



## Taxable Benefits (Other than Automobile Benefits)

**NOTE:** This version replaces GST Memorandum 400-3-2, *Employee and Shareholder Benefits*, dated February 19, 1992.

This memorandum explains how the goods and services tax/harmonized sales tax (GST/HST) applies to employee and shareholder benefits (other than automobile benefits) as required under the *Excise Tax Act* (the Act). The rules that apply to automobile benefits are discussed in GST/HST Memorandum 9.2, *Automobile Benefits*.

**Note:** All legislative references in this publication refer to the *Excise Tax Act* unless otherwise indicated.

**Disclaimer** The information in this memorandum does not replace the law found in the *Excise Tax Act* (the Act) and its regulations. It is provided for your reference. As it may not completely address your particular operation, you may wish to refer to the Act or appropriate regulation, or contact any Canada Revenue Agency GST/HST rulings office for additional information. A ruling should be requested for certainty in respect of any particular GST/HST matter. Pamphlet RC4405, *GST/HST Rulings – Experts in GST/HST Legislation* explains how to obtain a ruling and lists the GST/HST rulings offices. If you wish to make a technical enquiry on the GST/HST by telephone, please call 1-800-959-8287.

If you are located in Quebec and wish to make a technical enquiry or request a ruling related to the GST/HST, please contact Revenu Québec at 1-800-567-4692. You may also visit the Revenu Québec Web site to obtain general information.

**Note** Reference in this publication is made to supplies that are subject to the GST or the HST. The HST applies in the participating provinces at the following rates: 13% in Ontario, New Brunswick and Newfoundland and Labrador, 15% in Nova Scotia, and 12% in British Columbia. The GST applies in the rest of Canada at the rate of 5%. If you are uncertain as to whether a supply is made in a participating province, you may refer to GST/HST Technical Information Bulletin B-103, *Harmonized Sales Tax – Place of Supply Rules for Determining Whether a Supply is Made in a Province*.

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La version française de la présente publication est intitulée *Avantages taxables (autres que les avantages relatifs aux automobiles)*.



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## Employee and shareholder benefits

GST/HST may apply to taxable benefits arising from the *Income Tax Act*

1. Salaries, wages, commissions, and other monetary remuneration are not subject to the GST/HST. However, non-monetary means of compensating employees (i.e., fringe benefits) and non-monetary means of compensating shareholders (i.e., shareholder appropriations) which give rise to taxable benefits under the *Income Tax Act* (the ITA) may be subject to the GST/HST.

Link to ITA

2. Some examples of common taxable benefits subject to the GST/HST are the use of passenger vehicles or aircraft, subsidized residential accommodation, subsidized meals, payment of membership dues, trips, vacations, and gifts over \$500. Under the ITA, the GST/HST is added to the value of the taxable benefit so that the person receiving the benefit is treated as if he or she purchased it in the marketplace.

More information on taxable benefits for income tax purposes

3. Interpretation Bulletin T-470R (Consolidated), *Employees' Fringe Benefits*, provides information on the treatment of employee benefits under the ITA. Interpretation Bulletin IT-432R2, *Benefits Conferred on Shareholders*, provides information on the treatment of shareholder benefits under the ITA.

## Overview

Liability to include tax deemed collectible in net tax calculations 173

4. Generally, section 173 applies when a registrant makes a supply of property or a service to an individual who is an employee or a shareholder, or a person related to the employee or shareholder, which gives rise to a taxable benefit under certain sections of the ITA. Section 173 also applies in the case of automobiles where the supply would have given rise to a taxable benefit if the registrant had not been reimbursed. The effect of section 173 is that, subject to certain exceptions (which are discussed in paragraph 27), the registrant must include tax deemed collectible and collected on the total value of the taxable benefit and any reimbursements (in the case of automobile benefits) in the registrant's net tax calculation. In essence, a registrant who confers a taxable benefit for property or a service should remit the GST/HST that would have been payable on the property or service had the employee or shareholder purchased it from the registrant.

Determine the ITA application first

5. To determine whether section 173 applies to a particular supply of property or service to an individual and which provisions within that section apply, it is necessary to first determine the following for income tax purposes:

- whether there is a taxable benefit;
- what provision of the ITA applies to that benefit;
- the value of the taxable benefit;
- in the case of automobile benefits, the value of any reimbursement that reduced the amount of the taxable benefit that otherwise would have been required to be included in the individual's income (these rules are explained in GST/HST Memorandum 9.2 *Automobile Benefits*); and

Determine the GST/HST collectible on the taxable benefits	<ul style="list-style-type: none"> <li>• in the case of automobile benefits conferred on shareholders, the provision of the ITA that would have applied if the shareholder had received the taxable benefit as an employee (these rules are explained in GST/HST Memorandum 9.2 <i>Automobile Benefits</i>).</li> </ul> <p>6. Once it has been determined that there is a taxable benefit under the ITA, then the following steps must be taken to determine if the GST/HST is required to be remitted on the taxable benefit.</p> <ul style="list-style-type: none"> <li>• For each taxable benefit, establish if one of the exclusions listed in paragraph 27 applies. If so, then the GST/HST is not required to be remitted on the taxable benefit.</li> <li>• If no exclusions apply to the taxable benefit, calculate the amount of the GST/HST due on the benefit (see paragraphs 36 to 44 and Appendix C).</li> <li>• Include the amount of the GST/HST deemed collectible on the return for the reporting period in which the tax is deemed to have become collectible and collected (see paragraphs 45 to 49).</li> </ul>
Person conferring the benefit must be a registrant	7. Section 173 applies only to persons who are registrants.
Supplies of property or service must be taxable	8. Section 173 applies only to taxable supplies of property or services other than zero-rated supplies.
Money is not property or a service ss 123(1)	9. Money is excluded from the definitions of “property” and “service” in the Act. Consequently, section 173 does not apply to a monetary amount paid to an individual, which results in a taxable benefit to the individual.
Supply made in Canada ss 173(1)	10. The registrant must have made a supply of property or a service in Canada.
Single and multiple supplies P-077R2, P-159R-1 and P-160R	11. When property and/or services are supplied together in any combination, a determination must first be made as to whether multiple supplies were made and, if there were multiple supplies, whether one supply was incidental to that of another. Once the supply or supplies have been identified, then it can be determined whether the supply (or supplies) is exempt or zero-rated. For more information on determining when a single supply or multiple supplies have been made, see GST/HST Policy Statement P-077R2, <i>Single and Multiple Supplies</i> . For more information on incidental supplies, refer to the following GST/HST Policy Statements: P-159R-1, <i>Meaning of the Phrase “Reasonably Regarded as Incidental”</i> , and P-160R, <i>Meaning of the Phrase “Where a Particular Property or Service is Supplied Together with any other Property or Service”</i> .
Individuals and persons related to the individuals	12. The registrant must have supplied the property or the service to an individual or to a person related to an individual. The individual could be an employee, an officer or a shareholder.
Meaning of employee and employer ss 123(1)	13. “Employee” includes an officer. “Employer”, in relation to an officer, means the person from whom the officer receives remuneration.

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Related persons  
ss 126(2)

14. For GST/HST purposes, persons are related to each other if, by reason of subsections 251(2) to (6) of the ITA, they are related to each other for the purposes of that Act.

Related individuals  
paras 251(2)(a), 251(6)(a)  
and (b), and s 252 of the ITA

15. Pursuant to paragraph 251(2)(a) of the ITA, individuals connected by blood relationship, marriage, common-law partnership, or adoption are related persons. Paragraph 251(6)(a) of the ITA refers to a blood relationship as being that of a parent and a child (or other descendant such as a grandchild or a great-grandchild) or that of a brother and a sister. Section 252 of the ITA extends the meaning of these terms to encompass other individuals who might otherwise not be considered to fit the normal use of the term. Pursuant to paragraph 251(6)(b) of the ITA, two persons are connected by marriage if one person is married to the other person or to an individual who is connected by blood relationship to that other person.

IT-419R2

16. An individual is connected by marriage to the parents and any siblings of the individual's spouse. However, where an individual's marriage is dissolved by either divorce or the death of the individual's spouse, the individual ceases to be connected by marriage or to be connected by blood relationship to the parents and any siblings of the individual's former spouse. Paragraph 251(6)(b.1) of the ITA provides that two individuals are connected by common-law partnership if one individual is in a common-law partnership with the other or with a person who is connected by blood relationship to that other person. Interpretation Bulletin IT-419R2, *Meaning of Arm's Length*, provides more details.

### **Benefits to be included in employee's or shareholder's income**

Taxable benefits under  
paras 6(1)(a), (e), (k) or (l), or  
ss 15(1) of the ITA

17. The provisions in section 173 apply only where an amount in respect of the supply is a taxable benefit to an individual or a person related to the individual under paragraphs 6(1)(a), (e), (k) or (l), or subsection 15(1) of the ITA. The rules with respect to taxable benefits that arise by virtue of paragraphs 6(1)(e) (standby charge), paragraphs 6(1)(k) and (l) (operating cost benefit) or an automobile benefit under subsection 15(1) are discussed in GST/HST Memorandum 9.2, *Automobile Benefits*.

Employee benefits  
para 6(1)(a) of the ITA and  
IT-470R

18. Employee benefits include the value of board, lodging and other benefits of any kind whatever received or enjoyed by an individual in a taxation year in respect of, in the course of, or by virtue of, an office or employment. Paragraph 6(1)(a) of the ITA does not provide a complete list of benefits included in this provision. Interpretation Bulletin T-470R (Consolidated), *Employees' Fringe Benefits*, discusses the more common employee benefits and distinguishes between employee benefits that are taxable and privileges that are normally not taxable for income tax purposes. Appendix A to this memorandum also provides information on this subject.

Taxable benefits for motor  
vehicles other than automobiles  
para 6(1)(a) of the ITA

19. Motor vehicles such as trucks, buses and motor homes that are not included in the definition of "automobile" for the purposes of paragraph 6(1)(e), (k) or (l) of the ITA may be subject to personal use. As a result, a taxable benefit from their use may arise under paragraph 6(1)(a) of the ITA. Therefore, the rules explained in this memorandum apply to such vehicles.

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Shareholder benefit ss 15(1) of the ITA	20. Subsection 15(1) of the ITA applies in a way similar to that of paragraph 6(1)(a) of that Act. Subsection 15(1) includes in a shareholder's income the amount or value of any distribution of corporate property and the value of any benefit conferred on the shareholder that would not otherwise be included in the shareholder's income and that cannot properly be considered to be a return of capital (e.g., a dividend) or as having been received in the shareholder's capacity as an employee (e.g., a taxable benefit under paragraph 6(1)(a), (e), (k) or (l) of the ITA).
Meaning of shareholder ss 248(1) of the ITA	21. "Shareholder" includes a member or other person entitled to receive payment of a dividend.
Shareholder's use of corporate property	22. Where shareholders use corporate property (e.g., an automobile, boat, airplane, or camera) for their personal benefit or enjoyment, the value of the use of the property is a taxable benefit under subsection 15(1) of the ITA.
More information	23. More detailed information is available in Interpretation Bulletin IT-432R2, <i>Benefits Conferred on Shareholders</i> .
Shareholders in their capacity as employees	24. Where a shareholder is also an employee and a taxable benefit is conferred on the shareholder (or on a person related to the shareholder) in the shareholder's capacity as an employee, the benefit is included in income under section 6 of the ITA as income from employment, rather than under section 15 of that Act as a benefit conferred on a shareholder. As a result, any reference for GST/HST purposes to taxable benefits to employees would include taxable benefits to a shareholder in his or her capacity as an employee. Similarly, a reference for GST/HST purposes to a person related to an employee would include a person related to the shareholder when a taxable benefit to the shareholder arises in the shareholder's capacity as an employee.

**Deemed use in commercial activities**

Supply of property otherwise than by way of sale para 173(1)(c)	25. Where property is supplied otherwise than by way of sale, the use made by the registrant in providing the property to the individual or a person related to the individual is deemed, for GST/HST purposes, to be use in commercial activities of the registrant. To the extent that the registrant acquired or imported the property or brought it into a participating province for purposes of making a supply of a taxable benefit, the registrant is deemed to have acquired or imported the property or brought it into a participating province for use in its commercial activities.
Example	A registrant owns a computer and assigns it to an employee. The computer is used 25% in the registrant's exempt activities, 45% in its other business activities, and 30% by the employee for personal use. The computer is used 75% in the registrant's commercial activities.
Meaning of sale ss 123(1)	26. "Sale", in respect of property, includes any transfer of the ownership of the property and a transfer of the possession of the property under an agreement to transfer ownership of the property. For example, a supply of a gift is considered a sale.

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## Exclusions from liability to account for tax on taxable benefits

Exclusions	27. A registrant that has met the conditions of section 173 must calculate and include in its net tax calculation tax on the supply of property or service that gives rise to a taxable benefit except in the following situations:
Zero-rated or exempt supply	(a) the supply of the property or service is zero-rated or exempt;
Example	A registrant provides an employee with a taxable benefit of an interest-free loan. The interest-free loan is an exempt supply. The registrant is not required to remit GST/HST on this benefit.
Supply made outside Canada	(b) the supply is in respect of property or a service enjoyed, consumed or used outside Canada;
Example	A registrant rewards an employee for outstanding performance by giving the employee an all-expense-paid vacation to Paris. An amount will be included in the employee's income as a taxable benefit for the value of this trip. However, the registrant will not have to remit GST/HST on this taxable benefit because the supply provided to the employee is made outside Canada.
Allowances	(c) the taxable benefit results from an allowance included in the income of the employee under paragraph 6(1)(b) of the ITA (e.g., a moving allowance);
No ITC due to application of s 170 subpara 173(1)(d)(i)	(d) the registrant was not eligible to claim an input tax credit (ITC) on the last acquisition, importation or bringing into a participating province of the property or service by the registrant because of the provisions of section 170 (see paragraphs 28 to 35 for further details on the application of section 170);
Election in effect to forego ITCs on a passenger vehicle or aircraft subpara 173(1)(d)(ii)	(e) the registrant has filed an election pursuant to subsection 173(2), which is in effect at the beginning of the individual's taxation year, to forego ITCs on a passenger vehicle or aircraft (more information on this election will be available in GST/HST Memorandum 9.2, <i>Automobile Benefits</i> );
Passenger vehicle not used exclusively in commercial activities subpara 173(1)(d)(iii)	(f) the registrant is an individual or a partnership and the property is a passenger vehicle or an aircraft of the registrant that is not used exclusively (90% or more) in the commercial activities of the registrant; or
Passenger vehicle not used primarily in commercial activities subpara 173(1)(d)(iv)	(g) the registrant is not an individual, a partnership or a financial institution and the property is a passenger vehicle or aircraft of the registrant that is not used primarily (more than 50%) in the commercial activities of the registrant.

## Interaction of the restrictions under section 170, the taxable benefits under the ITA, and section 173

ITC restrictions under section 170 para 173(1)(d)(i)	28. A registrant is not required to remit the GST/HST on the taxable benefit when section 170 denies the registrant an ITC with respect to the tax paid or payable on the acquisition, importation or bringing into a province of property or a service.
ITC restrictions – memberships in dining, recreational or sporting clubs para 170(1)(a)	29. A registrant is not eligible to claim an ITC with respect to the tax paid or payable on the supply of a membership, or a right to acquire a membership, in a club that provides dining, recreational or sporting facilities as its main purpose, except where the registrant acquires the membership or right exclusively for supply in the ordinary course of a business of the registrant of supplying such memberships or rights.
Example	A registrant purchases a golf club membership. The registrant is not eligible to claim an ITC with respect to the GST/HST paid on this membership.

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ITC restrictions – property or services exclusively for the personal use, consumption or enjoyment of an individual para 170(1)(b)

30. A registrant is not eligible to claim an ITC with respect to the GST/HST paid or payable when property or a service is acquired, imported or brought into a participating province by the registrant exclusively (90% or more) for the personal use, consumption or enjoyment of a particular individual who was, is, or agrees to become, an officer or employee of the registrant, or of an individual related to the particular individual. This restriction does not apply if the registrant supplies the property or service to the individual for consideration equal to its fair market value that becomes due in the reporting period that the property or service is made available to the individual. The restriction also does not apply where, if no amount were payable for the property or service, no taxable benefit would arise under section 6 of the ITA.

Example 1

A registrant purchases a television set for \$1,000, plus taxes, for the exclusive personal use of an employee. The cost of the television set is included in the employee's income as a taxable benefit. The registrant is not eligible to claim an ITC for the GST/HST paid on the acquisition of the television set.

Example 2

A registrant is in the business of selling television sets. The registrant provides an employee with a television set that costs \$1,000, plus taxes, for the employee's exclusive personal use. The cost of the television set is included in the employee's income as a taxable benefit. Since the registrant's intention, when it acquired the television set, was for its resale and not to provide it to the employee, the registrant is eligible to claim an ITC for the GST/HST paid on the acquisition of the television set.

Example 3

A registrant purchases a television set for \$1,000, plus taxes, for the exclusive use of an employee. In the reporting period in which the employee received the television set from the registrant, the registrant invoiced the employee \$1,000 as consideration for the television set. The registrant is eligible to claim an ITC for the GST/HST paid on the acquisition of the television set.

Example 4

A registrant purchases a television set for \$400, including taxes, as a gift for an employee. The cost of the television set is not included in the employee's income as a taxable benefit under section 6 of the ITA since the cost of the gift is under \$500. Therefore, the registrant is eligible to claim an ITC for the GST/HST paid on the acquisition of the television set.

Restricting ITCs para 170(1)(c)

31. No amount may be claimed by a registrant as an ITC in respect of the GST/HST payable on a supply of property that is made in or before a reporting period of the registrant by way of lease, licence or similar arrangement, primarily (i.e., more than 50%) for the personal consumption, use or enjoyment in that period of

- (a) where the registrant is an individual, the registrant or an individual related to the registrant,
- (b) where the registrant is a partnership, an individual who is a member of the partnership or another individual who is an employee, officer, or shareholder of, or related to, a member of the partnership,
- (c) where the registrant is a corporation, an individual who is a shareholder of the corporation or another individual related to the shareholder, and
- (d) where the registrant is a trust, an individual who is a beneficiary of the trust or another individual related to the beneficiary,

except where the property is supplied at its fair market value by the registrant to that individual (or a person related to the individual) and the consideration becomes due in that period.

Example	A registrant that is a corporation leases a passenger vehicle for \$600, plus taxes, per month with the intent of giving this vehicle primarily for the personal use of its shareholder. The corporation will not be eligible to claim the ITCs for the GST/HST paid or payable on the monthly lease payments under paragraph 170(1)(c). However, if the corporation invoices the shareholder \$600 each month as consideration for the use of the vehicle, it will be eligible to claim the ITCs for the GST/HST paid or payable on the lease payments.
Test to determine reasonableness ss 170(2)	32. A registrant is not eligible to claim an ITC in respect of the tax paid or payable on property or a service that is acquired, imported or brought into a participating province except to the extent that the consumption or use of property or service of such quality, nature or cost is reasonable in the circumstances, taking into account the nature of the registrant's commercial activities. Furthermore, the GST/HST in respect of which the ITC is claimed must be calculated on consideration for the property or service, or on a value of the property, that is reasonable in the circumstances.
Property or service where no tax was payable on acquisition	33. If an employer who is registrant acquires property or a service in circumstances where the GST/HST is not payable, the restrictions in section 170 do not apply. Therefore, unless another exclusion applies, the rules in section 173 would apply to any taxable benefit conferred on the individuals with respect to the property or service.
Example	A registrant purchases a computer from a non-registered small supplier with the intention of giving an employee exclusive personal use of the computer. The registrant did not pay the GST/HST on the acquisition of the computer since it was purchased from a non-registered small supplier. Because the registrant did not pay the GST/HST, the restrictions in section 170 do not apply. However, subsection 173(1) will apply to the registrant where the employee's personal use of the computer confers a taxable benefit to the employee.
Interaction of s 170 and para 173(1)(c)	34. When a supply of property is made otherwise than by way of sale, the use made by a registrant in providing the property to an individual, or to a person related to the individual, is deemed under paragraph 173(1)(c) to be use in the commercial activities of the registrant. However, the restrictions in section 170 for claiming an ITC on the tax paid or payable on the supply of the property may still apply.
Example	<p>A registrant that is a corporation leases a computer that it intends to use 40% in commercial activities and 60% for the personal use of its shareholder. The personal use of the computer results in a taxable benefit to the shareholder under subsection 15(1) of the ITA. Paragraph 173(1)(c) deems the shareholder's personal use of the computer to be use in the commercial activities of the corporation. As a result, the corporation's use of the computer is deemed 100% in commercial activities (40% + 60% = 100%).</p> <p>Even though the computer's use in commercial activities is deemed to be 100%, the corporation is not eligible to claim an ITC for the tax paid or payable on the lease payments because the corporation leased the computer with the intent of providing it primarily for the shareholder's personal use. The shareholder's personal use of the computer results in a taxable benefit to the shareholder under subsection 15(1) of the ITA. However, pursuant to subparagraph 173(1)(d)(i), the corporation does not have to remit GST/HST on the taxable benefit since the corporation was not eligible to claim an ITC under section 170 for the tax paid or payable on the supply of the computer.</p>
More information	35. For more information on the application of section 170, refer to GST/HST Memorandum 8.2, <i>General Restrictions and Limitations</i> .



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## Calculating the GST/HST to be remitted on taxable benefits (other than automobile benefits)

Taxation year ss 123(1) and para 249(1)(b) of the ITA	36. The time frame in section 173 is based on the taxation year of the individual. The taxation year of an individual is a calendar year.
Property or service made available over more than one year subpara 173(1)(d)(v)	37. Where property or a service is made available to an individual over two or more taxation years, each of the taxable benefit amounts for these years is treated as part of the consideration for the supply of the property or service and is subject to the GST/HST in the year it arises. In determining the GST/HST remittance in respect of a particular year's taxable benefit, it is only necessary to refer to the total consideration for the particular year's use of the property or service.
Deemed total consideration for the benefit for net tax calculation subpara 173(1)(v)	38. For purposes of determining the net tax of a registrant, the total consideration payable in respect of the provision of property or service to the individual or a person related to the individual during the taxation year is deemed to be the total of the taxable benefit amount.
Taxes payable ss 6(7) and 15(1.3) of the ITA	39. The value of the taxable benefit is the value determined for income tax purposes. Refer to the Guide T4130, <i>Employers' Guide – Taxable Benefits and Allowances</i> , for information on calculating the amount of the taxable benefit.
GST/HST collectible on taxable benefits under para 6(1)(a) and ss 15(1) of the ITA clause 173(1)(d)(vi)(B)	40. Subject to the transitional rules resulting from the implementation of the HST in Ontario and British Columbia and the tax rate change in Nova Scotia on July 1, 2010 explained in Appendix B to this memorandum, the GST/HST deemed collectible by the registrant on taxable benefits (other than automobile benefits) is equal to:
Employee and shareholder benefits – participating provinces	(a) for an employee benefit where the last establishment of the employer at which the individual ordinarily worked or to which the individual ordinarily reported is located in a participating province or for a shareholder benefit where the individual is resident in a participating province at the end of the year, the amount determined by the formula: $(A/B) \times C$ where A is the total of 4% and the rate of the provincial part of the HST for the participating province, B is the total of 100% and the percentage determined for A, C is the total consideration;
Employee and shareholder benefits – in any other case	(b) 4/104 of the total consideration in any other case.
	41. The chart in Appendix C provides, for each taxation year, the tax fraction used to calculate the GST/HST deemed collectible by a registrant for a taxable benefit (other than an automobile benefit) that arises by virtue of paragraph 6(1)(a) and subsection 15(1) of the ITA.

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Example A resident of Prince Edward Island (a non-participating province) ordinarily works at his employer's establishment located in New Brunswick (a participating province). The employee receives a taxable benefit the value of which for income tax purposes is \$1,500. The employer calculates the tax deemed collectible on the taxable benefit as follows:

$$(A/B) \times C$$

where

A is 12 (the total of 4% and the 8% tax rate of the provincial part of the HST for New Brunswick,

B is 112 (the total of 100% and the percentage determined for A),

C is \$1,500 (the total consideration).

Therefore, the tax deemed collected by the employer is equal to \$160.71 ( $12/112 \times \$1,500$ ).

Automobile benefits  
paras 6(1)(e), (k) and (l) and  
ss 15(1) of the ITA

42. GST/HST Memorandum 9.2, *Automobile Benefits* provides detailed information on taxable benefits as they relate to automobiles (i.e., standby charges and operating expense benefits), the rules regarding the calculation of tax deemed collected for taxable benefits under paragraphs 6(1)(e), (k) or (l) of the ITA, and the rules relating to automobile taxable benefits for shareholders arising from the application of subsection 15(1) of the ITA.

Individual not liable to pay the  
GST/HST deemed collectible

43. There is no liability for the individual enjoying the taxable benefit to pay the GST/HST to the registrant providing the benefit.

Supplies of taxable benefits not  
included in small supplier  
threshold  
s 148

44. Supplies of taxable benefits are not included in determining whether a person is a small supplier or otherwise required to register for GST/HST purposes. Although subsection 173(1) deems the registrant to have collected tax in respect of the supply of a taxable benefit, this subsection does not deem the value of consideration to become due. Therefore, when applying the small supplier threshold in section 148, no amount in respect of the supply of taxable benefits is included in determining the threshold amount.

### **Time of liability**

Employee benefits  
clause 173(1)(d)(vii)(A)

45. The tax is deemed to have become collectible and to have been collected on the last day of February of the year immediately following the calendar year in which the taxable benefit was conferred for amounts that relate to taxable benefits required to be included in an individual's income. This timing coincides with the time at which employers must give T4 slips for their employees.

Example

In 2012, a registrant calculates the taxable benefits conferred on its employees during the 2011 taxation year. The registrant is considered to have collected the GST/HST on the taxable benefits at the end of February 2012, and must include this amount in its GST/HST return for the reporting period that includes the last day of February 2012.

Shareholder benefits  
clause 173(1)(d)(vii)(B)

46. For amounts that relate to a taxable benefit that is included in income under subsection 15(1) of the ITA, the tax is deemed collectible and collected on the last day of the registrant's taxation year in which the taxable benefit was made available to the shareholder. For example, where a corporation's taxation year ends on June 30, the GST/HST on a taxable benefit conferred on a shareholder in the 2011-2012 taxation year of the registrant is deemed to become collectible and to have been collected by the registrant on June 30, 2012.

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Including the GST/HST collectible in the net tax calculation ss 225(1)

47. The registrant is required to include the GST/HST deemed collectible and collected in its net tax calculation for the reporting period in which the amount was deemed collectible. For example, a registrant that files monthly will include the GST/HST on the shareholder's taxable benefits conferred in the registrant's 2011-2012 taxation year ending June 30, 2012, in its net tax calculation for the reporting period that includes June 30, 2012.

Registrant using a streamlined accounting method to calculate net tax

48. Registrants that use the quick method of accounting or the special quick method of accounting for public service bodies and registrant charities that use the net tax calculation for charities are required to remit 100% of any tax deemed collectible and collected under subsection 173(1). Registrants that use those methods to calculate their net tax generally only remit part of the tax that was collected or collectible.

Employee/shareholder reimburses employer/corporation for a taxable benefit

49. Where an employee or shareholder, or a person related to the employee or the shareholder, reimburses the employer or corporation that is a registrant for a taxable benefit, the registrant is deemed to have collected GST/HST equal to the tax fraction of the amount reimbursed. The registrant must include the GST/HST on this reimbursement in its net tax calculation for the reporting period that includes the date of the reimbursement.

### Enquiries by telephone

**Technical enquiries on the GST/HST:** 1-800-959-8287

**General enquiries on the GST/HST:** 1-800-959-5525 (Business Enquiries)

**If you are located in Quebec:** 1-800-567-4692 (Revenu Québec)

All technical publications on GST/HST are available on the CRA Web site at [www.cra.gc.ca/gsthstech](http://www.cra.gc.ca/gsthstech).

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## **Appendix A – Examples of common taxable benefits and the application of section 173**

For purposes of this appendix, it is assumed that any taxable benefit that arises is because of the application of paragraph 6(1)(a) or subsection 15(1) of the ITA. While the examples focus on the employer/employee relationship, the examples may also apply to taxable benefits for officers and shareholders and for persons related to these individuals.

Although the following discusses each element as a separate supply, as noted in paragraph 11, before it can be determined whether section 173 applies, it must first be determined in each particular case whether single or multiple supplies have been made and the nature of the supply or supplies which have been made. Also, in the case of multiple supplies, it must be determined whether one supply is incidental to the other.

### **Residential accommodation**

The provision of board (i.e., meals) and lodging (i.e., residential accommodation) is specifically listed in the ITA as a benefit derived from an office or employment and is considered a taxable benefit. This includes board and lodging regularly furnished as a requirement of the employment as is common for hotel employees and domestic farm help.

Where an employer provides a house, an apartment or similar accommodation to an employee, or a person related to an employee, rent-free or for a lower rent than the employee would have to pay someone else for such accommodation, the employee is considered to have received a taxable benefit.

The supply of residential accommodation may be an exempt supply or a supply subject to GST/HST. For a detailed discussion on the application of the GST/HST to residential accommodation, see GST/HST Memorandum 19.2, *Residential Real Property*.

If the supply of residential accommodation to the employee, or a person related to the employee, is an exempt supply, even though the supply to the employee is a taxable benefit, the registrant is not required to calculate the tax on the value of the taxable benefit to the employee.

Where a vacation property owned by an employer is used for vacation purposes by an employee or a person related to the employee, and there is a taxable benefit conferred on the employee under paragraph 6(1)(a) of the ITA, this benefit amount is subject to the GST/HST under section 173 where the supply of the property and services giving rise to this benefit amount is subject to GST/HST.

Section 173 does not apply when the supply of a vacation property is not made in Canada.

### **Travel benefits**

An amount received, or the value of a benefit received or enjoyed, by virtue of employment in respect of travel expenses (e.g., the cost of transportation, hotel accommodation, meals and entertainment) incurred by an employee or the employee's family may be a taxable benefit.

Where a registrant pays directly (i.e., is the recipient of the supply) for such things as transportation, hotel accommodation and meals for an employee, or for a person related to the employee, the registrant will be considered to have made a supply of such transportation, hotels and meals to the employee. As such, the registrant must determine if the supply is a taxable supply and whether the rules under section 173 apply to that supply.

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Where the registrant provides an allowance to, or reimburses, the employee for travelling expenses, the registrant has not made the supply of property or service. Consequently, section 173 does not apply to the allowance or the reimbursement. More information on the application of the GST/HST to allowances and reimbursements will be available in GST/HST Memoranda 9.3, *Allowances*, and 9.4, *Reimbursements*.

When an employee of an airline, or a person related to an airline employee, receives a taxable benefit arising from the use of an airline pass, provided the transportation pass is for a supply subject to the 5% GST or to the HST rate in effect in a particular province, the amount of the taxable benefit is subject to the GST/HST under section 173.

A passenger transportation service may be a zero-rated supply or a supply subject to the 5% GST or to the HST rate in effect in a particular province. For further information regarding the tax status of passenger transportation services, refer to GST/HST Memorandum 28.3, *Passenger Transportation Services*.

### **Loyalty points programs**

Under a loyalty points program, members can accumulate credits (points) that may be exchanged for air travel, hotel accommodation, electronic equipment and other property or services. When an individual accumulates such credits while performing duties in relation to the individual's employment, and uses those credits to obtain property or services for his or her personal use, or for the use of a person related to the individual, the value of the property or services is a taxable benefit. The tax status of the supply of the property or services depends on the nature of the supply.

Where an employer does not control the credits accumulated by an individual while travelling on such business trips, the employer is not required to estimate the value of these credits and include this amount in the individual's income as a taxable benefit. It will be the individual's responsibility to determine and include in income the fair market value of any benefits received or enjoyed. However, effective for 2009, the CRA no longer requires these employment benefits to be included in an employee's income so long as:

- the points are not converted to cash;
- the plan or arrangement is not indicative of an alternative form of remuneration; or
- the plan or arrangement is not for tax avoidance purposes.

Where an employer controls the points (e.g., a company credit card), the employer will continue to be required to report the fair market value of any benefits received by an employee on the employee's T4 slip when the points are redeemed.

In most cases, the supplier of the property or services under a loyalty points program will not be the employer of the employee or officer, or the corporation of which the individual is a shareholder. Where the supplier of the property or service has charged and accounted for the tax where applicable in respect of the supply in accordance with the usual requirements and the supplier did not know or could not reasonably have known that the supply gave rise to a taxable benefit, the provisions of section 173 will not apply to that supplier.

### **Non-cash gifts and awards**

The CRA's administrative policy regarding gifts and awards, which was introduced in 2001, allowed for the non-taxation of up to two non-cash gifts costing the employer in total \$500 or less, and the non-taxation of up to two non-cash awards costing the employer in total \$500 or less. Effective for 2010, that policy has changed. Non-cash gifts and non-cash awards to an arm's length employee, regardless of number, will not be taxable to the extent that the total aggregate value of all non-cash gifts and non-cash awards to this employee will be less than \$500 annually. The total value in excess of \$500 annually will be a taxable benefit to the employee. In

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addition, a separate non-cash long-service/anniversary award may qualify for non-taxable status to the extent that its total value is \$500 or less. The value in excess of \$500 will be a taxable benefit to the employee.

More information on the CRA's administrative policy regarding gifts and awards is available in the *Income Tax Technical News, No. 40*.

### **Non-cash gifts that are not taxable benefits**

Where a registrant provides an employee with a non-cash gift (other than an exempt or zero-rated supply) that is not required to be included in the employee's income for income tax purposes, section 173 does not apply.

Pursuant to subparagraph 170(1)(b)(ii), a registrant is entitled to claim an ITC in respect of the GST/HST paid or payable in respect of a gift where no amount was payable by the individual receiving the benefit and where no amount is required to be included in the individual's income under section 6 of the ITA.

### **Non-cash gifts that are taxable benefits**

If a registrant acquires, imports or brings into a participating province, property or services to give as gifts, and at the time of acquisition, importation or bringing in, the eventual use of the gift is undetermined, the registrant will be eligible to claim the ITCs for any tax paid or payable on the acquisition, importation or bringing in subject to the usual requirements. If, at a later date, the property or service is provided as a gift which gives rise to a taxable benefit, the registrant may be required to include in its net tax calculation the GST/HST deemed collectible and collected on the value of the gift, if the supply is not an exempt or zero-rated supply.

### **Prizes and incentive awards**

Where a prize or incentive award is property or a service that is neither an exempt nor a zero-rated supply, and the prize or award is a taxable benefit, the supply of the prize or award is subject to section 173, unless the registrant was not eligible to claim an ITC on the tax paid or payable on the prize or award under paragraph 170(1)(b).

Prizes and awards received in cash that are taxable benefits are not subject to section 173.

### **Tuition**

Where an employer has paid the tuition fees on behalf of an employee, it is a question of fact whether the employer was the recipient of the supply of the tuition, which the employer subsequently supplied to the employee, or whether the employee was the recipient of the original supply of the tuition. Where the employer paid the amount on behalf of the individual, or reimbursed the individual, the employer has not made a supply. As a result, section 173 will not apply.

Tuition may be an exempt supply or a supply subject to the 5% GST or to the HST rate in effect in a particular province. If there is a supply of tuition by the employer and this supply of tuition is an exempt supply, even though the supply to the employee is a taxable benefit, section 173 does not apply.

### **Cost of tools**

Generally, where an employer provides payment to, or reimburses, its employees to offset the cost of tools that the employees are required to have to perform their work, the supply constitutes a taxable benefit for income tax purposes.

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A reimbursement made to an individual, which results in a taxable benefit to that individual, is not subject to section 173. More information on reimbursements will be available in GST/HST Memorandum 9.3, *Reimbursements*. Where the employer pays for the tools, it is a question of fact whether the employer is the recipient of the initial supply of the tools and whether the employer subsequently supplies those tools to the employee or whether the employee is the recipient of the initial supply. Where the employee is the recipient of the initial supply, the employer has not made a supply. Therefore, section 173 does not apply.

### **Subsidized meals**

If an employee receives a subsidized meal that constitutes a taxable benefit under paragraph 6(1)(a) of the ITA, section 173 could apply to the value of the benefit. Section 170 may not apply to restrict ITCs on property or services purchased to make supplies of meals if the employer is acquiring the property or service generally for the use of employees, but not specifically for any particular employee.

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## **Appendix B – Ontario, British Columbia and Nova Scotia: Calculating the GST/HST on taxable benefits (other than automobile benefits) for the 2010 taxation year**

Because of the implementation of the HST in Ontario and British Columbia and the increase of the provincial part of the HST in Nova Scotia on July 1, 2010, the following rules apply for calculating the GST/HST deemed collectible by an employer when an amount is required to be included in an employee's income or by a corporation when an amount is required to be included in a shareholder's income for the 2010 taxation year.

### **Ontario**

The GST/HST deemed collectible by a registrant for the 2010 taxation year is equal to **8/108** of the total consideration for the taxable benefit

- where the benefit amount is required to be included under paragraph 6(1)(a) of the ITA in computing the employee's income from an office or employment and the last establishment of the employer at which the employee ordinarily worked or to which the employee ordinarily reported is located in Ontario; or
- where the benefit amount is required to be included under subsection 15(1) of the ITA (other than an automobile benefit) in computing the shareholder's income and the shareholder is resident in Ontario at the end of the year.

### **British Columbia**

The GST/HST deemed collectible by a registrant for the 2010 taxation year is equal to **7.5/107.5** of the total consideration for the taxable benefit

- where the benefit amount is required to be included under paragraph 6(1)(a) of the ITA in computing the employee's income from an office or employment and the last establishment of the employer at which the employee ordinarily worked or to which the employee ordinarily reported is located in British Columbia; or
- where the benefit amount is required to be included under subsection 15(1) of the ITA (other than an automobile benefit) in computing the shareholder's income and the shareholder is resident in British Columbia at the end of the year.

### **Nova Scotia**

The GST/HST deemed collectible by the registrant for the 2010 taxation year is equal to **13/113** of the total consideration for the taxable benefit

- where the benefit amount is required to be included under paragraph 6(1)(a) of the ITA in computing the employee's income from an office or employment and the last establishment of the employer at which the employee ordinarily worked or to which the employee ordinarily reported is located in Nova Scotia or in the Nova Scotia offshore area; or
- where the benefit amount is required to be included under subsection 15(1) of the ITA (other than an automobile benefit) in computing the shareholder's income and the shareholder is resident in Nova Scotia at the end of the year.



**Appendix C – Tax fractions used to determine the GST/HST deemed collectible on taxable benefits (other than automobile benefits)**

For each taxation year, the following chart provides the tax fraction used to calculate the GST/HST deemed collectible by a registrant for a taxable benefit (other than an automobile benefit) that arises by virtue of paragraph 6(1)(a) and subsection 15(1) of the ITA. For the purposes of this chart, “location” means

- where the last establishment of the registrant at which the employee ordinarily worked or to which the employee ordinarily reported in the taxation year is located; or
- where the shareholder resides at the end of the taxation year.

The GST/HST deemed collectible by the registrant on a taxable benefit (other than an automobile benefit) is equal to the tax fraction of the total consideration for the benefit.

Taxation year(s)	Location	Tax fraction of the total consideration
2006	<ul style="list-style-type: none"> <li>• Nova Scotia</li> <li>• New Brunswick</li> <li>• Newfoundland and Labrador</li> </ul>	13.5/113.5
	In non-participating provinces	5.5/105.5
2007	<ul style="list-style-type: none"> <li>• Nova Scotia</li> <li>• New Brunswick</li> <li>• Newfoundland and Labrador</li> </ul>	13/113
	In non-participating provinces	5/105
2008 and 2009	<ul style="list-style-type: none"> <li>• Nova Scotia</li> <li>• New Brunswick</li> <li>• Newfoundland and Labrador</li> </ul>	12/112
	In non-participating provinces	4/104
2010	Ontario	8/108
	Nova Scotia	13/113
	British Columbia	7.5/107.5
	<ul style="list-style-type: none"> <li>• New Brunswick</li> <li>• Newfoundland and Labrador</li> </ul>	12/112
	In non-participating provinces	4/104
2011 and subsequent years	<ul style="list-style-type: none"> <li>• Ontario</li> <li>• New Brunswick</li> <li>• Newfoundland and Labrador</li> </ul>	12/112
	Nova Scotia	14/114
	British Columbia	11/111
	In non-participating provinces	4/104