



Canada Revenue  
Agency

Agence du revenu  
du Canada

Employers' Guide

# Taxable Benefits and Allowances

## Is this guide for you?

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

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

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

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

This guide explains your responsibilities and shows you how to calculate the value of benefits or allowances.

For information on calculating payroll deductions, go to [www.cra.gc.ca/payroll](http://www.cra.gc.ca/payroll) or see Guide T4001, *Employers' Guide – Payroll Deductions and Remittances*.

For information on filing an information return, go to [www.cra.gc.ca/slips](http://www.cra.gc.ca/slips) or see the following guides:

- RC4120, *Employers' Guide – Filing the T4 Slip and Summary*
- RC4157, *Deducting Income Tax on Pension and Other Income, and Filing the T4A Slip and Summary*

If you have a visual impairment, you can get our publications in braille, large print, etext (CD or diskette), or MP3. For more information, go to [www.cra.gc.ca/alternate](http://www.cra.gc.ca/alternate) or call 1-800-959-2221.

La version française de ce guide est intitulée *Guide de l'employeur – Avantages imposables et allocations*.

## What's new?

### Stock option benefits

As a result of the March 4, 2010 federal budget, there are several proposed changes to the treatment of employee stock option benefits. Employees are no longer able to defer the taxable benefit on a qualifying acquisition. Where a stock option benefit has been deferred and the value of the stock has decreased significantly, affected taxpayers may be eligible for special relief. For more information, see page 26 or Guide T4037, *Capital Gains*.

For employee stock options issued after 4 pm on March 4, 2010, the employee can only claim the securities option deduction if the employee exercises his or her options by acquiring shares of their employer or the employer elects not to claim a deduction for the cash-out payment in respect of the employee's disposition of rights under the agreement. For more information, see page 26.

Effective January 1, 2011, employers are required to withhold and remit amounts when an employee exercises their stock options. For more information, see page 27 or Guide T4001, *Employers' Guide – Payroll Deductions and Remittances*.

### T4A redesign

The T4A slip has been redesigned in a more generic style using identifier codes to report the different types of income amounts, similar to the T3, T4, T4E, and T5 slips. Income types previously reported under "Box 28 – Other income," and identified with footnote codes have been replaced by specific box numbers. For more information, see Guide RC4157, *Deducting Income Tax on Pension and Other Income, and Filing the T4A Slip and Summary*.

### Harmonized sales tax (HST)

As of July 1, 2010, the provinces of Ontario and British Columbia are also participating in the HST. The HST replaces existing provincial sales taxes and the goods and services tax in those provinces. Also effective July 1, 2010, the HST rate for Nova Scotia increased from 13% to 15%. For more information, see Chapter 5.

# Table of Contents

	Page		Page
<b>Chapter 1 – General information</b> .....	5	Private health services plan premiums .....	25
What are your responsibilities? .....	5	Professional membership dues .....	25
Employee’s allowable employment expenses .....	6	Recreational facilities and club dues .....	25
<b>Chapter 2 – Automobile and motor vehicle benefits and allowances</b> .....	6	Registered retirement savings plans (RRSPs).....	26
Automobile .....	6	Security options.....	26
Motor vehicle .....	7	Social events.....	28
Keeping records .....	7	Spouse’s or common-law partner’s travelling expenses.....	28
Automobile and motor vehicle benefits .....	7	Tax-Free Savings Account (TFSA) .....	28
Personal driving.....	7	Tool reimbursement or allowance .....	28
Calculating automobile benefits .....	7	Transit passes.....	29
Benefit for motor vehicles not defined as an automobile .....	10	Transportation to and from home.....	29
Automobile and motor vehicle allowances.....	10	Travel allowance .....	30
Averaging allowances.....	11	Uniforms and special clothing.....	31
<b>Chapter 3 – Other benefits and allowances</b> .....	12	Wage-loss replacement plans or income maintenance plans.....	31
Board and lodging .....	12	<b>Chapter 4 – Housing and travel assistance benefits paid in a prescribed zone</b> .....	31
Board and lodging allowances paid to players on sports teams or members of recreation programs .....	12	Accommodation or utilities provided by the employer.....	32
Board, lodging, and transportation – Special work sites and remote work locations .....	13	Board, lodging, and transportation at a special work site .....	32
Cellular phone service .....	14	Travel assistance benefits.....	33
Child care expenses.....	14	<b>Chapter 5 – Remitting GST/HST on employee benefits</b> .....	34
Counselling services.....	14	Employee benefits.....	34
Disability-related employment benefits .....	14	Situations where we do not consider you to have collected the GST/HST .....	34
Discounts on merchandise and commissions from personal purchases .....	15	The date we consider you to have collected the GST/HST.....	35
Education benefits .....	15	How to calculate the amount of the GST/HST we consider you to have collected.....	35
Gifts, awards, and long-service awards.....	16	Input tax credits (ITCs).....	36
Group term life insurance policies – Employer-paid premiums .....	17	Property acquired before 1991 or from a non-registrant.....	37
Housing—rent-free and low-rent.....	18	Summary .....	37
Loans—interest-free and low-interest.....	19	Examples .....	37
Loyalty and other points programs.....	21	<b>Benefits chart</b> .....	39
Meals .....	21	<b>For more information</b> .....	41
Medical expenses .....	22		
Moving expenses and relocation benefits .....	22		
Municipal officer’s expense allowance .....	24		
Parking .....	24		
Power saws and tree trimmers .....	24		
Premiums under provincial hospitalization, medical care insurance, and certain Government of Canada plans .....	25		

## Chapter 1 – General information

### What are your responsibilities?

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

- determine if the benefit is taxable;
- calculate the value of the benefit;
- calculate payroll deductions; and
- file an information return.

### Determine if the benefit is taxable

Your first step is to determine whether the benefit you provide to your employee is taxable and has to be included in his or her employment income.

Your employee is considered to have received a benefit if you pay or provide something to him or her that is personal in nature. A benefit can include:

- a reimbursement of personal expenses;
- free use of property, goods, or services owned by you; or
- an allowance.

When you provide a benefit to your employee as well as salary and wages, you may have to include the value of it in the employee's income. Whether or not the benefit is taxable depends on its type and the reason an employee or officer receives it.

The benefit may be paid in cash (such as a meal allowance or reimbursement of personal cellular phone charges), or provided in a manner other than cash (we call this a **non-cash** benefit), such as a parking space or a gift.

To determine if the benefit is taxable, see Chapters 2 to 4.

### Calculate the value of the benefit

Once you determine that the benefit is taxable, you need to calculate the value of the specific benefit.

The value of a benefit is generally its fair market value (FMV). This is the price that can be obtained in an open market between two individuals dealing at arm's length. The cost to you for the particular property, good, or service may be used if it reflects the FMV of the item or service.

You must be able to support the value if you are asked.

### Goods and services tax/harmonized sales tax (GST/HST) and provincial sales tax (PST)

When you calculate the value of the taxable benefit you provide to an employee, you may have to include an amount for the GST/HST and PST.

The benefit should include the GST/HST payable by you, as well as the tax that would have been payable if you were not exempt from paying the tax because of the type of employer you are or the nature of the use of the property or service.

The amount of the GST/HST you include in the value of the taxable benefits you provide to employees is based on the gross amount of the benefits, before you subtract any amounts the employee reimbursed you for those benefits.

You do not have to include the GST/HST for:

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

For more information on exempt or zero-rated supplies, go to [www.cra.gc.ca/gsthst](http://www.cra.gc.ca/gsthst) or see Guide RC4022, *General Information for GST/HST Registrants*.

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

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

#### Note

The rates used in this guide are based on the current rates set under section 173 of the *Excise Tax Act* (ETA) and its Regulations for taxable benefits provided in the 2010 taxation year.

### Calculate payroll deductions

After you calculate the value of the benefit, including any taxes that may apply, add this amount to the employee's income for each pay period or when the benefit is received or enjoyed. This gives you the total amount of income subject to payroll deductions. You then withhold deductions from the employee's total pay in the pay period in the normal manner.

#### Cash benefits

**Canada Pension Plan (CPP)** – When a benefit paid in cash is taxable, it is also pensionable. This means you have to deduct CPP contributions from the employee's pay. It also means that you have to pay the employer's share of CPP to the Canada Revenue Agency (CRA).

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

If the **employment** is not insurable under the *Employment Insurance Act*, then any taxable benefits paid in cash are not insurable and are also not subject to EI premiums. For more information see "Excluded employment" in Chapter 3 of Guide T4001, *Employers' Guide – Payroll Deductions and Remittances*.

**Income tax** – When a benefit paid in cash is taxable, you have to deduct income tax from the employee's total pay in the pay period.

## Non-cash benefits

**CPP** – When a non-cash benefit is taxable, it is also pensionable. This means you have to deduct CPP contributions from the employee’s pay. It also means that you have to pay the employer’s share of CPP to the CRA.

**EI** – When a non-cash benefit is taxable, generally, it is not insurable. Do not deduct EI premiums. Exceptions to this rule are:

- the value of board and lodging an employee receives during a period in which you pay the employee a salary in cash. For more information, see “Board and lodging,” on page 12; and
- employer-paid RRSP contributions when the employee can withdraw the amounts. For more information, see “Registered retirement savings plans (RRSPs),” on page 26.

**Income tax** – When a non-cash benefit is taxable, you have to deduct income tax from the employee’s total pay in the pay period. If a non-cash benefit is of such a large value that withholding the income tax will cause undue hardship, you can spread the tax you withhold over the balance of the year.

### Note

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

For more information on calculating payroll deductions, go to [www.cra.gc.ca/payroll](http://www.cra.gc.ca/payroll) or see Guide T4001, *Employers’ Guide – Payroll Deductions and Remittances*.

## File an information return

At the end of a year, or when you no longer have any employees, you have to file an information return. A T4 slip is one example of an information return.

- If you are an employer, report the value of the taxable benefit or allowance on a T4 slip in box 14, “Employment income.” Also report the value of the taxable benefit or allowance in the “Other information” area at the bottom of the employee’s slip and use code **40**, unless we tell you to use a different code.
- If you are a third-party payer providing taxable benefits or allowances to employees of another employer, report the benefits in the “Other information” area at the bottom of the T4A slip. Use the code provided for the specific benefit.

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

For more information on reporting benefits and allowances, go to [www.cra.gc.ca/slips](http://www.cra.gc.ca/slips) or see the following guides:

- RC4120, *Employers’ Guide – Filing the T4 Slip and Summary*

- RC4157, *Deducting Income Tax on Pension and Other Income, and Filing the T4A Slip and Summary*

## Benefits chart

Use the benefits chart on page 39 to find out if you should deduct CPP contributions and EI premiums on the **taxable** amounts, and which codes to use to report the taxable amounts on an employee’s T4 slip. The chart also shows whether to include GST/HST in the value of the benefit for income tax purposes.

## Employee’s allowable employment expenses

Your employee may be able to claim certain employment expenses on his or her income tax and benefit return. It is the employee’s responsibility to claim the expenses and to keep records to support the claim.

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

For more information on allowable employment expenses, see Guide T4044, *Employment Expenses*, Interpretation Bulletin IT-522, *Vehicle, Travel and Sales Expenses of Employees*, and Information Circular IC73-21, *Claims for Meals and Lodging Expenses of Transport Employees*.

## Chapter 2 – Automobile and motor vehicle benefits and allowances

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

### Automobile

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

An automobile **does not** include:

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

transporting passengers, or a hearse in a funeral business;

- a motor vehicle you bought to sell, rent, or lease in a motor vehicle sales, rental, or leasing business, except for benefits arising from personal use of an automobile;
- a motor vehicle (other than a hearse) you bought to use in a funeral business to transport passengers, except for benefits arising from personal use of an automobile;
- a van, pick-up truck, or similar vehicle that:
  - can seat no more than the driver and two passengers, and in the year it is acquired or leased is used primarily to transport goods or equipment in the course of business; or
  - in the year it is acquired or leased, is used 90% or more of the time to transport goods, equipment, or passengers in the course of business; or
- pick-up trucks that you bought or leased in the tax year that:
  - you used primarily to transport goods, equipment, or passengers in the course of earning or producing income; **and**
  - you used at a remote work location **or** at a special work site that is at least 30 kilometres away from any community having a population of at least 40,000.

#### Note

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

## Motor vehicle

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

## Keeping records

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

## Automobile and motor vehicle benefits

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

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

For more information, see “Automobile and motor vehicle allowances,” on page 10.

If the vehicle you provide to your employee is not included in the definition of automobile as described on page 6, see “Benefit for motor vehicles not defined as an automobile,” on page 10.

## Personal driving

The personal driving of an employer's vehicle is a taxable benefit for the employee.

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

This includes:

- vacation trips;
- driving to conduct personal activities; and
- travel between home and work (even if you insist that the employee drive the vehicle home). For details, see “Transportation to and from home,” on page 29.

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

## Calculating automobile benefits

The benefit for an automobile you provide for the year is generally:

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

## Tools to help you calculate the automobile benefit

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

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

### Automobile Benefits Online Calculator

The calculator is available at [www.cra.gc.ca/autobenefits-calculator](http://www.cra.gc.ca/autobenefits-calculator).

### Worksheet

You can get Form RC18, *Calculating Automobile Benefits for 2010*, by going to [www.cra.gc.ca/forms](http://www.cra.gc.ca/forms) or by calling 1-800-959-2221.

## Calculating a standby charge

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

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

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

### Automobile you own

Base the standby charge on:

- 2% of the automobile's cost to you;
- the number of 30-day periods in the year the automobile was available to the employee;
- the personal driving done while the automobile was available to the employee; and
- the amount of any payment (reimbursement) you got from the employee for the standby charge.

### Your automobile costs

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

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

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

### Availability

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

### Fleet operations

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

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

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

### Automobile you lease

Base the standby charge on:

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

### Your leasing costs

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

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

Leasing costs do not include liability and collision insurance costs.

### Lump-sum lease payments

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

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

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

In this situation, you can use one of the following methods:

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

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

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

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



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

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

### Employees who sell or lease automobiles

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

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

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

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

### Reducing the standby charge

Calculate the standby charge at a reduced rate if the following conditions apply:

- you require your employee to use the automobile to perform his or her duties;
- the employee uses the automobile more than 50% of the time for business purposes; and
- the kilometres for personal use do not exceed 1,667 per 30-day period or a total of 20,004 kilometres a year.

For more information, see Form RC18, *Calculating Automobile Benefits for 2010*.

### Partnerships

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

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

### Calculating an operating expense benefit

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

Operating expenses include:

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

Operating expenses **do not** include:

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

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

### Optional calculation

You can choose the optional method to calculate the automobile's operating expense benefit if **all** of the following conditions apply:

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

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

### Fixed-rate calculation

The fixed rate for 2010 is 24¢ per kilometre of personal use (including the GST/HST and PST).

If the employee's main source of employment is selling or leasing automobiles, the fixed rate for 2010 is 21¢ per kilometre of personal use (including the GST/HST and PST).

#### Note

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

### Reimbursement for operating expenses

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

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

### Example

In 2010, you provided your employee with an automobile. She drove 30,000 kilometres during the year, with 10,000 kilometres for personal use.

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

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

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

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

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

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

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

## Benefit for motor vehicles not defined as an automobile

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

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

In situations where a motor vehicle other than an automobile is essential to the employer's business operation, and the only personal use is to provide transportation between an employee's residence and the employer's place of business, it may be appropriate to calculate the benefit to the employee on a cents-per-kilometre basis for equivalent automobile transportation.

For a list of vehicles not defined as an automobile, see page 6 .

For more information, see "Transportation to and from home," on page 29 or Interpretation Bulletin IT-63, *Benefits, Including Standby Charge for an Automobile, from the Personal Use of a Motor Vehicle Supplied by an Employer – After 1992*.

## Payroll deductions and GST/HST

Use the benefits chart on page 39 to check whether you have to include the GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and EI premiums.

## Reporting automobile or motor vehicle benefits on the T4 slip

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

### Shareholder's benefit

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

Report the benefit on a T4 slip when the individual is both a shareholder and an employee and you provide the vehicle to the individual (or a person related to that individual) in his or her capacity as an employee.

Report the benefit using code 028, "Other income" in the "Other information" area at the bottom of the T4A slip in either of the following situations:

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

## Automobile and motor vehicle allowances

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

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

Employees receiving a taxable allowance may be able to claim allowable expenses on their income tax and benefit return. See "Employee's allowable employment expenses," on page 6.

### Reasonable per-kilometre allowance

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

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

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

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

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

## Reasonable allowance rates

For 2010, they are:

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

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

## Per-kilometre allowance rates that we do not consider reasonable

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

### Note

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

## Flat-rate allowance

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

## Combination of flat-rate and reasonable per-kilometre allowances

If you pay your employee an allowance that is a combination of flat-rate and reasonable per-kilometre allowances that cover the **same use** for the vehicle, the total combined allowance is a taxable benefit and has to be included in the employee's income.

### Example 1

You pay an allowance to your employee as follows:

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

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

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

### Example 2

You pay an allowance to your employee as follows:

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

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

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

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

## Reimbursement or advance for travel expenses

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

An **advance** is an amount you give to employees for expenses they will incur on your business. An **accountable advance** is one that you give to an employee who has to account for his or her expenses by producing vouchers and return any amount he or she did not spend.

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

## Averaging allowances

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

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

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

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

Employees have to account for the business kilometres they travelled and any advances they received. They have to do

so on the date their employment ends in the year, or by the calendar year-end, whichever is earlier.

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

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

### Payroll deductions and GST/HST

Use the benefits chart on page 39 to check whether you have to include the GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and EI premiums.

### Reducing tax deductions at source on automobile or motor vehicle allowances

In many cases, allowances that are not based only on a reasonable per-kilometre rate can later be substantially offset by the employees' expense deductions on their income tax and benefit returns. In these situations, employees can ask to reduce their tax deductions on their remuneration by sending a completed Form T1213, *Request to Reduce Tax Deductions at Source*, or a written request to any tax services office along with the following information:

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

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

### Reporting automobile or motor vehicle allowances on the T4 slip

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

## Chapter 3 – Other benefits and allowances

### Board and lodging

You may give your employee board and lodging which means that you provide him or her with accommodations and, in some cases, food. If you provide only meals to an employee, see "Meals," on page 21.

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

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

### Exceptions to the rules

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

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

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

You can exclude up to \$315 per month from income for a board and lodging allowance for a participant or member of a sports team or recreational program if **all** the following conditions are met:

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

Do not report the excluded income on a T4 slip.

## Board, lodging, and transportation – Special work sites and remote work locations

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

### Special work sites

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

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

### Board and lodging

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

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

### Transportation

An employee can exclude from income:

- the value of free or subsidized transportation between the special work site and his or her principal place of residence; or
- a reasonable allowance received for his or her transportation expenses, for a period described above.

This only applies if you provided board and lodging, or a reasonable allowance for board and lodging, to the employee for that period.

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

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

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

#### Note

If the special work site is in a **prescribed zone**, see "Board, lodging, and transportation at a special work site," on page 32.

### Remote work locations

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

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

### Board and lodging

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

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

### Transportation

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

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

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

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

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

When there is an exemption for board, lodging, or transportation allowances you pay to employees who work at a remote work location, we **do not need** this form. If you need help determining whether a location qualifies as remote, see Interpretation Bulletin IT-91, *Employment at Special Work Sites or Remote Work Locations*, or call us at 1-800-959-5525.

### **Payroll deductions**

If you exclude a benefit for board, lodging, and transportation at a special work site or remote work location, it is not a taxable benefit. **Do not** deduct CPP contributions, EI premiums, or income tax.

### **Cellular phone service**

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

If part of the phone use is personal, you have to include the value of the personal use in your employee's income as a taxable benefit. The value of the benefit is based on the fair market value of the service, **minus** any amounts your employee reimburses you. You can only use your cost to calculate the value of the benefit if it reflects the fair market value. Generally, we do not consider your employee's personal use of the service to be a taxable benefit if **all** of the following apply:

- The plan's cost is reasonable.
- The plan is a basic plan with a fixed cost.
- Your employee's personal use of the service does not result in charges that are more than the basic plan cost.

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

### **Payroll deductions and GST/HST**

Use the benefits chart on page 39 to check whether you have to include the GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and EI premiums.

## **Child care expenses**

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

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

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

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

### **Payroll deductions and GST/HST**

Use the benefits chart on page 39 to check whether you have to include the GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and EI premiums.

## **Counselling services**

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

Employee counselling services are not taxable if they are for one of the following:

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

#### **Note**

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

### **Payroll deductions and GST/HST**

Use the benefits chart on page 39 to check whether you have to include the GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and EI premiums.

## **Disability-related employment benefits**

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

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

- is legally blind; or

- has a severe and prolonged mobility impairment, which markedly restricts the individual's ability to perform a basic activity of daily living—generally, someone who is eligible to claim the disability tax credit.

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

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

## Payroll deductions and GST/HST

Use the benefits chart on page 39 to check whether you have to include the GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and EI premiums.

## Discounts on merchandise and commissions from personal purchases

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

However, we consider discounts to be taxable in **all** the following situations:

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

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

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

## Payroll deductions and GST/HST

Use the benefits chart on page 39 to check whether you have to include the GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and EI premiums.

## Education benefits

There may be several different situations in which an employer may help employees and their family members in furthering their education. In some cases, this help may be

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

## Educational allowances for children

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

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

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

## Subsidized school services

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

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

### Note

This **does not** include an educational allowance or educational costs you pay directly to your employee, as explained elsewhere in this section.

## Scholarships, bursaries, tuition, and training

### Employee

You may provide an employee, or former employee, with a scholarship or bursary on the condition that the employee returns to employment with you on completing the course. In this situation, the amount of the scholarship or bursary is considered to be employment income for the employee or former employee.

You have to report on a T4 slip any scholarships, fellowships, or bursaries you gave to an employee even if your employee can exclude the amount from income on his or her income tax and benefit return. If you get any questions from your employee about the income, you can refer him or her to the *General Income Tax and Benefit Guide*.

You may arrange to pay for tuition or training costs for your employee. If the course is mainly for your benefit, the costs you pay are not a taxable benefit, even if the training leads to a degree, diploma, or certificate. A taxable benefit arises when the training is mainly for the employee's benefit. If the tuition fees you paid or reimbursed your employee are a taxable benefit according to the following guidelines, you have to include the amount in the employee's income the year you made the payment.

### ■ Specific employment-related training

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

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

### ■ General employment-related training

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

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

### ■ Personal interest training

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

### Family members

Starting with the 2007 tax year, the following rules apply to scholarships, bursaries, and tuition that you pay for or provide to **family members** of an employee for **post-secondary** education.

- If, as a post-secondary educational institution, you provide free tuition to an employee's family member, **do not** include the amount in the employee's income. Instead, report the fair market value (FMV) as a scholarship on a T4A slip for the family member.
- If you paid or reimbursed the tuition fees, books, and supplies for post-secondary education for an employee's family member, **do not** include amounts for these in your employee's income. Instead, report the FMV as a scholarship on a T4A slip for the family member.
- If you operate a post-secondary scholarship or bursary program for the family members of your employees, **do not** include any scholarship or bursary in an employee's income. Instead, report the FMV of such amounts as a scholarship on a T4A slip for the family member.

If a family member meets certain criteria, he or she may be able to exclude the amount from income on his or her income tax and benefit return. If you get any questions about the T4A slip issued to the family member, you can refer them to the *General Income Tax and Benefit Guide*.

#### Note

If you provide scholarships, bursaries, and tuition to your employee's family members who attend elementary or secondary schools, the FMV of these benefits is a taxable benefit for the employee, and you have to include such amounts in the **employee's** income.

### Scholarship exemption, and tuition, education, and textbook amounts

If you paid or reimbursed tuition fees to your employee and there is no taxable benefit according to these guidelines, the employees **are not** eligible to claim the scholarship exemption, tuition, textbook, or education tax credits on their individual returns. You should inform them of this.

If you paid or reimbursed education amounts that are reported on either a T4 or T4A slip, the individual may be eligible to claim the scholarship exemption, or tuition, textbook, and/or education tax credits on his or her individual return. The individual may be able to fully exclude from his or her income tuition fees, scholarships, fellowships, and bursaries he or she received from you.

For more information, see:

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

### Payroll deductions and GST/HST

Use the benefits chart on page 39 to check whether you have to include the GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and EI premiums.

### Gifts, awards, and long-service awards

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

Cash and near-cash gifts or awards are always a taxable benefit for the employee. We have an administrative policy that exempts non-cash gifts and awards in some cases. For more information, see the next section.

---

#### Example 1

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

#### Example 2

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

---



## Rules for gifts and awards

A **gift** has to be for a special occasion such as a religious holiday, a birthday, a wedding, or the birth of a child.

An **award** has to be for an employment-related accomplishment such as outstanding service, employees' suggestions, or meeting or exceeding safety standards. An award given to your employee for outstanding service or performance-related reasons is considered a **reward** and is a taxable benefit for the employee.

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

The gifts and awards policy does not apply to cash and near-cash items or to gifts or awards given to non-arm's length employees, such as your relatives, shareholders, or people related to them.

## Value

Use the **fair market value** (FMV) of each gift to calculate the total value of gifts and awards given in the year, **not** its cost to you. You have to include the value of the GST/HST.

## Policy for non-cash gifts and awards

You may give an employee an unlimited number of non-cash gifts and awards with a combined total value of \$500 or less annually. If the FMV of the gifts and awards you give your employee is greater than \$500, the amount over \$500 must be included in the employee's income. For example, if you give gifts and awards with a total value of \$650, there is a taxable benefit of \$150 (\$650 – \$500).

Items of small or trivial value will not be considered a taxable benefit. These items are not included when calculating the total value of gifts and awards given in the year for the purpose of the exemption. Examples of items of small or trivial value include:

- coffee or tea;
- T-shirts with employer's logos;
- mugs;
- plaques or trophies.

## Long-service awards

As well as the gifts and awards in the policy stated above, you can, once every five years, give your employee a non-cash long-service or anniversary award valued at \$500 or less, tax free. The award must be for a minimum of five years service, and it has to be at least five years since you gave the employee the last long-service or anniversary award. Any amount over the \$500 is a taxable benefit.

The \$500 exemption for long-service awards does not affect the \$500 exemption for other gifts and awards in the year you give them. For example, you can give an employee a non-cash long-service award worth \$500 in the same year you give him or her other non-cash gifts and awards worth \$500. In this case, there is no taxable benefit for the employee.

## Note

If the value of the long-service award is less than \$500, you **cannot** add the shortfall to the annual \$500 exemption for non-cash gifts and awards.

You can answer a series of questions on our Web site to help you determine if there is a taxable benefit. Go to [www.cra.gc.ca/gifts](http://www.cra.gc.ca/gifts), select "Rules for gifts and awards," then select the "Q&A" icon.

## Awards from a manufacturer

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

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

If a manufacturer gives a cash award or a non-cash award **directly to the employee** of a dealer or other sales organization, the manufacturer has to report the value of the award as a benefit using code **154**, "Cash award or prize from payer," in the "Other information" area at the bottom of the T4A slip. This only applies if the value of the award is more than \$500.

## Payroll deductions and GST/HST

Use the benefits chart on page 39 to check whether you have to include the GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and EI premiums.

## Group term life insurance policies – Employer-paid premiums

This section applies to current, former, and retired employees.

## Note

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

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

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

A **lump-sum premium** is a premium for insurance on an individual's life where all or part of the premium is for insurance for a period that extends more than 13 months

after the payment of the premium (or more than 13 months after the time the premium became payable, if it is paid after it became payable).

## Calculating the benefit

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

- the premiums payable for term insurance on the individual's life;

### plus

- the total of all sales taxes and excise taxes that apply to the individual's insurance coverage;

### minus

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

#### Note

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

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

## Payroll deductions and GST/HST

Use the benefits chart on page 39 to check whether you have to include the GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and EI premiums.

## Reporting the benefit

Report the benefit for **current employees and employees who are on a leave of absence** (such as maternity leave) on a T4 slip. Include the amount of the benefit in box 14, "Employment income," and in the "Other information" area under code **40** at the bottom of the employee's T4 slip.

Except as indicated in the next paragraph, report the benefit for **former or retired employees** on a T4A slip. Include the amount of the benefit under code 028, "Other income" in the "Other information" area at the bottom of the T4A slip. The \$500 reporting threshold for T4A slips, which is described in Guide RC4157, *Deducting Income Tax on Pension and Other Income, and Filing the T4A Slip and Summary*, **does not** apply.

Multi-employer plan administrators or trustees who provide taxable benefits from group term life insurance to employees, former employees, or retirees under such a plan have to prepare a T4A slip **only** if the benefit is more than \$25. Enter the group term life insurance benefits under code **119** in the "Other information," area at the bottom of the T4A slip.

#### Notes

In Ontario, the 8% provincial sales tax affects the taxable benefit for some insurance premiums that employers pay prior to July 1, 2010.

Quebec employers have to calculate a taxable benefit on the total amount of group life insurance premiums that

they pay for their employees, including the 9% insurance levy that the province imposes on insurance premiums that the employer pays.

## Housing—rent-free and low-rent

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

The amount you pay, or reimburse to, your employee for utilities (such as telephone, hydro, and natural gas) is also a taxable benefit.

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

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

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

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

#### Note

If the accommodation you provide to the employee is in a prescribed zone, see "Accommodation or utilities provided by the employer," on page 32.

## Special circumstances that reduce the value of a housing benefit

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

### ■ Suitability of size

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

#### Note

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

### ■ Loss of privacy and quiet enjoyment

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

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

## Clergy residence deduction

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

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

To claim the deduction, the employee has to complete parts A and C of Form T1223, *Clergy Residence Deduction*. You have to complete Part B and sign the form to certify that this employee has met the required conditions. The employee does not have to file the form with his or her income tax and benefit return, but has to keep it in case we ask to see it.

If you provide your employee with free or low-rent accommodation, and the employee tells you in writing that he or she will claim the clergy residence deduction, **do not** include the accommodation and utilities share of the benefit in income when you calculate the income tax deductions required.

If the employee owns or rents the accommodation, and he or she provides you with a letter of authority from a tax services office, you can reduce the income on which you have to deduct tax by the amount stated in the letter.

### Note

Although the clergy residence deduction and the utilities share of the benefit can be excluded from income for the purpose of calculating tax deductions, you still have to report it on the T4 slip.

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

## Payroll deductions and GST/HST

Use the benefits chart on page 39 to check whether you have to include the GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and EI premiums.

## Internet

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

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

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

## Payroll deductions and GST/HST

Use the benefits chart on page 39 to check whether you have to include the GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and EI premiums.

## Loans—interest-free and low-interest

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

The benefit is the amount of interest that the person would have paid on the loan for the year at the prescribed rates (see "Prescribed interest rates," on page 21), **minus** the amount of interest that he or she paid on the loan in the year, or no later than 30 days after the end of the year.

If the employee receives a loan or incurs a debt because of employment, report the benefit in box 14, "Employment income," and in the "Other information" area, report the interest benefit under code 36. Report any forgiven loan principal amounts under code 40.

Include the shareholder's benefit under code 028, "Other income," in the "Other information" area at the bottom of the T4A slip.

Special rules apply to certain loans and to home-relocation loans. See "Exceptions" below and "Home-relocation loan," on page 20.

## Exceptions

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

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

### Note

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

## Loans received because of employment

An employee receives a taxable benefit if you give him or her a loan because of an office or employment or intended office or employment. We consider a loan received after February 23, 1998, to be received because of employment if it is reasonable to conclude that the loan would not have been received, or the conditions of the loan would have

been different, had there been no employment or intended employment.

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

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

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

**minus** the total of the following two amounts:

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

**Note**

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

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

**Example**

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

Calculate the benefit to include in his income as follows:

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

**plus**

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

**minus**

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

**Joshua's taxable benefit**..... \$3,000

**Loans received because of shareholdings**

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

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

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

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

**minus**

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

**Note**

A **person** may be an individual, a corporation, or a trust.

**Home-purchase loan**

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

To calculate the benefit for a home-purchase loan, see "Loans received because of employment," on page 19.

Once a home-purchase loan is established, the prescribed interest rate remains in effect for a period of five years. The amount of interest you calculate as a benefit should not be more than the interest that would have been charged at the prescribed rate when the loan or the debt was established.

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

**Home-relocation loan**

If you provide an employee or an employee's spouse or common-law partner with an interest-free or low-interest

loan because the employee relocated to take up employment, see “Home-relocation loans,” on page 23.

## Forgiven loans

Where a loan to an employee is partly or fully forgiven, the amount is employment income for the employee in the year forgiven. For more information, see Interpretation Bulletin IT-421, *Benefits to Individuals, Corporations and Shareholders from Loans or Debt*.

## Payroll deductions and GST/HST

Use the benefits chart on page 39 to check whether you have to include the GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and EI premiums.

## Reporting the benefit

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

If a person or partnership that was a **shareholder** (or was related to a shareholder) receives a loan or incurs a debt, you generally have to report the benefit on a T4A slip. Enter the amount under code 117, “Loan benefits,” in the “Other information” area at the bottom of the T4A slip.

## Deductibility of deemed interest benefit

The taxable benefit you include in an individual’s income is the borrower’s interest expense for the year.

If the borrower uses the funds to earn income from business, property, or employment, the borrower may be able to deduct this interest from income. You still have to include the full benefit in the earnings you report on the T4 or T4A slips.

## Prescribed interest rates

The following chart shows the prescribed interest rates for 2009 and 2010.

Quarterly rates		
Quarter	2009	2010
1st	2%	1%
2nd	1%	1%
3rd	1%	1%
4th	1%	

To get the current prescribed rates of interest, go to [www.cra.gc.ca/interestrates](http://www.cra.gc.ca/interestrates).

## Loyalty and other points programs

Your employees may collect loyalty points, such as frequent flyer points or air miles, on their personal credit cards when travelling on business trips, even though you reimburse them for the amounts they spend. Usually, these points can be exchanged or cashed in for rewards (goods or services, including gift cards and certificates).

Your employees do not have to include in their income the value of the rewards they received or enjoyed from the points they collect on these business trips, unless any of the following applies:

- The points are converted to cash.
- The plan or arrangement between you and the employee seems to be a form of remuneration.
- The plan or arrangement is a form of tax avoidance.

If any of the conditions above are met, the employee has to declare the fair market value of any personal rewards he or she received on an income tax and benefit return.

### Note

If you control the points (such as when an employee uses a company credit card, you have to report on their T4 slip the fair market value of any personal rewards he or she received from redeeming the points.

## Meals

### Overtime meals or allowances

If you provide overtime meals, or an allowance for overtime meals, there is no taxable benefit if **all** of the following conditions apply:

- The allowance, or the cost of the meal, is reasonable. We generally consider a value of up to \$17 to be reasonable. We will consider higher amounts reasonable if the relative cost of meals in that location is higher, or under other significant extenuating circumstances.
- The employee works two or more hours of overtime right before or right after his or her scheduled hours of work.
- The overtime is not frequent and is occasional in nature (usually less than three times a week).

If overtime occurs frequently or becomes the norm, we consider the overtime meals or allowances to be a taxable benefit, since they start to take on the characteristics of additional remuneration.

### Subsidized meals

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

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

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

## Payroll deductions and GST/HST

Use the benefits chart on page 39 to check whether you have to include the GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and EI premiums.

## Medical expenses

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

Generally, there is no GST/HST to include in the value of this benefit. However, some medical expenses that qualify for the medical expense tax credit may be subject to the GST/HST. In such a case, include the GST/HST in the value of the benefit. If you have any questions about how the GST/HST applies, contact us at 1-800-959-5525.

For more information on qualifying medical expenses, see interpretation bulletins IT-519, *Medical Expense and Disability Tax Credits and Attendant Care Expense Deduction*, and IT-85, *Health and Welfare Trusts for Employees* or Guide RC4064, *Medical and Disability-Related Information*.

## Payroll deductions and GST/HST

Use the benefits chart on page 39 to check whether you have to include the GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and EI premiums.

## Moving expenses and relocation benefits

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

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

If you paid allowances to your employee for incidental moving expenses that he or she does not have to account for, see "Non-accountable allowances," on page 23.

## Moving expenses paid by employer that are not a taxable benefit

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

- the cost of house hunting trips to the new location, including child care and pet care expenses while the employee is away;
- travelling costs (including a reasonable amount spent for meals and lodging) while the employee and members of the employee's household were moving from the old residence to the new residence;
- the cost to the employee of transporting or storing household effects while moving from the old residence to the new residence;
- costs to move personal items such as automobiles, boats, or trailers;

- charges and fees to disconnect telephones, television or aerials, water, space heaters, air conditioners, gas barbecues, automatic garage doors, and water heaters;
- fees to cancel leases;
- the cost to the employee of selling the old residence (including advertising, notarial or legal fees, real estate commission, and mortgage discharge penalties);
- charges to connect and install utilities, appliances, and fixtures that existed at the old residence;
- adjustments and alterations to existing furniture and fixtures to arrange them in the new residence, including plumbing and electrical changes in the new residence;
- automobile licences, inspections, and drivers' permit fees, if the employee owned these items at the former location;
- legal fees and land transfer tax to buy the new residence;
- the cost to revise legal documents to reflect the new address;
- reasonable temporary living expenses while waiting to occupy the new, permanent accommodation;
- long-distance telephone charges that relate to selling the old residence; and
- amounts you paid or reimbursed for property taxes, heat, hydro, insurance, and grounds maintenance costs to keep up the old residence after the move, when all reasonable efforts to sell it have not been successful.

## Moving expenses paid by employer that are a taxable benefit

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

If you do not reimburse, or only partly reimburse, an employee for moving expenses, the employee may be able to claim some of the moving expenses when filing his or her income tax and benefit return.

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

## Housing loss

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

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

### Note

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

### Example 1

In March 2010, you compensated Clara, your employee, for a \$40,000 loss she incurred on the sale of her house. The loss was an eligible housing loss. Clara started to work at her new workplace in June 2010.

The taxable benefit you will report on Clara's 2010 T4 slip will be \$12,500, calculated as follows:

$$1/2 \times (\$40,000 - \$15,000)$$

### Example 2

In June 2009, you agreed to compensate Paul, your employee, for any eligible housing loss that he incurred on the sale of his house. Paul started to work at his new work location on December 1, 2009.

Paul's eligible housing loss amounted to \$65,000. You paid out the compensation in two payments: \$30,000 in September 2009 and \$35,000 in February 2010.

Paul's taxable benefit in 2009 was \$7,500 (half of the amount paid in 2009 that is more than \$15,000).

Paul's taxable benefit in 2010 is \$17,500. This is calculated as follows:

- half of the total of amounts paid in 2009 and 2010 that is more than \$15,000  
( $1/2 \times [\$65,000 - \$15,000] = \$25,000$ );

#### minus

- the amount included in income in 2009 (\$7,500).

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

## Payroll deductions and GST/HST

Use the benefits chart on page 39 to check whether you have to include the GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and EI premiums.

## Non-accountable allowances

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

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

## Examples

- If you gave a non-accountable allowance of \$625 to an employee who certifies that he or she incurred expenses for the amount of the allowance, the employee will not be taxed on the amount received. Do not include this amount on the employee's T4 slip.
- If you gave a non-accountable allowance of \$750 to an employee who can certify the expenses, he or she will be taxed on \$100 only, which is the part of the amount that is more than \$650. Include the \$100 on a T4 slip in box 14, "Employment income," and in the "Other information" area under code **40** at the bottom of the employee's T4 slip.

## Home-relocation loans

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

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

To calculate the benefit for the home-relocation loan, see "Loans received because of employment," on page 19.

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

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

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

## Calculating the employee home-relocation loan deduction

When you include in an employee's income a taxable benefit for a home-relocation loan the employee received

because of employment, he or she can deduct whichever of the following amounts is the least:

- the benefit calculated for the home-relocation loan using the formula found in “Loans received because of employment,” on page 19;
- the interest (calculated at the prescribed rates) as if the home-relocation loan were for \$25,000; or
- the benefit that you included in the employee’s income for all loans received because of employment in the year.

Enter the result in the “Other information” area under code 37 at the bottom of the employee’s T4 slip. This is the amount the employee can deduct on his or her income tax and benefit return as an Employee home relocation loan deduction.

#### Note

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

## Municipal officer’s expense allowance

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

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

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

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

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

## Payroll deductions and GST/HST

Use the benefits chart on page 39 to check whether you have to include the GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and EI premiums.

## Parking

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

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

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

#### Note

If you provide enough parking spaces for all employees who require parking, but do not assign the parking spaces to individual employees, this is not scramble parking. You must add the benefit to the employee’s remuneration.

There is no taxable benefit for an employee when **both** of the following conditions are met:

- You provide parking to your employee for business purposes.
- Your employee **regularly** has to use his or her own automobile or one you usually supply to do his or her duties.

#### Note

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

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

You can answer a series of questions on our Web site to help you determine if there is a taxable benefit. Go to [www.cra.gc.ca/autoben-allow](http://www.cra.gc.ca/autoben-allow), select “Parking,” then select the “Q&A” icon.

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

## Payroll deductions and GST/HST

Use the benefits chart on page 39 to check whether you have to include the GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and EI premiums.

## Power saws and tree trimmers

If you are an employer in the forestry business, you probably have employees who, according to their contracts, have to use their own power saws or tree trimmers at their own expense.

Rental payments you paid to employees for the use of their own power saws or tree trimmers are taxable benefits, and should be included in their income on a T4 slip. Their income should not be reduced by the cost or value of saws, trimmers, parts, gasoline, or any other materials the employee supplies.



## Payroll deductions and GST/HST

Use the benefits chart on page 39 to check whether you have to include the GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and EI premiums.

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

You may be paying premiums or contributing to a provincial or territorial hospital or medical care insurance plan for an employee. If this is the case, the amount you pay is considered a taxable benefit for the employee. Report this benefit in box 14, "Employment income," and in the "Other information," area under code 40 at the bottom of the employee's T4 slip. If you have to make payments to such a plan for amounts other than premiums or contributions for the employee, they are not considered a taxable benefit for the employee.

If you are the former employer of an employee who has retired, any amount you pay as a contribution to a provincial or territorial health services insurance plan for the retired employee is a taxable benefit.

Report this benefit under code 118, "Medical premium benefits," in the "Other information" area at the bottom of the T4A slip.

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

## Payroll deductions and GST/HST

Use the benefits chart on page 39 to check whether you have to include the GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and EI premiums.

## Private health services plan premiums

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

### Note

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

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

Use the T4A slip to report these amounts for former employees or retired employees. Enter the amount under code 135, "Recipient-paid premiums for private health

services plans," in the "Other information" area at the bottom of the T4A slip.

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

## Payroll deductions and GST/HST

Use the benefits chart on page 39 to check whether you have to include the GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and EI premiums.

## Professional membership dues

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

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

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

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

### Note

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

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

## Payroll deductions and GST/HST

Use the benefits chart on page 39 to check whether you have to include the GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and EI premiums.

## Recreational facilities and club dues

The use of a recreational facility or club is a taxable benefit for an employee in any of the following situations:

- You pay, reimburse, or subsidize the cost of a membership at a recreational facility, such as an exercise room, swimming pool, or gymnasium.
- You pay, reimburse, or subsidize the cost of memberships to a business or professional club (that operates fitness, recreational, sports, or dining facilities for the use of their members but their main purpose is something other than recreation).
- You pay, reimburse, or subsidize the cost of membership dues in a recreational facility of the employee's choice, up to a set maximum. In this case it is the employee who

has paid for the membership, owns it, and has signed some kind of contract with the company providing the facility.

- You pay, reimburse, or subsidize the employee for expenses incurred for food and beverages at a restaurant, dining room lounge, banquet hall, or conference room of a recreational facility or club.
- You provide recreational facilities to a select group or category of employees for free or for a minimal fee, while other employees have to pay the full fee. There is a taxable benefit for employees who do not have to pay the full fee.

However, the use of a recreational facility or club **does not** result in a taxable benefit for an employee in any of the following situations:

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

For more information, see the following interpretation bulletins:

- IT-470, *Employees' Fringe Benefits*
- IT-148, *Recreational Properties and Club Dues*

## Payroll deductions and GST/HST

Use the benefits chart on page 39 to check whether you have to include the GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and EI premiums.

## Registered retirement savings plans (RRSPs)

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

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

## Payroll deductions

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

However, your contributions are considered non-cash benefits and are not insurable in either of the following situations:

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

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

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

## Security options

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

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

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

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

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

## Payroll deductions and GST/HST

Use the benefits chart on page 39 to check whether you have to include the GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and EI premiums.

## Deferred security option benefit

### Note

The information in this section applies only to deferrals made prior to 4 pm on March 4, 2010.

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

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

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

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

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

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

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

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

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

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

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

The employee also has to complete and file Form T1212, *Statement of Deferred Security Options Benefits*, with his or her

income tax and benefit return for each year he or she has a balance of deferred stock option benefits outstanding.

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

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

## Payroll deductions and GST/HST

Use the benefits chart on page 39 to check whether you have to include the GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and/or EI premiums.

## Paragraph 110(1)(d) – Employee option deduction (acquisition of shares or units)

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

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

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

### Note

The effect of foreign exchange gains and losses is not relevant when determining if an individual is eligible for the security option deduction.

## Withholding on taxable stock option benefits

Under proposed changes, when an employee exercises stock options on or after January 1, 2011, the employer will be required to withhold and remit an amount in respect of the taxable stock option benefit (excluding any stock option deduction) to the same extent as if the amount of the benefit had been paid as an employee bonus. For more information, see Guide T4001, *Employers’ Guide – Payroll Deductions and Remittances*.

## Cash outs

Under proposed changes, the employee can only claim a paragraph 110(1)(d) deduction if the employer elects not to claim the cash-out as an expense. For more information, go to [www.cra.gc.ca/payroll](http://www.cra.gc.ca/payroll).

### Paragraph 110(1)(d.1) – Employee option deduction (disposition of shares or units)

The employee receives the benefit in the year they dispose of the shares, but **not** in the year of acquiring them if **all** of the following conditions are met:

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

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

- The shares are disposed of in the year;
- The employee has not disposed of the share (otherwise than as a consequence of the taxpayer's death) or exchanged the share within two years after the date the taxpayer acquired it.
- The employee did not deduct an amount under paragraph 110(1)(d) for the benefit.

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

## Social events

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

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

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

### Payroll deductions and GST/HST

Use the benefits chart on page 39 to check whether you have to include the GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and EI premiums.

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

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

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

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

### Payroll deductions and GST/HST

Use the benefits chart on page 39 to check whether you have to include the GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and EI premiums.

## Tax-Free Savings Account (TFSA)

You may offer your employees and their spouses the opportunity to participate in a group TFSA. Contributions you make to an employee's TFSA for them as well as TFSA administration fees that you pay for them, are considered to be a taxable benefit for the employee. However, this does not include any amount you withheld from the employee's remuneration and contributed for the employee.

Contributions you make to your employee's TFSA for them are generally paid in cash and are taxable, pensionable, and insurable. Deduct income tax, CPP contributions and EI premiums.

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

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

### Payroll deductions and GST/HST

Use the benefits chart on page 39 to check whether you have to include the GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and EI premiums.

## Tool reimbursement or allowance

If you reimburse or provide an allowance to your employee to offset the cost of tools that he or she needs for their job or you pay for their tools, the amount of the payment is a taxable benefit and should be included in the employee's income.

When employed tradespersons (including apprentice mechanics) file their income tax and benefit return, they may be able to deduct part of the cost of eligible tools they bought to earn employment income as a tradesperson.

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

For more information, see Guide T4044, *Employment Expenses*.

## Payroll deductions and GST/HST

Use the benefits chart on page 39 to check whether you have to include the GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and EI premiums.

## Transit passes

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

If your employee pays for some of the cost of buying public transit passes (for example, through payroll deductions), he or she may be able to claim the Public Transit Tax Credit when filing his or her individual income tax and benefit return.

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

Report the total of the taxable benefit (code 40) and the amount the employee paid to buy the transit pass (payroll deductions) in the "Other information" area under code **84** at the bottom of the employee's T4 slip.

## Transit passes—employees of a transit company

As of January 1, 2010, if your company is in the business of operating a bus, streetcar, subway, commuter train or bus, or ferry service, and you provide free transit passes to your employees or their families, special rules apply.

If you provide free or discounted passes to an employee or retired employee who works in one of the businesses mentioned above, and the passes are only for the employee's use, there is no taxable benefit for the employee.

### Note

To qualify as a non-taxable benefit under this special rule, ferry passes are limited to passenger (walk on) fares only.

If you provide free or discounted passes to a member of your employee's or retired employee's family, the fair market value (FMV) of the pass is a taxable benefit for the employee.

### Note

If you provide free or discounted passes to an employee who works in an area other than the transportation business or its operations, their FMV is a taxable benefit for the employee. For example, if a city owns a transit company, the FMV of a pass given to an employee who works in the city's accounting department would be a taxable benefit, while a pass given to an employee who works in the accounting department of the transit business operations would not be a taxable benefit.

## Payroll deductions and GST/HST

Use the benefits chart on page 39 to check whether you have to include the GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and EI premiums.

## Transportation to and from home

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

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

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

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

You may provide transportation to an employee who works at a special work site or a remote work location. If so, see "Board, lodging, and transportation – Special work sites and remote work locations," on page 13.

If the vehicle you provide your employee is an automobile, see "Calculating automobile benefits," on page 7 for more information.

## You provide a vehicle other than an automobile

If you provide your employee with a motor vehicle that is not defined as an automobile, calculate the taxable benefit for the employee's use of the vehicle between home and work based on fixed rates or fair market value. If **all** of the following conditions are met, you can choose to use a rate of 24¢ per kilometre for 2010.

1. The motor vehicle is not an automobile.
2. You tell your employee in writing that he or she cannot make any personal use of the vehicle, other than travelling between work and home. Your employee will have to maintain full logbooks of the vehicle's use as proof that there was no other personal use.
3. You have valid business reasons for making the employee take the vehicle home at night, such as:
  - it would not be safe to leave tools and equipment at your premises or on a worksite overnight; or
  - your employee is on call to respond to emergencies (see Note), and you provide the vehicle so the employee can respond more effectively to emergencies.

4. The motor vehicle is specifically designed or suited for your business or trade and is essential for the performance of your employee's duties. Just transporting the employee to the work location does not meet the condition of "essential in the performance of employment duties." The following examples meet both conditions:

- The vehicle is designed, or significantly modified, to carry tools, equipment, or merchandise. Your employee has to have the vehicle to do his or her job.
- The vehicle, such as a pickup truck or a van, is suitable for and is consistently used to carry and store heavy, bulky, or numerous tools and equipment. It would be difficult to load and unload the contents. The vehicle is essential to your employee in performing his or her job.
- The vehicle is regularly used to carry harmful or foul-smelling material, such as veterinary samples or fish and game. The vehicle is essential to your employee in performing his or her job.
- Your employee is on call for emergencies (see Note), and has to use a vehicle which:
  - is a clearly marked emergency-response vehicle;
  - is specially equipped to respond rapidly; or
  - is designed to carry specialized equipment to the scene of an emergency.

#### Note

We generally consider an emergency to relate either to the health and safety of the general population or to a significant disruption to the employer's operations.

#### Rates when conditions are not met

If any of conditions one to four above are not met, you cannot use the reduced rate of 24¢ per kilometre for 2010. Instead, see "Automobile and motor vehicle benefits," on page 7.

#### Part-time employee

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

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

#### Payroll deductions and GST/HST

Use the benefits chart on page 39 to check whether you have to include the GST/HST in the calculation of the

benefit, and whether you have to deduct CPP contributions and EI premiums.

## Travel allowance

### Salesperson and clergy

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

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

### Other employees

You have to include reasonable travel allowances in the income of employees, other than a salesperson or member of the clergy, who travel to perform the duties of the office or employment, unless the allowances are received by the employee for travelling away from the municipality and the metropolitan area where the employer's establishment is located and where the employee ordinarily works or reports.

In some situations, you may provide an allowance to your employee for travel (other than an allowance for the use of a motor vehicle) within a municipality or metropolitan area so your employee can complete his or her duties in a more efficient way during a work shift.

This allowance is not a taxable benefit and can be excluded from the employee's income if **all** of the following conditions are met:

- The employee travels away from the office.
- The allowance is reasonable. We generally consider a value of up to \$17 for the meal portion of the travel allowance to be reasonable.
- You are the primary beneficiary of the allowance.
- The allowance is not an additional form of remuneration.

This means that you do not have to include this type of travel allowance if its main reason is so that your employee's duties are completed in a more efficient way during a work shift.

### Reasonable travel allowances

Whether an allowance for travel expenses is reasonable is a question of fact. You should compare the reasonable costs for travel expenses that you would expect your employee to incur against the allowance you pay to the employee for the trip.

If the travel allowance is reasonable, you do not have to include it in your employee's income. If it is **not** reasonable, the allowance has to be included in your employee's income.

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

Your employee may be able to claim certain employment expenses on his or her income tax and benefit return. For more information, see “Employee’s allowable employment expenses,” on page 6.

### Payroll deductions and GST/HST

Use the benefits chart on page 39 to check whether you have to include the GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and EI premiums.

### Uniforms and special clothing

Your employee does not receive a taxable benefit if either of the following conditions apply:

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

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

If you reimburse or pay a reasonable allowance to your employee for the cost of protective clothing he or she bought and you did not require receipts to support the purchases, the reimbursement is not taxable if **all** of the following conditions apply:

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

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

### Payroll deductions and GST/HST

Use the benefits chart on page 39 to check whether you have to include the GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and EI premiums.

### Wage-loss replacement plans or income maintenance plans

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

- a sickness or accident insurance plan;

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

However, if you pay a premium for an employee for such plans that are **group plans**, the employer-paid premium is not a taxable benefit for the employee if the benefit payments are paid out of your own funds. If the employee is the owner of the plan and the benefits are paid by a third party, any premium you pay on behalf of the employee is considered a taxable benefit.

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

### Payroll deductions and GST/HST

Use the benefits chart on page 39 to check whether you have to include the GST/HST in the calculation of the benefit, and whether you have to deduct CPP contributions and EI premiums.

### Group disability benefits—insolvent insurer

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

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

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

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

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

If your employee works at a special site or a remote work location that is **not** in a prescribed zone, this chapter does not apply to you. For more information, see page 13.

For a list of places in prescribed northern zones and prescribed intermediate zones, see Publication T4039, *Northern Residents Deductions – Places in Prescribed Zones*.

## Accommodation or utilities provided by the employer

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

### Places with developed rental markets

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

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

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

### Places without developed rental markets

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

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

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

#### Accommodations you own

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

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

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

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

#### Accommodations you rent from a third party

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

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

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

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

## Allowable ceiling amounts

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

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

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

#### Note

If more than one employee occupies the same accommodation, divide the total housing benefit by the number of occupants.

## Board, lodging, and transportation at a special work site

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

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

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

If you are a third-party payer and are completing a T4A slip for the employee of another employer, report the exempt part using code **124** "Board and lodging at special work sites," in the "Other information" area at the bottom of the T4A slip.

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

#### Example

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

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



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

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

#### Note

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

## Travel assistance benefits

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

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

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

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

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

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

If you are a third party who supplies travel benefits to the employee of another employer, report these benefits under code **028** “Other income,” in the “Other information” area at the bottom of the T4A slip.

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

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

## Medical travel assistance

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

You have to identify the portion of the travel assistance that refers to the medical travel benefits you provide to your employee.

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

For a T4A slip, enter the entire travel assistance benefit under code **028** “Other income,” in the “Other information” area at the bottom of the slip. Enter the medical part under code **116** “Medical travel assistance.”

#### Notes

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

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

For more information, see interpretation bulletins IT-339, *Meaning of Private Health Services Plan*, and IT-519, *Medical Expense and Disability Tax Credits and Attendant Care Expense Deduction* or Guide RC4064, *Medical and Disability-Related Information*.

## Payroll deductions

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

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

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

whether or not we have waived the requirement to deduct tax.

## Form TD1, *Personal Tax Credits Return*

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

The residency deduction is equal to whichever is less:

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

### Note

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

For 2010, an employee living in a prescribed **northern** zone can claim the total of:

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

For 2010, employees living in a prescribed **intermediate** zone can claim 50% of the total of the above amounts.

### Note

Employees who receive board and lodging benefits from employment at a special work site in a prescribed zone have to reduce their residency amount by the value of the 30-kilometre part of the benefit they receive if they keep a principal residence that is not in a prescribed zone. The 30-kilometre part of the excluded benefit will be shown in the "Other information" area under code 31 at the bottom of the employee's T4 slip. See "Board, lodging, and transportation at a special work site," on page 32.

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

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

## Chapter 5 – Remitting GST/HST on employee benefits

This chapter discusses the GST/HST treatment of employee benefits.

The Canada Revenue Agency is responsible for administering the GST/HST. In Quebec, Revenu Québec administers the GST/HST. If the physical location of your business is in Quebec, contact Revenu Québec, at 1-800-567-4692. Also see the Revenu Québec publication IN-203, *General Information Concerning the QST and the GST/HST*, available at [www.revenu.gouv.qc.ca](http://www.revenu.gouv.qc.ca).

### Employee benefits

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

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

Generally, if a benefit is taxable for income tax purposes, we consider you to have made a supply of a good or service to the employee.

If the good or service that gives rise to the taxable benefit is subject to the GST/HST, we consider you to have collected the GST/HST on that benefit. However, there are situations where you will not be considered to have collected the GST/HST on taxable benefits given to employees. We explain these situations below.

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

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

- The goods or services that give rise to a taxable benefit are GST/HST-exempt or zero-rated.
- A taxable benefit results from an **allowance** included in the income of the employee under paragraph 6(1)(b) of the *Income Tax Act*.
- You are restricted from claiming an input tax credit (ITC) for the GST/HST paid or payable on the goods and services that give rise to the taxable benefit (see "ITC restrictions," on page 36).
- The goods or services that give rise to a taxable benefit are supplied outside Canada.

### Example

You, as a registrant employer, would like to reward an employee for outstanding performance, and you have agreed to pay for hotel accommodation and three meals a day, for one week, in London, England. An amount will be included in the income of the employee as a taxable benefit.

However, you will not be considered to have collected tax in respect of the benefit provided to the employee, since the supplies were made outside of Canada.

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

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

#### Note

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

For more information about this election, contact us.

## The date we consider you to have collected the GST/HST

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

#### Example

You are a GST/HST registrant and have a monthly reporting period. At the end of February 2011, you calculated the total taxable benefits provided to your employees for 2010, including any GST/HST and PST. You are considered to have collected the GST/HST on the taxable benefits at the end of February 2011. In your February 2011 GST/HST return, you have to include the GST/HST relating to the taxable benefits provided to your employees in 2010. You have to file this return by the end of March 2011.

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

The amount of the GST/HST we consider you to have collected on a taxable benefit is based on a percentage of the value of the benefit for GST/HST purposes. The percentage rate you use depends on whether or not it is for an automobile operating expense benefit **and** the province or territory in which the employee ordinarily reported to work.

### Value of the benefit

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

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

#### Notes

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

However, when an employee or an employee's relative has reimbursed an amount for a taxable benefit **other** than for a standby charge or the operating expense of an automobile, you are considered to have collected an amount equal to 5/105 for GST or one of the following for HST:

- 12/112 for British Columbia;
- 15/115 for Nova Scotia;
- 13/113 for all other participating provinces.

In this situation, you have to include the GST/HST for this reimbursement in your GST/HST return for the reporting period that includes the date of the reimbursement.

### Automobile operating expense benefits

If the last establishment where your employee ordinarily worked or to which he or she ordinarily reported in the year is located in a **participating province** (British Columbia, New Brunswick, Newfoundland and Labrador, Nova Scotia, or Ontario), we consider you to have collected an amount equal to a percentage of the value of the benefit for GST/HST purposes, based on one of the following rates:

- 4% for British Columbia;
- 10% for Nova Scotia;
- 9% for New Brunswick, Newfoundland and Labrador;

- 6% for Ontario, or 4.5% if the registrant is a large business for the purpose of the recapture of input tax credits for the provincial part of the HST.

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

## Other benefits

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

- 7.5/107.5 for British Columbia;
- 13/113 for Nova Scotia;
- 8/108 for Ontario, or 4/104 for benefits relating to a motor vehicle that is subject to the recapture of the input tax credits for the provincial part of the HST, if the registrant is a large business;
- 12/112 for all other participating provinces.

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

## Input tax credits (ITCs)

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

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

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

However, in some situations, you will not be able to claim an ITC for the GST/HST paid or payable for property or services that give rise to taxable benefits you provide your employees. For information on these situations, read the rest of this section.

## ITC restrictions

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

## Club memberships

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

## Exclusive personal use

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

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

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

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

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

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

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

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

## Property acquired before 1991 or from a non-registrant

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

### Example

You bought a passenger vehicle from a non-registrant and made it available to your employee throughout 2010. The passenger vehicle is used more than 90% in the commercial activities of your business. You report the value of the benefit, including the GST/HST and if applicable, the PST, on the employee's T4 slip. For GST/HST purposes, you will be considered to have collected the GST/HST on this benefit even if you could not claim an ITC on the purchase of the passenger vehicle.

## Summary

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

**Step 1** – Determine whether the benefit is taxable under the *Income Tax Act* and the *Excise Tax Act* (see the previous chapters). If the benefit is not taxable, we do not consider you to have collected the GST/HST on the benefit. You will not have to remit the GST/HST for the benefit.

**Step 2** – For each taxable benefit, determine whether any of the "Situations where we do not consider you to have collected the GST/HST," on page 34 applies. If one of these situations applies, we do not consider you to have collected the GST/HST on this benefit and you will not have to remit any GST/HST on it.

**Step 3** – If we consider you to have collected the GST/HST on a taxable benefit, you have to calculate the amount of the GST/HST due (see "How to calculate the amount of the GST/HST we consider you to have collected," on page 35).

**Step 4** – Enter the amount of the GST/HST due on your GST/HST return and send your remittance, if applicable, with your GST/HST return for the reporting period that includes the last day of February 2011.

### Note

If the GST/HST is for a reimbursement made by an employee or an employee's relative for a taxable benefit other than a standby charge or the operating expense of an automobile, the amount may be due in a different reporting period. For more information, see the note under "How to calculate the amount of the GST/HST we consider you to have collected," on page 35.

## Employee does not pay the GST/HST on taxable benefits

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

## Examples

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

### Example 1 – Remitting the GST/HST on automobile benefits in a non-participating province

As a corporation registered for the GST/HST, you buy a vehicle that is used more than 50% in commercial activities and is made available to your employee during 2010. The last establishment where the employee ordinarily reported in the year for the corporation was located in **Manitoba**.

You calculated a taxable benefit (including GST and PST) of \$4,800 on the standby charge and an operating expense benefit of \$600. Your employee reimbursed you \$1,800 for the automobile operating expenses within 45 days of the end of 2010. You did not include this amount as a taxable benefit.

You claimed an input tax credit (ITC) for the purchase of the automobile and also on the operating expenses. Since the benefit is taxable under the *Income Tax Act*, and no situations described on page 34 (where you are not considered to have collected the GST on taxable benefits) apply, you calculate the GST remittance as follows:

#### Standby charge benefit

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

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

#### Operating expense benefit

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

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

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

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

#### Total GST to be remitted on the automobile

**benefit** ..... \$256.62

You are considered to have collected the GST in the amount of \$256.62 at the end of February 2011. You have to include this amount on your GST/HST return for the reporting period that includes the last day of February 2011.

**Example 2 – Remitting the GST/HST on automobile benefits in a participating province**

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

**Standby charge benefit**

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

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

**Operating expense benefit**

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

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

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

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

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

You are considered to have collected HST in the amount of \$730.29 at the end of February 2011. You have to include this amount on your GST/HST return for the reporting period that includes the last day of February 2011.

**Example 3 – Long-service award**

You bought a watch for \$560 (including the GST/HST and PST) for your employee to mark the employee’s 25 years of service. It was the only gift or award provided to the employee in the year. You reported a taxable benefit of \$60 in box 14 and under code 40 on the employee’s T4 slip.

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

**Example 4 – Special clothing**

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

---

## Benefits chart

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

Taxable allowance or benefit	Deduct CPP	Deduct EI	Code for T4 slip	Include GST/HST
Automobile and motor vehicle allowances – in cash	yes	yes	40	no
Automobile standby charge and operating expense benefits – non-cash	yes	no	34	yes
Board and lodging, if <b>cash</b> earnings also paid in the pay period	yes	yes	30	<sup>1</sup>
Board and lodging, if <b>no cash</b> earnings paid in the pay period	yes	no	30	<sup>1</sup>
Cellular phone service – in cash	yes	yes	40	yes
Cellular phone service – non-cash	yes	no	40	yes
Child care expenses – in cash	yes	yes	40	yes
Child care expenses – non-cash	yes	no	40	yes
Counseling services – in cash	yes	yes	40	<sup>2</sup>
Counseling services – non-cash	yes	no	40	<sup>2</sup>
Disability-related employment benefits – in cash	yes	yes	40	yes
Disability-related employment benefits – non-cash	yes	no	40	yes
Discounts on merchandise and commissions on sales – non-cash	yes	no	40	yes
Educational allowances for children – in cash	yes	yes	40	no
Gifts and awards – in cash	yes	yes	40	no
Gifts and awards – non-cash and near-cash	yes	no	40	yes
Group term life insurance policies – employer-paid premiums – non-cash	yes	no	40	no
Housing loss – in cash	yes	yes	40	no
Housing, rent-free or low-rent – in cash	yes	yes	30	<sup>3</sup>
Housing, rent-free or low-rent – non cash	yes	<sup>4</sup>	30	<sup>3</sup>
Interest-free and low-interest loans <sup>5</sup>	yes	no	36	no
Internet service (at home) – in cash	yes	yes	40	yes
Internet service (at home) – non-cash	yes	no	40	yes
Loans – Home purchase	yes	no	36	no
Loans – Home relocation	yes	no	<sup>5</sup>	no
Loans – Forgiven – in cash	yes	yes	40	no
Meals – Overtime allowances – in cash	yes	yes	40	no
Meals – Overtime – in cash	yes	yes	40	yes
Meals – Overtime – non-cash	yes	no	40	yes
Meals – Subsidized – non-cash	yes	no	40	yes
Medical expenses – in cash	yes	yes	40	<sup>6</sup>

Continued on next page

<sup>1</sup> The rent part of the lodging benefit is subject to the GST/HST if the dwelling is occupied for **less than** one month; the utility part is subject to the GST/HST unless it is supplied by the municipality.

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

<sup>3</sup> The rent part of the housing benefit is subject to the GST/HST if the dwelling is occupied for **less than** one month; the utility part is subject to the GST/HST unless it is supplied by the municipality.

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

<sup>5</sup> Enter the taxable interest benefit under code **36** and enter the home relocation loan deduction under code **37**.

<sup>6</sup> Some medical expenses are subject to the GST/HST. For more information, see page 21.

<b>Taxable allowance or benefit... continued</b>	<b>Deduct CPP</b>	<b>Deduct EI</b>	<b>Code for T4 slip</b>	<b>Include GST/HST</b>
Medical expenses – non-cash	yes	no	40	<sup>6</sup>
Moving expenses and relocation benefits – in cash	yes	yes	40	yes
Moving expenses and relocation benefits – non-cash	yes	no	40	yes
Moving expenses – non-accountable allowance over \$650 – in cash	yes	yes	40	no
Municipal officer's expense allowance	yes	no	70 <sup>7</sup>	no
Parking – in cash	yes	yes	40	yes
Parking – non-cash	yes	no	40	yes
Power saws and tree trimmers; rental paid by employer for employee-owned tools – in cash	yes	yes	40	yes
Premiums under provincial hospitalization, medical care insurance, and certain federal government plans – in cash	yes	yes	40	no
Premiums under provincial hospitalization, medical care insurance, and certain federal government plans – non-cash	yes	no	40	no
Professional membership dues – in cash	yes	yes	40	<sup>8</sup>
Professional membership dues – non-cash	yes	no	40	<sup>8</sup>
Recreational facilities (in house) – non-cash	yes	no	40	yes
Recreational facilities or club membership dues – in cash	yes	yes	40	yes
Registered retirement savings plan (RRSP) contributions – in cash	yes	yes	40	no
Registered retirement savings plan (RRSP) administration fees – non-cash	yes	no	40	<sup>8</sup>
Scholarships and bursaries – in cash	yes	yes	40	no
Security options – non-cash	yes	no	38 <sup>9</sup>	no
Social events – in cash	yes	yes	40	no
Social events – non-cash	yes	no	40	yes
Spouse or common-law partner's travelling expenses – in cash	yes	yes	40	no
Spouse or common-law partner's travelling expenses – non-cash	yes	no	40	yes
Tax-Free Savings Account – contributions – in cash	yes	yes	40	no
Tax-Free Savings Account – administration fees – non-cash	yes	no	40	<sup>8</sup>
Tool allowance – in cash	yes	yes	40	no
Tool reimbursement – in cash	yes	yes	40	yes
Transit passes – in cash	yes	yes	40	yes
Transit passes – non-cash	yes	no	40	yes
Transportation to and from the job – in cash	yes	yes	40	yes
Transportation to and from the job – non-cash	yes	no	40	yes
Travel assistance in a prescribed zone – in-cash	yes	no	32	yes
Travel assistance in a prescribed zone – non-cash	yes	no	32	yes <sup>10</sup>
Travelling allowances to a part-time employee and other employees	yes	yes	40	no
Tuition fees – in cash	yes	yes	40	<sup>8</sup>
Tuition fees – non-cash	yes	no	40	<sup>8</sup>
Uniforms and special clothing – in cash	yes	yes	40	yes
Uniforms and special clothing – non-cash	yes	no	40	yes
Wage-loss replacement or income maintenance non-group plan premiums – non-cash	yes	no	40	no

<sup>7</sup> Enter the amount in excess of one third of the officer's salary and allowances under code 40. Enter the exempt amount under code 70.

<sup>8</sup> Certain fees and certain contributions are subject to the GST/HST. If the fees or the contributions you pay are subject to the GST/HST, include it in the value of the benefit.

<sup>9</sup> Enter the taxable security option benefit under code 38. Enter the amount of the security options deduction under code 39 or 41, as applicable.

<sup>10</sup> Enter the amount of medical travel assistance under code 33.



## For more information

### What if you need help?

If you need help after you read this guide, visit [www.cra.gc.ca](http://www.cra.gc.ca) or call 1-800-959-5525.

To get the most up-to-date payroll information and products, go to [www.cra.gc.ca/payroll](http://www.cra.gc.ca/payroll).

### Forms and publications

To get any forms or publications, go to [www.cra.gc.ca/forms](http://www.cra.gc.ca/forms) or call 1-800-959-2221.

### Teletypewriter (TTY) users

TTY users can call 1-800-665-0354 for bilingual assistance during regular business hours.

### Electronic mailing list

We can notify you immediately about new information on payroll deductions and remittances. To subscribe, free of charge, go to [www.cra.gc.ca/lists](http://www.cra.gc.ca/lists).

### Related publications

**T4032**, *Payroll Deductions Tables*

**T4001**, *Employers' Guide – Payroll Deductions and Remittances*.

**RC4120**, *Employers' Guide – Filing the T4 Slip and Summary*

**RC4157**, *Deducting Income Tax on Pension and Other Income, and Filing the T4A Slip and Summary*.

**RC4110**, *Employee or Self-Employed?*

**RC4409**, *Keeping Records*

### Employer Visits Program

We offer an on-site consultative service to provide any help you may need with payroll deductions. As part of our Employer Visits Program, we can visit you to help with problems you have. For more information about this service, call 1-800-959-5525.

### My Payment

My Payment is a payment option that allows individuals and businesses to make payments online, using the Canada Revenue Agency's Web site, from an account at a participating Canadian financial institution. For more information on this self-service option, go to [www.cra.gc.ca/mypayment](http://www.cra.gc.ca/mypayment).

### Addresses

#### Electronic Media Processing Unit

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

#### Ottawa Technology Centre

Canada Revenue Agency  
875 Heron Road  
Ottawa ON K1A 1G9

#### Tax services offices

To find out where to send your requests, go to [www.cra.gc.ca/tso](http://www.cra.gc.ca/tso) or call 1-800-959-5525.

#### Tax centres

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

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

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

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

Summerside Tax Centre  
275 Pope Road  
Summerside PE C1N 6A2

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

Winnipeg Tax Centre  
66 Stapon Road  
Winnipeg MB R3C 3M2

### Our service complaint process

If you are not satisfied with the service you have received, contact the CRA office you have been dealing with. You may choose to file a service complaint if the issue remains unresolved. If you are still not satisfied with the way the CRA has handled your complaint, contact the Taxpayer's Ombudsman. For more information, go to [www.cra.gc.ca/complaints](http://www.cra.gc.ca/complaints) or see Pamphlet RC4420, *Information on CRA—Service Complaints*

### Your opinion counts

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



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