year.

You cannot get a rebate if:

- we previously refunded, remitted, or credited the tax to you;
- you have claimed or are entitled to claim an input tax credit for the amount;
- you received or are entitled to receive a rebate, refund, or remission under any other section of the *Excise Tax Act* or any other act of Parliament for the same expense; or
- you received a credit note, or you issued a debit note, for an adjustment, refund, or credit that includes the amount.

Overpayment of a rebate

If you receive an overpayment of a rebate, you have to repay the excess. We charge interest on any balance you owe.

How to complete Form GST370, Employee and Partner GST/HST Rebate Application

You must complete areas A, B, and D of Form GST370, *Employee and Partner GST/HST Rebate Application*. If applicable, your employer has to complete Area C. Use a separate form for each tax year.

Area A – Identification

The “taxation year of claim” should be the same year as the tax return for which you are claiming the rebate.

Area B – Rebate calculation

Calculate your rebate based on the expenses you deducted on your tax return. These expenses include GST/HST, provincial sales tax, and tips (if the tips are included in your bill).

For eligible expenses on which you paid 7% GST, you can claim a rebate of 7/107 of those expenses. For eligible expenses on which you paid 15% HST, you can claim a rebate of 15/115 of those expenses.

In certain cases, you may have to do an additional calculation if you bought property and services outside a participating province and brought them into a participating province. For more information, see the section called “Situation 5 – Property and services brought into a participating province” on page 22.

Refer to the following situations to determine how to calculate your rebate based on your particular case. When you calculate your rebate, use only the expenses deducted on your tax return.

Situation 1 – The only expenses you deducted are union, professional, or similar dues

Not all union, professional, or similar dues that you claimed on line 212 of your tax return are subject to GST/HST. Your receipt for these dues should indicate whether GST/HST was charged. If these dues are the only expense you deducted, do not complete the charts on the back of the form.

If you paid 7% GST, enter on lines 1 and 3 of Area B the amount of the expense minus any amount you were directly reimbursed. Multiply the amount on line 3 by 7/107 and enter the result on line 4.

If you paid 15% HST, enter on lines 5 and 7 of Area B the amount of the expense minus any amount you were directly reimbursed. Multiply the amount on line 7 by 15/115 and enter the result on line 8.

Add lines 4 and 8, then enter the result on line 13. The amount on line 13 is your total rebate claim. Enter this amount on line 457 of your tax return. Do not forget to complete Area D.

Situation 2 – You deducted only 7% GST expenses
Before completing Area B, complete Chart 1 on the back of the form to determine your total expenses eligible for the GST rebate. Do not complete Chart 2, since you did not pay 15% HST on any of your expenses.

Enter in column 1 of Chart 1 the employment expenses you deducted on your tax return. You calculated these amounts on Form T777, *Statement of Employment Expenses*, or on Form TL2, *Claim for Meals and Lodging Expenses*.

Also, if applicable, enter in column 1 of Chart 1 the union, professional, or similar dues you claimed on line 212 of your return and on which you paid 7% GST minus any amount you were directly reimbursed. Your receipt for these dues should indicate whether GST was charged.

Do not enter any amount in the black areas of Chart 1, since these expenses are not eligible for the rebate.

Enter in column 2 the portion of any expenses included in column 1 that is not eligible for the rebate. You will find a list of non-eligible expenses on page 20. For each expense, subtract the amount in column 2 from the amount in column 1. Enter the result in column 3. Total the expenses other than CCA in column 3. Enter the result in box A of column 3. If you claimed CCA, subtract any non-eligible CCA in column 2 from your total CCA in column 1. Enter the result in box B of column 3.

Copy the amounts from boxes A and B of Chart 1 to lines 1 and 2 respectively of Area B on the front of the form. Add line 1 and line 2 in Area B and enter the result on line 3. Multiply line 3 by 7/107 and enter the result on line 4.

If Situation 5 described on this page does not apply to you, copy the amount from line 4 to line 13. This is your total rebate claim. Enter this amount on line 457 of your tax return.

Situation 3 – You deducted only 15% HST expenses
Before completing Area B, complete Chart 2 on the back of the form to determine your total expenses eligible for the HST rebate. Do not complete Chart 1, since you did not pay 7% GST on any of your expenses.

Enter in column 1 of Chart 2 the employment expenses you deducted on your tax return. You calculated these amounts on Form T777, *Statement of Employment Expenses*, or on Form TL2, *Claim for Meals and Lodging Expenses*.

Also, if applicable, enter in column 1 of Chart 2 the union, professional, or similar dues you claimed on line 212 of

your tax return, and for which you paid 15% HST, minus any amount you were directly reimbursed. Your receipt for these dues should indicate whether HST was charged.

Do not enter any amount in the black areas of Chart 2, since these expenses are not eligible for the rebate.

Enter in column 2 the portion of any expenses included in column 1 that is not eligible for the rebate. You will find a list of non-eligible expenses on page 20. For each expense, subtract the amount in column 2 from the amount in column 1. Enter the result in column 3. Total the expenses other than CCA in column 3. Enter the result in box C of column 3. If you claimed CCA, subtract any non-eligible CCA in column 2 from your total CCA in column 1. Enter the result in box D of column 3.

Copy the amounts from boxes C and D of Chart 2 to lines 5 and 6 respectively of Area B on the front of the form. Add line 5 and line 6 of Area B and enter the result on line 7. Multiply line 7 by 15/115 and enter the result on line 8.

If Situation 5 described on this page does not apply to you, copy the amount from line 8 to line 13. This is your total rebate claim. Enter this amount on line 457 of your tax return.

Situation 4 – You deducted both 7% GST and 15% HST expenses

Before completing Area B, complete Chart 1 and Chart 2 on the other side of the form to determine the total expenses eligible for the GST and HST rebate. Use Chart 1 to calculate the total eligible expenses on which you paid 7% GST. Use Chart 2 to calculate the total eligible expenses on which you paid 15% HST.

You calculated your employment expenses using Form T777, *Statement of Employment Expenses*, or Form TL2, *Claim for Meals and Lodging Expenses*. Separate the expenses on which you paid 7% GST from those expenses on which you paid 15% HST. Enter the 7% GST expenses in column 1 of Chart 1, and the 15% HST expenses in column 1 of Chart 2.

Also, if applicable, enter in column 1 of Chart 1 and Chart 2 respectively the union, professional, or similar dues that you claimed on line 212 of your tax return and on which you paid the 7% GST or 15% HST minus any amount you were directly reimbursed. Your receipt for these dues should indicate whether GST or HST was charged.

Do not enter any amount in the black areas, since these expenses are not eligible for the rebate.

Enter in column 2 of each chart the portion of any expenses included in column 1 that is not eligible for the rebate. You will find a list of non-eligible expenses on page 20. For each expense, subtract the amount in column 2 from the amount in column 1. Enter the result in column 3. Total the expenses other than CCA in column 3. Enter the result in boxes A and C in column 3 of Charts 1 and 2. If you claimed CCA, subtract any non-eligible CCA in column 2 from your total CCA in column 1. Enter the result in boxes B and D in column 3 of Chart 1 and Chart 2.

Copy the amount from boxes A and B of Chart 1 to lines 1 and 2 respectively of Area B on the front of the form. Copy the amount from boxes C and D of Chart 2 to lines 5 and 6

respectively of Area B. Add line 1 and line 2 of Area B and enter the result on line 3. Multiply the amount on line 3 by 7/107 and enter the result on line 4. Add line 5 and line 6 of Area B and enter the result on line 7. Multiply the amount on line 7 by 15/115 and enter the result on line 8.

If Situation 5 described on this page does not apply to you, add lines 4 and 8 and enter the result on line 13. This is your total rebate claim. Enter this amount on line 457 of your tax return.

Situation 5 – Property and services brought into a participating province

You may be able to claim a rebate of 8/108 for eligible expenses deducted on your tax return for which you paid the 8% provincial component of HST separately. This **excludes** any expenses for which you paid 15% HST. You may have paid the 8% provincial component of HST separately in situations where:

- you purchased goods in a non-participating province and brought them into a participating province;
- you imported commercial goods into a participating province from outside Canada; or
- you had goods delivered or made available to you in a participating province, or sent by mail or courier to you at an address in a participating province from a non-registered non-resident of Canada.

If Situation 5 applies to you, contact Business Enquiries at **1-800-959-5525**.

Situation 6 – The only expenses you deducted are apprentice mechanic tools expenses

If the only expenses you claimed at line 229 of your tax return were for the cost of tools purchased as an apprentice mechanic (see Chapter 6 beginning on page 11), and **neither** Situation 4 nor Situation 5 apply to you, do not complete the charts on the back of the form.

If you paid 7% GST, enter on lines 1 and 3 of Area B the amount of the expense you claimed at line 229 of your tax return. Multiply the amount on line 3 by 7/107 and enter the result on line 4.

If you paid 15% HST, enter on lines 5 and 7 of Area B the amount of the expense. Multiply the amount on line 7 by 15/115 and enter the result on line 8.

Add lines 4 and 8, then enter the result on line 13. The amount on line 13 is your total rebate claim. Enter this amount on line 457 of your tax return. Do not forget to complete Area D.

Area C – Declaration by claimant's employer

You may want to claim a rebate for expenses that relate to a taxable allowance. A taxable allowance will be included in box 40 of your T4 slip. If so, your employer or an authorized officer has to complete Area C. An authorized officer includes an immediate supervisor, controller, or office manager.

You cannot claim a rebate for expenses for which you received a non-taxable allowance. A non-taxable allowance is an allowance that was considered reasonable at the time it was paid.

Area D – Certification

Sign the certification area. If you don't, it may delay or invalidate your GST/HST rebate claim.

After completing your rebate application

After completing Form GST370, attach a copy to your tax return and enter the amount of your claim on line 457 of your tax return. Keep a copy of the form for your records.

Quebec sales tax rebate

Some of the expenses you paid to earn your employment income may have included the Quebec sales tax (QST). If you deducted these expenses from your employment

income, you may be able to receive a rebate of the QST you paid. This rebate also applies to the QST you paid on a musical instrument you use to earn employment income. Claim the QST rebate on line 459 of your Quebec provincial return.

If the QST rebate is for your expenses, include the rebate in your income for the year you received it. Report the amount on line 104 of your federal return.

If the QST rebate is for a vehicle or musical instrument you bought, it will affect your claim for capital cost allowance in the year you receive the rebate. If this applies to you, reduce the capital cost of your vehicle or musical instrument by the amount of the rebate. Do not include the rebate on line 104 of your federal return.

For more information about the QST rebate and Form VD-358-V, *Québec Sales Tax Rebate Application for Employees and Partners*, contact Revenu Québec.

Example

Karsten is a commissioned salesperson who negotiates contracts for his employer in British Columbia. Under his contract of employment, he is required to pay his own expenses and is normally required to work away from his employer's place of business. His employer is a GST/HST registrant. Karsten received a taxable allowance for his motor vehicle that is included on his T4 slip for 2004. Since the allowance is taxable, he can claim a rebate on expenses related to that allowance.

To calculate his employment expenses, he completed Form T777, *Statement of Employment Expenses*, as shown below. Because of space limitations, we have not reproduced the entire form.



Canada Customs and Revenue Agency / Agence des douanes et du revenu du Canada

STATEMENT OF EMPLOYMENT EXPENSES

- Guide T4044, *Employment Expenses*, has information to help you complete this statement and the schedule on the back. The chapters we refer to below are chapters in the guide.
- Include a copy of this form with your return.

Expenses			
Accounting and legal fees		8862	
Advertising and promotion		8520	
Allowable motor vehicle expenses (from line 16 below)		9281	11,917 81 1
Food, beverages, and entertainment expenses (see Chapter 2 or 3, as applicable)	1,559.68 x 50% =	8523	779 84
Lodging		9200	
Parking		8910	178 25
Supplies (e.g., postage, stationery, other office supplies)		8810	623 13
Other expenses (please specify)		9270	
Apprentice mechanic tools expenses (see Chapter 6)		9131	
Musical instrument costs (see "Part 2" in Chapter 5)		1776	
Capital cost allowance for musical instruments (see "Part A" on the back of this form)		1777	
Artists' employment expenses (see "Part 1" in Chapter 5)		9973	
		Subtotal	13,499 03 2
Add work-space-in-the-home expenses (enter the lower amount of line 24 or 25 below)		9945	
Total expenses (enter this amount on line 229 of your return)		9363	13,499 03

Calculation of Allowable Motor Vehicle Expenses			
Enter the kilometres you drove in the tax year to earn employment income			22,500 3
Enter the total kilometres you drove in the tax year			30,000 4
Enter the motor vehicle expenses you paid for:			
Fuel (gasoline, propane, oil)	3,230 55	5	
Maintenance and repairs	467 67	6	
Insurance	1,200 00	7	
Licence and registration	260 00	8	
Capital cost allowance (see schedule on the back)	8,797 50	9	
Interest (see "Interest expense" in Chapter 7)	1,850 19	10	
Leasing (see "Leasing costs" in Chapter 7)		11	
Other expenses (please specify) CAR WASHES	84 50	12	
Add lines 5 to 12	15,890 41	13	
Employment-use portion ($\frac{\text{line 3}}{\text{line 4}} \times \text{line 13}$)	$\frac{22,500}{30,000} \times 15,890 41 =$		11,917 81 14
Enter the total of all rebates, allowances, and repayments you received that are not included in income. Do not include any repayments you used to calculate your leasing costs on line 11.			
Allowable motor vehicle expenses (line 14 minus line 15)			11,917 81 16
Enter the amount from line 16 on line 1 in the "Expenses" area above.			

Part B – Class 10.1

- See Chapter 8 of guide T4044, *Employment Expenses*, for details about the Class 10.1 limits.
- List each passenger vehicle on a separate line.

Date acquired	Cost of vehicle	1 Class no.	2 Undepreciated capital cost at the beginning of the year	3 Cost of acquisitions during the year	4 Proceeds of disposition during the year	5 Base amount for capital cost allowance**	6 Rate %	7 Capital cost allowance for the year (Col. 5 X 6, or a lesser amount)	8 Undepreciated capital cost at the end of the year (Col. 2 – 7, or Col. 3 – 7)***
06/03	32,000.00	10.1	29,325.00			29,325.00	30%	8,797.50	20,527.50
		10.1					30%		
		10.1					30%		
TOTAL								8,797.50	

Karsten is now ready to calculate his GST/HST rebate. To claim the rebate, he has to complete Form GST370, *Employee and Partner GST/HST Rebate Application*. Before Karsten can complete Area B, he completes Chart 1 on the back of Form GST370, to calculate his 7% GST eligible expenses. Since he did not pay HST on any of his expenses, he does not complete Chart 2. Using the information in this guide, he calculates and reports the expenses not eligible for the rebate in column 2. To calculate the **personal-use portion** of his motor vehicle expenses, Karsten uses the fraction 7,500/30,000. This is the personal kilometres driven (30,000 – 22,500) over the total kilometres driven. He completes Chart 1 as follows:

Chart 1 – Eligible expenses on which you paid 7% GST			
Type of expenses	(1) Total expenses	(2) Non-eligible portion of expenses	(3) Eligible expenses (col. 1 minus col. 2)
Accounting and legal fees			
Advertising and promotion			
Food, beverages, and entertainment	779.84	–	779.84
Lodging			
Parking	178.25	–	178.25
Supplies	623.13	–	623.13
Other expenses (please specify)			
Apprentice mechanic tools expenses (for employees)			
Musical instrument expenses other than CCA			
Artists' employment expenses			
Union, professional, or similar dues			
Motor vehicle expenses			
Fuel	3,230.55	807.64 †	2,422.91
Maintenance and repairs	467.67	116.92 ††	350.75
Insurance, licence, registration, and interest			
Leasing			
Other expenses (please specify)	84.50	21.13 †††	63.37
Work space in home			
Electricity, heat, and water			
Maintenance			
Insurance and property taxes			
Other expenses (please specify)			
Total eligible expenses other than CCA ▶			4,418.25 (A)
Capital cost allowance (CCA) on motor vehicles, musical instruments, and ▶	8,797.50	2,199.38 ††††	6,598.12 (B)

† $\$3,230.55 \times (7,500/30,000) = \807.64

††† $\$84.50 \times (7,500/30,000) = \21.13

†† $\$467.67 \times (7,500/30,000) = \116.92

†††† $\$8,797.50 \times (7,500/30,000) = \$2,199.38$

Karsten did not enter any amounts in the black areas, since these expenses are not eligible for the rebate.

Karsten copies the amounts from boxes A and B of Chart 1 to lines 1 and 2 in Area B of Form GST370, and completes it as follows:

Area B – Rebate calculation (to be completed by claimant)			
GST rebate for eligible expenses on which you paid 7% GST			
Eligible expenses other than CCA on which you paid 7% GST (from box A of Chart 1 on the back of this form, or, enter the amount of union, professional, or similar dues, or apprentice mechanic tools eligible for the GST rebate)	4,418 25		1
Eligible CCA on motor vehicles, musical instruments, and aircraft for which you paid 7% GST (from box B of Chart 1 on the back of this form)	6,598 12		2
Total expenses eligible for the GST rebate (line 1 plus line 2)	6485	11,016 37	3
Multiply line 3 by 7/107		720 70	4
HST rebate for eligible expenses on which you paid 15% HST			
Eligible expenses other than CCA on which you paid 15% HST (from box C of Chart 2 on the back of this form, or, enter the amount of union, professional, or similar dues, or apprentice mechanic tools eligible for the HST rebate)			5
Eligible CCA on motor vehicles, musical instruments, and aircraft for which you paid 15% HST (from box D of Chart 2 on the back of this form)			6
Total expenses eligible for the HST rebate (line 5 plus line 6)	6487		7
Multiply line 7 by 15/115			8
Rebate for property and services brought into a participating province (i.e., Nova Scotia, New Brunswick, Newfoundland and Labrador) Do not include any expenses for which you paid 15% HST. Read Situation 5 of the applicable guide for more details.			
Eligible expenses other than CCA on which you paid the provincial part of HST separately			9
Eligible CCA on motor vehicles, musical instruments, and aircraft for which you paid the provincial part of HST separately			10
Total expenses eligible for the rebate (line 9 plus line 10)	6486		11
Multiply line 11 by 8/108			12
Employee and Partner GST/HST Rebate (add lines 4, 8, and 12) Enter the amount from line 13 on line 457 of your income tax return.			13
		720 70	

Since Karsten is claiming a rebate for his motor vehicle expenses for which he received a taxable allowance, an authorized officer of Karsten's employer has to complete and sign Area C.

Karsten enters \$720.70 on line 457 of his 2004 return. He also attaches Form GST370 to his return.

On his 2005 return, Karsten will include \$289.04 ($\$4,418.25 \times [7/107]$) on line 104. This amount is the part of the rebate he will receive in 2005 that relates to eligible expenses other than CCA. He will then reduce his undepreciated capital cost (UCC) for the beginning of 2005 by \$431.66 ($\$6,598.12 \times [7/107]$).