Employer’s Guide to Taxable Benefits
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Overview

This guide is designed to provide employer's with an understanding of the rules and regulations surrounding taxable benefits and the implications of providing employees with non-cash payments.

This guide is separated into the following sections:

- Taxable Benefits
- Benefits and Taxes
- Reporting Taxable Benefits

Although there are many different types of benefits that could be deemed taxable by The Canada Revenue Agency, we have included the majority of the common benefits in this guide.

The information contained herein is intended for reference purposes only, when a question arises, you should always consult the appropriate CRA Guides or other resources as may be necessary.

This guide is divided into sections for each relevant topic. The Table of Contents references are active links, in other words, if you click on a line in the Table of Contents, it will take you to that page.

Sections of this manual may refer to Interpretation bulletins, CRA tax guides, Forms and other materials. When possible, a referred guide or form may be accessed by clicking on the referenced hyperlink. These links in most cases will refer you to a web page; therefore, your Internet connection should be active. Example link: [CRA Interpretation Bulletin IT-221R3](#)
Taxable Benefits
(see CRA Guide T4130)

Taxable benefits in general include any expenses paid by the employer on behalf of the employee, or any goods or services provided by the employer to the employee. The basic intent of the rule is to prevent employers from paying their employees with goods and services and avoiding income tax.

The rules do allow for certain expenses to be paid for or provided to the employee on a tax-free basis. Generally, these are expenses incurred in the course of carrying out the employer's business.

The following is a list of the more common taxable and non-taxable benefits. The listing is not all-inclusive. If you have questions regarding the tax treatment of employer provided goods and services, apply the basic rules regarding taxable benefits and see the CRA guide noted above.

In the event of a payroll compliance audit by CRA, Taxable Benefits and the proper reporting of the benefits will be one of the primary focuses of the auditor.

Taxable Benefits:

- Free board and lodging or lodging provided at unreasonably low rates
- Rent free or low rent housing
- Personal use of employer's automobile
- Personal or living expenses paid for or allowances provided for such
- Automobile expenses paid by employer on behalf of the employee
- Holiday trips, prizes, incentive awards
- Tuition fees, scholarships and bursaries
- Group life insurance premiums
- Interest free or low interest loans
- Employee stock option plans - give rise to a taxable benefit when shares disposed of or options exercised
- Business frequent flyer points used for personal travel or other personal gain.

Non-taxable Benefits:

- Reasonable travel allowance - allowances could include a per km rate, a per diem rate for meals and hotels. For a mileage allowance to be considered reasonable it must be based on business km, supported by a travel log, and no other reimbursement is provided. The employee can deduct expenses incurred in excess of the allowance provided.
- Reimbursement of actual travel expenses incurred
- Merchandise discounts on items ordinarily sold by the employer
- Uniforms or special clothing or the cleaning of such
- Recreation facilities if provided to all employees
- Social or athletic club fees if it is to the employer's business advantage
- Director's liability insurance
- Moving expenses - there are restrictions on the reimbursement of a loss on the sale of the residence
- Employer's contribution to pension plans
- Special exceptions exist with regards to special work sites or remote locations and Northern residents
- Health Plan premiums such as medical or dental
- Disability Plan premiums - the employees can choose to include a taxable benefit for disability plan premiums paid and then any payments received would be tax free.
- Tuition when incurred for the benefit of the employer. Under new rules applicable to 1997 and subsequent years, courses taken for the maintenance or upgrading of employee skills where it can be reasonably assumed that the employee will return to work are not taxable benefits. In-house training,
stress management, first aid, language skills and employment equity courses are generally not considered a taxable benefit.

- Counselling fees - Group counselling or counselling in respect of:
  - Employee's physical or mental health
  - Re-employment counselling
  - Retirement counselling

Automobile Benefits

The most common benefit arises from an employee's personal use of the employer's automobile or when the employer on behalf of the employee pays automobile expenses. This is also an area that is frequently audited by Canada Revenue Agency so you should have a good understanding of the tax consequences related to this situation. When an employer provides the employee with the use of a vehicle two types of benefits can arise:

- Standby charge
- Operating benefit

For calculating taxable benefits relating to automobiles, see the ‘Automobile Taxable Benefits Calculator’ on the Course CD, or the CRA, T4143 Tables on Diskette.

Standby Charge

The standby charge is the taxable benefit related to the fact that the employer has made an automobile available to the employee. The employee must also have possession of the automobile.

For example, Harry is required to make service calls on his job so his employer purchased a company car. Harry drives his own car to work then uses the company car during business hours, leaving the company car at the office and driving his own car home after work. In this case, no taxable benefit arises, as Harry does not have the company car available to him for personal use.

If Harry's employer gave Harry the car to take home and Harry kept the car at his residence when not at work, there would be a standby charge related to the automobile. Certain vehicles are exempted from the standby charge even if the employee has possession of the vehicle where the vehicle is designed primarily for the purpose of producing income. Examples include buses, hearses, certain pick-up trucks or vans, and ambulances.

Personal use includes, vacations or trips taken not relating to the individuals employment, travel to and from the individual’s place of employment (even if the employer obligates the individual to take the vehicle home), unless the individual takes the vehicle from home directly to a work site or a customer's location, or goes from a work site or customers location directly to their home.

Operating Benefit

The operating benefit is the taxable benefit that arises when the employer pays the operating costs relating to an automobile that is available for personal use. Operating costs include virtually all expenses associated with an automobile such as gas, oil, repairs, tires, licensing and insurance. The operating cost benefit must be calculated for all employees if the employee does not reimburse the company for personal operating costs within 45 days of the end of the calendar year.
Calculating the Benefit

Requirements – If the employee is provided with a vehicle for their personal use you must complete the stand-by benefit calculation, otherwise it is only necessary to complete the operating cost benefit calculation.

Simplified method vs. detailed calculation – The simplified method of calculation can only be used when all of the following conditions are true:

- The vehicle provided to the employee is owned by the company
- The employee used the same vehicle throughout the year
- The company is not in the business of selling or leasing vehicles
- The employee does not meet the requirements for the reduced stand-by charge

Reduced Stand-by charge requirements – The employee is only eligible for the reduced stand-by charge if all of the following conditions are met:

- The employee is required to use the vehicle to perform their duties
- The employee uses the vehicle more than 50% of the time for business purposes
- The kilometers for personal use do not exceed 20,004 per year

Standby charge reduction – If the employee uses the vehicle more than 50% of the time for business use and the personal use is not in excess of 1,667 km per month (20,004 km per year, the standby charge is reduced.

Cost of the vehicle – includes the purchase price of the vehicle including any accessories, plus all taxes (GST, PST, HST etc), plus the cost of additions or modifications to the vehicle.

Leasing Costs – includes the monthly lease amount plus all taxes, plus any other incidental charges such as excess mileage costs, excess wear costs, and other fees levied by the leasing company.

Operating Costs – include any costs relating to the operation and maintenance of the vehicle, including:

- Fuel and Oil
- Repairs and Maintenance
- License and Insurance

If an employee makes any reimbursements during the year to the employer for the purpose of offsetting or reducing the operating costs or the stand-by charges, the reimbursement amounts are used to reduce the amount of the taxable benefit.
Calculating the Standby Charge

**Simplified Method** – (Cost of the vehicle X 24%) – (amounts reimbursed by the employee for standby charges)

**Detailed Method** – This is a multiple step process, requiring a number of calculations:

(A) Determine the cost or lease cost of the vehicle
    a. If the vehicle is owned by the employer, A= Cost X 2%
    b. If the vehicle is leased by the employer, A= Monthly lease X 2/3

(B) Determine the number of 30-day periods that the vehicle was available to the employee (rounded to the nearest whole number).

(C) Calculate the standby charge reduction (if applicable)
    a. Number of days available to the employee / 30
    b. Number of personal km driven by employee during the year divided by a.
    c. Result from b. divided by (result from a. X 1,667)

(D) Standby Charge equals (A) X (B) X (C)

**Example Calculation**

*Harry has the use of a company vehicle that is owned by the company, and uses the vehicle for personal trips.*

- The vehicle is owned, purchase cost was $35,000
- Harry had the vehicle all year
- Harry drove 30,000 km during the year, 10,000 for personal trips

(A) equals (35,000 x 2%) = 700
(B) equals (365 / 30) = 12
(C) equals (10,000 / (12 x 1,667)) = 0.50
(D) equals (700 x 12 x 0.50) = $4,200

This is a very complicated calculation and will require some practice before you become comfortable with the concept. It is however usually the best way to calculate taxable benefits for vehicles.

**Note:** When there is a taxable benefit relating to vehicles, it is imperative that the employee/employer maintain a vehicle mileage log. Without a detailed log, CRA may estimate the personal use portion and assess the employee based upon their estimates.

**A Sample Log:**

<table>
<thead>
<tr>
<th>Date</th>
<th>Beginning Mileage</th>
<th>Ending Mileage</th>
<th>Total Distance</th>
<th>Destination</th>
<th>Fuel / Oil Purchases</th>
<th>Notes:</th>
</tr>
</thead>
<tbody>
<tr>
<td>08-12-04</td>
<td>31,250</td>
<td>31,385</td>
<td>135</td>
<td>ABC Company</td>
<td>$35.00</td>
<td>Meeting to promote new widgets</td>
</tr>
<tr>
<td>08-14-05</td>
<td>31,612</td>
<td>32,435</td>
<td>823</td>
<td>Toronto</td>
<td>$82.00</td>
<td>Trade Show at Convention Center</td>
</tr>
<tr>
<td>12/31/04</td>
<td>958</td>
<td></td>
<td></td>
<td></td>
<td>$117.00</td>
<td>Total Business mileage</td>
</tr>
<tr>
<td>01/01/04</td>
<td>26,452</td>
<td>32,435</td>
<td>5,983</td>
<td></td>
<td></td>
<td>Total Mileage for year</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>5,025</td>
<td></td>
<td></td>
<td>Total Personal Use</td>
</tr>
</tbody>
</table>
Calculating the Operating Cost Benefit

**Basic Calculation** – is equal to the personal use mileage times the CRA Rate for the year. In 2004, the rate was equal to $0.17 per kilometer. From this value, subtract any amounts reimbursed by the employee relating to the operating costs benefit.

**Optional Calculation** – Can only be used when the employee uses the vehicle more than 50% of the time for business use. (this method is not recommended, as it will generally result in a higher taxable benefit for the employee).

Formula = (Standby Charge – Reimbursements paid by employee) X 50%

Calculating the Total Benefit

The total benefit is equal to:

Standby Charge + Operating Cost Benefit

The resulting amount is recorded on the employee’s T4 form at the end of the year OR on a T4A form if the individual is a Shareholder and not an employee.

Automobile Allowances

An Automobile allowance is an amount paid to an individual that uses their own personal vehicle in carrying out their duties in connection with their employment. Automobile allowances, unlike use of a company vehicle for personal purposes, can be either taxable or non-taxable depending upon the amount and reason for the allowances.

**Reasonable per Kilometer Allowances**

Reasonable amounts paid to an employee for mileage, are neither taxable (EI, CPP, Tax) nor are the amounts included in income on the individual’s T4 at the end of the year. An allowance paid to an individual will be considered reasonable only if all of the following conditions are true:

- The allowance is based solely upon the number of kilometers driven for Business purposes during the year
- The rate paid per kilometer is reasonable
- The employee was not reimbursed for the expenses in another way, for example the business did not pay the employee for fuel during the year.

‘Reasonable Rate’ is set each year by CRA and may vary by jurisdiction (See the Quick Reference Guide for rates)

**Unreasonable per Kilometer Allowances**

When an amount is paid to an employee and CRA considers it to be unreasonable because the amount is either too high or too low, the amount of the allowance must be included as a taxable benefit in the employee’s income and reported on their T4 at year-end.

There is a small exception to this rule however, if the allowance paid to the employee is unreasonably low, it does not have to be included in the individual’s income, providing the individual does not claim any vehicle related employment expenses on their personal tax return. This is not a recommended treatment as the actual operating expense of the vehicle would generally be greater than the amount of the allowance paid by
the employer, and as such, should the individual claim the employment expenses on their personal tax return, they could reduce their net taxable income.

**Flat Rate Allowances**

When an amount is paid to an employee as a ‘flat amount’, meaning they receive an amount with no real justification, such as kilometers driven, this allowance is taxable and must be included in the individual's income as a taxable benefit.

The individual would likely be entitled to offset some or all of the allowance by claiming vehicle related employment expenses on their personal tax returns.

**Combined Allowances**

When an individual is paid a combination of a per kilometer allowance, whether or not it is a reasonable amount, and a flat rate amount, the entire amount paid to the individual is taxable and must be included in income for the individual. This is providing that the payments are made for the same use of the vehicle.

For example:

*Harry is paid $200 per month to cover the fixed operating costs of his personal vehicle (lease cost, insurance etc.) and is paid $0.25 for each kilometer driven to offset the operating costs of the vehicle (fuel, maintenance etc.)*

As both amounts above relate to the same use, the entire amount paid would be included in income for Harry.

**Example 2**

*Harry is paid $300 per month for travel inside his regular employment area, and an additional $0.35 per kilometer driven each month outside of his normal area of work.*

*These amounts relate to different use, therefore the $300 per month would be included in income for Harry, but the $0.35 per kilometer reimbursement would not be.*

*Harry would likely be entitled to offset some or all of the allowance by claiming vehicle related employment expenses on their personal tax returns.*
Board and Lodging

There are several types of benefits for board and lodging benefits that could apply to an individual.

**Free Board and Lodging** – The employer provides free meals and lodging to an individual in the course of employment. The amount to be included in income as a taxable benefit for the employee is the Fair Market Value of the meals and accommodations provided to the individual. Fair Market Value is the amount another individual could reasonable expect to pay for similar meals and accommodations.

**Subsidized Board and Lodging** – The employer pays a portion of the cost of the meals and lodging to an individual. The amount to be included in income as a taxable benefit for the employee is the Fair Market value of the meals and accommodations provided to the individual less any payments the employee made towards the cost of the benefit.

**Subsidized Meals** – If an employer provides their employees with meals in a cafeteria, lunch or dining room, the meals are not a taxable benefit providing the employee pays a reasonable cost for the meals. A reasonable cost is a fee that covers the cost of the food, its preparation and service. If the employees do not pay a reasonable cost, the amount of the benefit is equal to the Fair Market Value of the cost of the food, its preparation and service. If GST/HST applies to the meal, the tax must be included in the value of the benefit.

**Overtime Meal Allowances** – If an employer provides meals or a reasonable allowance to employees for overtime meals, there is no taxable benefit component if the following conditions are met:

- The employee works three or more additional hours immediately following their regularly scheduled shift
- The overtime is occasional, occurring less than 3 times per week and infrequent

If the overtime becomes regular, occurring more than twice per week, the meal allowance or meals provided by the employer would be considered a taxable benefit and must be included in the income of the individual at the Fair Market Value.

**Remote Location or Special Work Site** – The employer pays for all or a portion of the cost of board and lodging for an individual working at a site that is not their normal place of employment and is not within reasonable commuting distance to their home. The value of the board and lodging at a remote work site or special location is not a taxable benefit if all of the following conditions are met:

- The employee worked at a remote site or location and the work was temporary
- The employee maintained at another location their own personal residence that was:
  - Available to the employee during the period of employment at the remote site
  - The employee did not rent or otherwise earn income from their personal residence during the period
  - The employee could not reasonably be expected to travel to and from their residence each day during the period.
- The temporary work lasted for a period of at least 36 hours including travel to and from the location to the individual’s normal place of residence
- The employee’s duties required them to be away from their normal place of residence and to be at the work site.
Counselling Services

An employer that pays for an individual’s counselling related to personal financial management or for the preparation or advice relating to income tax are considered to be taxable benefits and must be included in the income of the individual, including any GST/HST component of the benefit provided.

Counselling services are not considered taxable benefits when they are for:

- The physical or mental health of the employee or a person related to the employee, services may include:
  - Stress Management Counselling
  - Addiction or substance abuse counselling
  - Grief or trauma counselling
- Employment counselling, relating to re-employment opportunities
- Retirement counselling

Disability Related Employment Benefits

Benefits provided for individuals with a disability to assist them with their employment are not generally taxable providing the individual qualifies as disabled under the Income Tax Act. A brief definition of disabled is an individual whom is:

“Legally Blind or has a severe or prolonged mental or physical impairment which markedly restricts the individuals ability to perform the basic activities of daily life”

A severe or prolonged mental or physical impairment is a situation where the restriction prevents the individual from performing the basic activities of daily life. These activities are defined as:

- Perceiving, thinking or remembering
- Feeding or dressing oneself
- Speaking or communicating with others, so as to be understood
- Hearing, so as to understand what others are communicating
- Sight
- Waste elimination (bowel or bladder functions)

Benefits for an individual meeting this criteria would not be taxable and could include:

- Transportation to and from the individual’s place of residence including parking near the place of employment
- Costs of Taxis or special Public Transit required to transport the individual to and from their residence to the place of employment
- Attendants and coaches to assist the individual in their employment
- Readers provided for persons that are blind
- Sign Language interpreters provided for persons that are deaf

If in doubt of the employees status as ‘disabled’ it would be advisable to obtain the individual’s consent and contact CRA for a ruling.
Discounts on Products, Services or Merchandise

If an employee is entitled to receive discounts on products, services or merchandise available from their employer, the discounts are not taxable providing:

- The discount is not part of an arrangement made with the employee or a group of employees to purchase merchandise at a discount
- The discount does not allow an employee to buy merchandise at less than the cost of the merchandise to the employer
- There is not a reciprocal arrangement between 2 or more employers that allow the employees of each business to buy products, merchandise or services from other businesses at a discount

If an employer does provide an employee with goods or services at a price below cost, the taxable benefit is calculated as the Fair Market Value of the goods or services minus the price the employee paid plus GST/HST if applicable.

Commissions an employee receives for goods they purchase for personal use, whether at a discount or not, are not taxable and should not be included in income.

Commissions on insurance policies that a person purchases for themselves is not taxable providing the individual make the premium payments

Educational Allowances for Children

If an individual receives an allowance from their employer to assist with the cost of education for the individual’s child, the allowance is a taxable benefit and must be included in the income of the individual.

The education allowance may not be taxable if the employee has to live in a specific location because of the requirements of their employment and educational instruction is not available in the individual’s primary language. For the allowance to be non-taxable, the educational institution must provide instruction in one of Canada’s official languages.

Gifts and Awards

A policy change by CRA came into effect in 2001 that removed the requirement of determining the Fair Market Value of small gifts or awards presented to employees. The policy however does not apply to cash or near-cash gifts and awards. A near-cash gift is one that is readily converted to cash, for example a gift certificate with a face value of $100 at a local restaurant would be a taxable benefit.

The change in policy provides the following:

- To mark special occasions such as Christmas etc., an employer can give an individual two non-cash gifts per year
- To recognize employee achievements or personal special occasions such as Birthdays or Anniversaries, an employer can give an individual two non-cash gifts per year

To qualify for exclusion from income under the above rules, the gifts and awards must meet the following criteria:

- The TOTAL cost to the employer including taxes for the 2 gifts or 2 awards cannot exceed $500 per year
If the gift or award qualifies for the exclusion, the amount is not required to be reported as employment income.

If the gift or award costs the employer $500 or more, the employer must include the Fair Market Value of the gift or award as employment income for the individual.

If the employer gives 2 or more awards or gifts to an employee in a single year and the combined value of the gifts or awards exceeds $500, then the Fair Market Value of one or more of the gifts must be included as employment income for the individual.

**Group Term Insurance Premiums**

Premiums that are paid by an employer on behalf of their employee’s for Term Life Insurance under a Group Insurance plan are taxable to the employees. Formerly this legislation applied only to insurance policies that had a payment value in excess of $25,000 upon the death or disability of an employee, however CRA changed the rule to include the premiums paid for a policy of any value.

The value of the benefit is the total of the premiums paid for the Term Insurance (Including Term Life Insurance) plus any applicable sales taxes that have been paid, less any amounts paid directly or indirectly by the employee.

- Premiums paid for accidental death or dismemberment is not included in the benefit calculation.
- Premiums paid on behalf of current employees are reported on the individual’s T4 at year-end however; premiums paid on behalf of former employees (retirees etc.) are reported on a T4A for the individual.
- If the employee pays the full value of the premiums for Term Insurance or Term Life Insurance in whole, there is not taxable benefit.

**Low Rent or Free Housing**

If an employer provides an individual with housing, either with a low rental amount or free, the employee is receiving a benefit that is taxable. This includes an individual that is employed as an apartment superintendent if they are living in one of the rental units.

Any utilities or portion of the utilities (hydro, water, gas etc.) paid by the employer are also taxable benefits to the employee.

**Calculating the Benefit Amount**

If the employer pays the individual a ‘cash’ allowance for housing and utilities, the cash amount paid is the taxable benefit.

If the individual is not paid cash for the housing and utilities, the benefit is equal to the Fair Market Value of the housing provided plus the Fair Market Value of the utilities minus any amounts paid directly by the employee. The Fair Market Value of the housing is equal to the amount another individual would pay for the same or similar accommodations.

When the housing or utilities are provided in areas within ‘Prescribed Zones’ special rules may apply to the benefit calculation. A Prescribed Zone is generally an area of Northern Canada with sparse population or limited access. See CRA Guide T4039, Northern Residents Deductions – Places in prescribed zones for more information and the calculation details.
**Interest Free and Low-Interest Loans**

When an employer provides an employee, officer, director or shareholder of a Corporation a loan with low-interest or no interest, there will be a taxable benefit component to the loan.

The value of the benefit is the amount of interest that would have been paid on the loan at the Prescribed Interest Rate minus the actual amount of interest paid by the individual. The Prescribed Interest Rate is determined by CRA each quarter. Should the employer incur an interest charge from a third party lending institution in direct relation to the employee's loan, the interest paid by the employer to the third party is also added to the taxable benefit amount assigned to the employee.

The proceeds of the loan may be received either directly or indirectly by the employee, and include amounts owed by the employee for items purchased from the employer and remaining unpaid at the end of the year.

**Example:**

*Harry borrows $10,000 from his employer to make repairs to his home, the employer does not charge Harry interest, but borrows $5,000 of the money from the Bank at 5% interest for 12 months. CRA has established the Prescribed Interest Rate as 3% for the taxation year. Harry will repay the loan in 24 installments.*  
*(note: we have used the Loan Amortization Schedule on the Course CD for these calculations)*

(A) The taxable benefit is equal to the interest that would have been paid by Harry if the company charged him the 3% Interest as prescribed by CRA

(B) The interest the company paid on the loan from the bank

\[
\begin{align*}
A &= $232.65 \\
B &= $136.45 \\
\end{align*}
\]

Therefore, the taxable benefit allocated to Harry would be $369.10

**Home Purchase Loans**

An employee that receives a loan to purchase a home or to repay another loan attached to their home, will incur a taxable benefit in the same fashion as the loans described above, however, the taxable benefit should not be calculated using a rate that is higher than the prescribed interest rate in effect at the time the employee incurs the debt.

Any balance remaining on a Home Purchase Loan after 5 years is to be treated as a new loan, using the remaining balance of the previous loan as the new beginning balance. The prescribed interest rate for the following 5 years then becomes the rate in effect at this time.
Home Relocation Loans

An individual that is loaned money to relocate for the purposes of employment when the individual meets all of the following conditions:

- The employee or their spouse (common-law) partner move to start work at a new location within Canada
- The proceeds of the loan are used to buy a residence that is at least 40km closer to the new work location than their previous home
- The individual or their spouse receives the loan because of their employment
- The individual designates the loan as a Home Relocation Loan

The taxable benefit component is calculated the same as other loans, but is reported differently at year-end because an individual may make a claim for a benefit reduction on their personal tax return when they file it.

For More information on Loans and Interest, see CRA IT-421, Benefits to Individuals, Corporations and Shareholders From Loans or Debt

Medical Expenses

When an employer pays medical expenses on behalf of an employee, the amount paid is considered a taxable benefit. The list of items considered to be medical expenses by CRA is extensive, generally however, medical expenses can include:

- Professional fees – Chiropractors, Counsellors, Naturopaths, Therapists, Dentists
- Prescription drugs and medical supplements
- Medical Devices – Walking aids, hearing aids, blood pressure monitors etc.

For a more detailed list of expenses considered to be ‘Medical’, see CRA IT Bulletin IT519, Medical Expense and Disability Tax Credits and Attendant Care Expense Deduction.

Although the majority of medical expenses would not normally include GST/HST, if the services or devices paid for by the employer included GST/HST, then the amount of the GST/HST would be included in the taxable benefit calculation.

Moving Expenses and Relocation Expenses

When an employee is obligated to move by their employer and the employer subsequently reimburses the individual for the expenses they incurred, the amounts reimbursed are generally not taxable. The cost of moving the employee, their family and the personal effects of the family members can be included in the reimbursement without tax implications. Similarly, moving an employee to or from a remote work site and reimbursing the individual for the expenses they incur, can be done without tax implications.

Non Accountable Allowances

An employer can pay an individual that must move for employment reasons, an allowance of up to $650 without tax implications. For CRA to allow this treatment, the employee must certify in writing, that they did in fact incur expenses for moving of at least $650. If the employee is given an amount in excess of $650 for unaccountable expenses, only the amount in excess of $650 is considered to be a taxable benefit, providing the individual can substantiate in writing that they incurred expenses in excess of the $650 base amount.
Moving Expense Summary, Taxable vs. Non-taxable

The following chart illustrates the benefits related to moving that are considered by CRA to be non taxable.

<table>
<thead>
<tr>
<th>Non-Taxable when Reimbursed by Employer</th>
</tr>
</thead>
<tbody>
<tr>
<td>House Hunting trips to find a new residence</td>
</tr>
<tr>
<td>Travel costs for the move including reasonable meal expenses</td>
</tr>
<tr>
<td>Cost of transporting household effects</td>
</tr>
<tr>
<td>Cost of moving other personal items; boats, trailers, RV’s etc.</td>
</tr>
<tr>
<td>Utility disconnect and cancellation fees</td>
</tr>
<tr>
<td>Lease Cancellation Fees</td>
</tr>
<tr>
<td>Cost of selling former residence including legal, real estate and other related fees</td>
</tr>
<tr>
<td>Charges for connecting and establishing utilities at the new residence</td>
</tr>
<tr>
<td>Alterations and changes to furniture or other equipment to accommodate it within the new residence</td>
</tr>
<tr>
<td>Vehicle license fees, changes to registration etc., if necessary</td>
</tr>
<tr>
<td>Legal fees and land transfer taxes to purchase new residence</td>
</tr>
<tr>
<td>Cost of change of address notifications and any other legal requirements</td>
</tr>
<tr>
<td>Reasonable temporary living expenses (up to 15 days) while waiting for the new residence to be ready</td>
</tr>
<tr>
<td>Long distance phone charges related to the sale of the former residence</td>
</tr>
<tr>
<td>Amounts paid to maintain the former residence while attempting to sell it, including utilities, maintenance, taxes etc.</td>
</tr>
<tr>
<td>Bridge Financing costs, and mortgage cancellation penalties if incurred</td>
</tr>
</tbody>
</table>

If the expense is not listed above, it is generally considered to be a taxable benefit and must be included in the individual’s income, however, if the individual is reimbursed for a loss incurred on the sale of their home, only ½ of the amount of the loss in excess of $15,000 is taxable.

For example:

John was obligated by his employer to move from Toronto to Edmonton. He sold his home in Toronto and realized a loss of $35,000. His employer reimbursed him for the entire amount of the loss.

His taxable benefit is calculated as:

\[(\text{Loss Amount} - $15,000) \times \frac{1}{2} = (\$35,000 - $15,000) \times \frac{1}{2} = \$10,000\]

For more information relating to Moving and Relocation expenses, see CRA IT Bulletin, IT-178 Moving Expenses.
**Municipal Officers Expense Allowance**

Employee’s of Municipal Corporations or Members of Municipal Boards, may be paid an expense allowance without tax implications providing the allowance does not exceed 1/3 of their base salary. Any amount in excess of the 1/3 limit must be included in the individual’s income for the year. The amount of the allowance if not in excess of the limit must still be reported on the individual’s T4 at year-end, however in box 70 instead of box 40.

For more information relating to Municipal Officers expense allowances, see CRA IT Bulletin, **IT292 Taxation of Elected Officers of Incorporated Municipalities, School Boards, Municipal Commissions and similar bodies**.

**Parking Provided by an Employer**

If an employee is provided with parking by their employer, there is usually a taxable benefit consequence. The benefit is calculated as the Fair Market Value of the parking, should another individual be required to pay to park in the same place, including any GST/HST component.

Parking provided by an employer is not a taxable benefit when:

- The parking is in a shopping center or industrial parking lot and both employees and non-employees have access to the parking (without costs)
- The parking is provided to all employees in a scramble format. Scramble means that there are fewer spaces provided than needed and the parking is awarded on a first come first served basis.
- When provided as a benefit to a disabled person (see Disability Related Benefits Section) for more information.

**Premiums for Private Health Services Plans**

Premiums paid for Health Plans, with the exception of any Term Life Insurance component are non-taxable benefits and as such are not included in the income of the individual.

For Example:

*Michelle works for YYZ Transportation Services and is covered by the Group Insurance Plan. The cost of her benefit coverage is:*

- **Medical (Prescription Drugs)**: $50.00 per month
- **Dental**: $40.00 per month
- **Short Term Disability**: $10.00 per month
- **Life Insurance**: $5.00 per month
  
  **$105.00**

Although the insurance coverage cost’s the employer $105 per month, only $5 per month would have to be included in Michelle’s income as a taxable benefit.

If the premium costs cannot be determined, it is important to contact the insurance carrier to obtain the correct information. If you cannot substantiate the amounts, CRA could estimate the amount of benefits.
**Premiums for Provincial or Government Health Plans**

An employer that pays the Provincial Health Care Premiums on behalf of their employees, must report the amount paid as a taxable benefit and include it in the income of the individual. An employer that pays premiums on behalf of retired employees must also report the amount paid as a taxable benefit on the individual's T4A.

The taxable benefit application does not apply to payroll health taxes levied on the employer, such as the Employer’s Health Tax in Ontario and the Health Services fund in Quebec.

*Note: The Ontario Health Tax introduced July 1st, 2004 is not a taxable benefit, nor does the employer pay it. The health tax is paid entirely by the employee and is included in the Provincial Tax calculations.*

Amounts paid by the Federal Government for health care premiums on behalf of its employees are also considered a taxable benefit and must be included in the income of the individual.

**Professional Membership Dues**

Employers regularly pay for their employee’s membership in professional organizations; the problem is determining when the payments constitute a taxable benefit and when they do not. The position of CRA is that a taxable benefit occurs when the membership is of no real benefit to the employer. The question is, “Who is the Primary Beneficiary?”

The Primary Beneficiary is whoever benefits most from the membership. If the employer is the primary beneficiary, there is no taxable benefit to the employee. If however, the Primary Beneficiary is the employee, there is a taxable benefit equal to the amount paid by the employer.

**For Example:**

*Jessica is a Chartered Accountant as is employed as the Chief Financial officer of ABC Corporation. One of the qualifications of being the CFO is to be a Chartered Accountant. ABC Corporation pays Jessica’s membership fees.*

*In this situation, ABC Corporation could argue that they are the Primary Beneficiary, (Jessica has to be a CA to hold the position) and therefore no taxable benefit is assigned to Jessica.*

**Example 2:**

*Jason holds a CMA designation and is employed in Customer Service at ABC Corporation. Customer Service employees do not need an accounting designation as a condition of their employment. ABC Corporation pays Jason’s membership fees.*

*In this situation, Jason is the Primary Beneficiary and as such when ABC Corporation pays his membership fees, a taxable benefit occurs.*
Recreational Facilities, Fitness Club Memberships

When recreational facilities such as swimming pools, fitness clubs, gymnasiums etc., are provided to employees, the provision of the facilities could be a taxable benefit, however, in some cases the employee incurs no taxable benefit.

Recreational facilities are taxable benefits when:

- A group of employees are provided access to the facilities at a reduced amount or free, when other employees have to pay the full amount.

The benefit amount is the full fee for the use of the facilities less any amount reimbursed by the employee, including GST/HST.

The facilities are not taxable when all employees are entitled to use the facilities for free.

If an employee is provided with meals, accommodations or both at a property owned by the employer, the fair market value of the meals and accommodations must be assigned to the employee as a taxable benefit.

Club Membership Dues:

If an employer pays for individual’s dues for a Social Club or an Athletic club, the dues paid are a taxable benefit to the employee unless the employer can prove that the membership in the club is mainly for the advantage of the employer. GST/HST must be included in the calculation of the benefits.

Registered Retirement Savings Plans

Contributions made to an employee’s RRSP by an employer are a taxable benefit, however, there is special treatment required for tax purposes. An RRSP taxable benefit is not taxable for Federal or Provincial Income Tax, providing the employer can reasonably believe that the individual is entitled to deduct their RRSP contributions on their current year tax return. The contributions made to the RRSP must be reported on the individuals T4 and included in income for the year.

For example, when calculating tax on most other benefits, the amount of the benefit is added to the individual’s income for the period, and then the total amount is used for calculating income tax. With an RRSP contribution, the amount of the benefit is added for EI/CPP purposes only.

Travelling Expenses for a Spouse

When an employer pays for or reimburses an individual for expenses relating to travel for their spouse, a taxable benefit occurs unless the employer can reasonably prove the that spouse had to travel at the request of the employer and was engaged in business related activities for the majority of the trip.

For example, Sarah travels to Las Vegas with her husband Harry and spends all of her time sightseeing but has dinner one evening with other employees of Harry’s company. When Harry’s employer reimburses Harry for the cost of Sarah traveling to Las Vegas, a taxable benefit has occurred.

Change the circumstances a little; Sarah spends 3 of the 4 days attending business related seminars and training sessions with Harry. The travel costs are now not a taxable benefit.
Stock Options

A taxable benefit relating to stock options become available to an employee if any one of the following occurs:

- A Corporation agrees to sell or issue shares to its employees
- When a Mutual Fund Trust grants options to employees to acquire trust units

The benefit is the difference between the Fair Market Value of the shares acquired by the employee and the amount paid by the employee (including any acquisition costs).

Stock options can involve very complex calculations and potentially, an employee could defer the accrued benefit of the options. See CRA IT Bulletin IT113 – Benefits to Employees, Stock Options for more information.

Subsidized Meals

If an employer provides their employees with meals in a cafeteria, lunch or dining room, the meals are not a taxable benefit providing the employee pays a reasonable cost for the meals. A reasonable cost is a fee that covers the cost of the food, its preparation and service. If the employees do not pay a reasonable cost, the amount of the benefit is equal to the Fair Market Value of the cost of the food, its preparation and service. If GST/HST applies to the meal, the tax must be included in the value of the benefit.

Overtime Meal Allowances – If an employer provides meals or a reasonable allowance to employees for overtime meals, there is no taxable benefit component if the following conditions are met:

- The employee works three or more additional hours immediately following their regularly scheduled shift
- The overtime is occasional, occurring less than 3 times per week and infrequent

If the overtime becomes regular, occurring more than twice per week, the meal allowance or meals provided by the employer would be considered a taxable benefit and must be included in the income of the individual at the Fair Market Value.

Subsidized School Services

When public school is not available to the children of employees, and the employer provides the educational services, there is no taxable benefit incurred. Generally, this would only happen if the employee is required to work in a remote location where there are no public schools available. This does not include Educational Allowances for Children, as discussed previously.

Transportation to/from the Workplace

When it is a question of security, or in some instances legislated under the Employment Standards Act, an employer that provides transportation to an employee is not required to record the value of the transportation as a taxable benefit.

Similarly, if it is not practical or allowed for an employee to use their own vehicle for transportation and the employer provides the transportation to the workplace, there is no taxable benefits incurred. See also Board & Lodging.
Travel Allowances

When an individual is a member of the Clergy, or an agent selling property or negotiating contracts on behalf of their employer, they may be paid a reasonable traveling allowance for meals, lodging and per diem amounts, with the exception of any amounts for the use of a motor vehicle. When an amount is paid in this manner, there is no taxable benefit incurred by the employee.

For employees that are not members of the Clergy or selling and negotiating contracts on behalf of their employer, they may be paid a reasonable traveling allowance without taxable benefit implications only if the allowance is for travel outside of the area where the employee normally works. If the allowance is paid for travel in the area where the employee normally works, then the allowance paid is a taxable benefit.

Tuition Fees, Scholarships and Bursaries

In similar fashion to Professional Membership fees, payments made by an employer for tuition, scholarships and bursaries may or may not be taxable depending upon who is ultimately the beneficiary of the education. If the main benefit is to the employer, then no taxable benefit is incurred by the employee. If however, the employee is the primary beneficiary, then any payments made by the employer on behalf of the employee would become taxable benefits.

There is no difference in treatment regardless of whether or not the training or education results in the employee receiving a degree, diploma or certificate. There are further definitions of training and education as follows:

Specific Employment Related Training

Courses or training specifically related to the employee's position with the company are not taxable benefits providing it can be reasonably expected the employee will return to the position and maintain their employment with the company for a reasonable period of time upon completion of the training.

General Employment Related Training

Courses relating to other general business interests, even if not directly related to the employer's business are not considered taxable benefits. Examples would be First Aid training, Stress Management etc.

Personal Interest Training

Training or courses that have no specific relation to the employer's business or business in general are considered taxable benefits.

Other Considerations

If the tuition or training fees paid on behalf of the employee are not a taxable benefit, then the employee is not entitled to claim the Tuition amounts on their personal tax returns, nor can they claim any education amounts.

Tuition fees, books, supplies or other education related materials paid to a relative of an employee may also constitute a taxable benefit to the employee.

A student may receive during or after employment with a company an amount as a scholarship or bursary on the condition they return to employment with the company after training. In this instance, the scholarship or bursary amount is to be included in the individual’s income.

If the employer is an educational institution and provides free tuition to an employees spouse, child or other family member, the Fair Market Value of the tuition becomes a taxable benefit to the employee.


**Uniforms and Special Clothing**

Payments or reimbursements to employees are not taxable benefits providing one of the following conditions are met:

- You reimburse or pay for uniforms or clothing, without a receipt from the employee providing the following conditions are met:
  - The Uniform or Clothing is required by law to be worn by the employees on the worksite
  - The employees bought and paid for the uniform or clothing
  - The amount of the reimbursement is reasonable
- The employer supplies the individual with distinctive clothing that must be worn while performing their duties
- The employer provides the individual with clothing, including safety footwear, that is designed to protect the individual while performing their duties.
- The employer reimburses the employee for clothing that is supported with receipts.
- The employer reimburses the employee for cleaning or laundering of the clothing upon presentment of receipts
- The employer provides a reasonable allowance for the cleaning or laundering of the clothing, without the employee providing receipts.

Any other allowances or reimbursements of expenses not meeting the above criteria would be considered taxable benefits and are to be included in the income of the individual.

**Wage Loss Replacement Plans**

Premiums paid on behalf of an employee to Group Wage Loss Replacement or Income Maintenance Plans are not taxable benefits to the employee, however, when the payments are made on behalf of an individual employee only and not as part of a group plan, the payments are taxable if the plan provides:

- An illness or accident insurance plan
- A disability insurance plan
- An income maintenance insurance plan
Benefits and Taxes

Benefits can affect the calculation of:

- Federal & Provincial Income Taxes
- Employment Insurance Premiums
- Canada Pension Plan Premiums
- Workers Compensation Premiums
- Provincial Health Taxes

Although the rules may vary slightly by Province, following is the normal treatment of benefits for tax calculations:

Federal and Provincial Income Taxes

When an employee receives benefits in addition to salary and wages, the amount of the benefits are added to their income for the purposes of calculating Federal and Provincial Taxes.

Canada Pension Plan Premiums

Benefits received by an employee in addition to their salary and wages must be included in income for the purposes of calculating the premiums payable.

If however, the benefits are their only form of remuneration, it is not necessary to calculate CPP premiums, even if the benefit is pensionable.

EI Premiums

Taxable benefits paid in cash (included with salary and wages) are normally insurable earnings and must be included in income when calculating EI premiums, however, when the benefit is not paid in cash, with the exception of Board and Lodging, the benefit is not insurable for EI and is therefore not included in calculating premiums.

Workers Compensation Premiums

Taxable Benefits provided to an employee are generally included in income for the purposes of calculating Workers Compensation Insurance premiums.

Provincial Health Taxes

Taxable Benefits provided to an employee are generally included in income for the purposes of calculating provincial health taxes.

GST/HST

If GST/HST or Provincial Sales Taxes were included when paying the benefit, the tax component must be included when calculating the amount of benefit to be assigned to the employee. If the employer is registered for GST/HST, they will have to remit the amount of GST/HST included in the benefit to the government.
Reporting Taxable Benefits

Where possible, it is the responsibility of the employer to report the appropriate amount of taxable benefits attributable to the employee each pay period, and to calculate and remit any applicable taxes on or before the due date. When it is not possible to record the benefits each pay period, the amounts must be reported at year-end on the employee’s T4 (Statement of Income) form. The following table illustrates the year-end reporting requirements for taxable benefits.

<table>
<thead>
<tr>
<th>Benefit Description</th>
<th>T4 Box</th>
<th>Income Tax</th>
<th>EI</th>
<th>CPP</th>
<th>GST</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automobile allowances</td>
<td>40</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Automobile standby charge and operating cost benefits</td>
<td>34</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Board and lodging, if cash earnings also paid in the pay period</td>
<td>30</td>
<td>Yes</td>
<td>Yes</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Board and lodging, if no cash earnings paid in the pay period</td>
<td>30</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>1</td>
</tr>
<tr>
<td>Counseling services – in cash</td>
<td>40</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>2</td>
</tr>
<tr>
<td>Counseling services – non cash</td>
<td>40</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>2</td>
</tr>
<tr>
<td>Discounts on merchandise and commissions on sales</td>
<td>40</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Educational allowances for children</td>
<td>40</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Gifts, awards, and social events – in cash</td>
<td>40</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Gifts, awards, and social events – non cash</td>
<td>40</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Group term life insurance policies: Employer-paid premiums</td>
<td>40</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Housing, rent-free or low-rent – in cash</td>
<td>30</td>
<td>Yes</td>
<td>Yes</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Housing, rent-free or low-rent – non cash</td>
<td>30</td>
<td>Yes</td>
<td>4</td>
<td>Yes</td>
<td>3</td>
</tr>
<tr>
<td>Interest-free and low-interest loans 5</td>
<td>36</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Medical Expenses – in cash</td>
<td>40</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>6</td>
</tr>
<tr>
<td>Medical expenses – non-cash</td>
<td>40</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>6</td>
</tr>
<tr>
<td>Moving expenses and relocation benefits - in cash</td>
<td>40</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Moving expenses and relocation benefits – non-cash</td>
<td>40</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Moving expenses – non-accountable allowance over $650</td>
<td>40</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Municipal officer's expense allowance 7</td>
<td>40</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Parking - in cash</td>
<td>40</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Parking – non-cash</td>
<td>40</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Premiums under provincial hospitalization, medical care insurance, and certain federal government plans</td>
<td>40</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Professional fees - in cash</td>
<td>40</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>8</td>
</tr>
<tr>
<td>Professional fees - non-cash</td>
<td>40</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>8</td>
</tr>
<tr>
<td>Recreational facilities – in cash</td>
<td>40</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Recreational facilities – non-cash</td>
<td>40</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Recreational facilities – club membership dues</td>
<td>40</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Registered retirement savings plan (RRSP) premiums</td>
<td>40</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Registered retirement savings plan (RRSP) premiums considered non-cash benefits</td>
<td>40</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Registered retirement savings plan (RRSP) administration fees</td>
<td>40</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>8</td>
</tr>
<tr>
<td>Scholarships and bursaries</td>
<td>40</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Spouse or common-law partner’s traveling expenses – cash allowance</td>
<td>40</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Spouse or common-law partner’s traveling expenses – non- cash</td>
<td>40</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Stock options</td>
<td>38</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Subsidized meals</td>
<td>30</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Travel assistance in a prescribed zone 10</td>
<td>32</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Traveling allowances to a part-time employee and other employees</td>
<td>40</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Tuition fees – in cash</td>
<td>40</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>8</td>
</tr>
<tr>
<td>Tuition fees – non-cash</td>
<td>40</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>8</td>
</tr>
<tr>
<td>Uniforms and special clothing – in cash</td>
<td>40</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Uniforms and special clothing – non cash</td>
<td>40</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Wage-loss replacement or income maintenance non-group plan premiums</td>
<td>40</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>
Notes:

1. If the dwelling is occupied for less than 1 month, GST is applicable to the rent portion of the Board and Lodging. Utilities are subject to GST unless the Municipality supplies the utilities.

2. If the counselling services paid by the company are subject to GST, then the taxable benefit is subject to GST as well and must be recorded as such.

3. If the dwelling is occupied for less than 1 month, GST is applicable to the rent portion of the Board and Lodging. Utilities are subject to GST unless the Municipality supplies the utilities.

4. If the benefit is added to the employees pay in a period when the employee has other earnings, the benefit is considered to have been paid in cash and is EI insurable. If the benefit is assigned in a period when the individual had no other earnings, the benefit is then non-taxable.

5. The Home Relocation Loan Deduction amount is entered into Box 37 on the individual’s T4

6. If the medical expenses are subject to GST when paid for or reimbursed, the GST must be added to the amount of the benefit assigned to the employee.

7. The amount of expenses exempt from tax is entered in Box 70 of the individual’s T4

8. If the administration fees are subject to GST, then GST must be added to the value of the benefit assigned to the individual’s T4.

9. The amount of the Stock Options or Share Option deductions available to the employee are to be entered in Box 39, or Box 41 where applicable.

10. The amount of Travel Assistance provided to the individual is to be recorded in Box 33 of the individual’s T4.
**Sample Tax Calculations**

Sarah receives a weekly salary of $1,000 her employer also provides her $100 per week as a Car Allowance, the employer pays for her life insurance ($15 per pay period) and contributes $50 per week to her RRSP. The taxes would be calculated as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Gross Pay</th>
<th>Taxable</th>
<th>Pensionable</th>
<th>Insurable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>$1,000</td>
<td>$1,000</td>
<td>$1,000</td>
<td>$1,000</td>
</tr>
<tr>
<td>Car Allowance</td>
<td>$ 100</td>
<td>$ 100</td>
<td>$ 100</td>
<td>$ 100</td>
</tr>
<tr>
<td>Life Insurance</td>
<td>$ 15</td>
<td>$ 15</td>
<td>$ 15</td>
<td></td>
</tr>
<tr>
<td>RRSP</td>
<td>$ 50</td>
<td></td>
<td>$ 50</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,165</strong></td>
<td><strong>$1,115</strong></td>
<td><strong>$1,165</strong></td>
<td><strong>$1,150</strong></td>
</tr>
</tbody>
</table>

Workers Compensation and Provincial Health Taxes (if applicable) would be calculated on the Gross Pay amount ($1,165)

**Reporting on the T4 at the end of the year:**

- Box 14 (Gross Pay) = $1,165
- Box 24 (Insurable Earnings) = $1,150
- Box 26 (Pensionable Earnings) = $1,165
**Why Pay Taxable Benefits?**

Providing an employee with a taxable benefit is generally more beneficial than providing them with a salary increase. Consider the following:

*Julie is employed by ABC Company in Ontario and earns $3,500 per month. She is a member of the local fitness club and pays $100 monthly for her membership. As Julie is in the lowest federal tax bracket, she would have to earn approximately $156 before tax to have $100 in net income available to pay the membership.*

*If ABC Company were to pay the membership on her behalf and add the amount to her pay as a taxable benefit, she would only be paying a NET amount of $40 per month for the membership!*

<table>
<thead>
<tr>
<th>Current Pay</th>
<th>Taxable Benefit</th>
<th>Pay Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Pay</td>
<td>$3,500.00</td>
<td>$3,600.00</td>
</tr>
<tr>
<td>Taxes, CPP &amp; EI</td>
<td>($893.31)</td>
<td>($931.91)</td>
</tr>
<tr>
<td>Benefit</td>
<td>($100.00)</td>
<td></td>
</tr>
<tr>
<td>Net Pay</td>
<td>$2,606.69</td>
<td>$2,568.09</td>
</tr>
<tr>
<td>Membership Fee</td>
<td>($100.00)</td>
<td>0</td>
</tr>
<tr>
<td>Net Pay</td>
<td>$2,506.69</td>
<td>$2,568.09</td>
</tr>
<tr>
<td>Difference:</td>
<td></td>
<td>$61.40</td>
</tr>
</tbody>
</table>

Julie effectively gets a pay increase of $61.40 per month and it only costs the company $100. However for Julie to receive a net pay increase of $100.00 to pay the membership fee herself, the company would have to increase her pay by $156.00.

The $156 per month translates into $1,872 per year, which affects other tax credits, GST rebates, Sales Tax Rebates etc., and could eliminate her eligibility.

**Company Costs:**

<table>
<thead>
<tr>
<th>Current Pay</th>
<th>Taxable Benefit</th>
<th>Pay Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Pay</td>
<td>$3,500.00</td>
<td>$3,600.00</td>
</tr>
<tr>
<td>CPP Cost</td>
<td>$158.81</td>
<td>$163.76</td>
</tr>
<tr>
<td>EI Cost</td>
<td>$95.55</td>
<td>$98.28</td>
</tr>
<tr>
<td>WCB</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health Tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Cost to Employer</td>
<td>$3,754.36</td>
<td>$3,862.04</td>
</tr>
<tr>
<td>Annual</td>
<td>$45,052.32</td>
<td>$46,344.48</td>
</tr>
<tr>
<td>Extra Cost</td>
<td>$1,292.16</td>
<td>$2,015.76</td>
</tr>
</tbody>
</table>

This is a crude example of the cost of providing a taxable benefit vs. a salary increase, and does not account for WCB premiums, health taxes, or any other payroll related tax or cost.
Other Guides and Information available from Ledgers:

- Income Tax for Students
- Income Tax for Senior Citizens
- Income Tax for Persons with Disabilities
- Income Tax for Persons with Chronic Health Problems
- Income Tax for the Self-Employed

- Guide to Incorporations
- Employment Insurance – Who is Exempt?
- Buying and Selling a Business
- Employee or Self-Employed? How do you know?

- Employer's Guide to Taxable Benefits

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