

Financial Administration Manual (FAM)

Chapter 1024-9 Taxable Benefits and Allowances

Identification

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Supersession Not applicable

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Enquiries Enquiries are to be forwarded to DFP through the functional financial chain of command.

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Overview

Purpose

1. The purpose of this FAM Chapter is to set out the legal obligation on the Department of National Defence (DND), as representing the employer, for determining and recording the tax status of employment related [benefits](#) and [allowances](#), and reporting in compliance with the requirements of the Canadian *Income Tax Act* (ITA) and provincial/territorial income tax legislation.

Context

2. The ITA and provincial/territorial income tax legislation require that DND includes the value of taxable benefits and allowances in DND employee's/Canadian Armed Forces (CAF) member's reported employment income, and withholds applicable payroll taxes. In general, whether or not a benefit is taxable depends on its nature and the reason a DND employee/CAF member receives it. Allowances paid by DND to a DND employee/CAF member are always taxable unless the governing tax legislation provides a specific exception.

3. The Treasury Board (TB) *Directive on Financial Management of Pay Administration* requires that the Chief Financial Officer (CFO) establish departmental practices and controls that ensure effective internal administration and financial management of pay processes, including meeting the recordkeeping requirements of the ITA and provincial or territorial income tax legislation for filing information returns. The CFO and the heads of human resources (i.e. Assistant Deputy Minister (Human Resources - Civilian) (ADM (HR-Civ)) and Chief of Military Personnel (CMP)) share the responsibility for pay administration. While the CFO is responsible for the effectiveness of the financial controls related to pay administration and payroll accounting, as well as payment requisitions, ADM (HR-Civ) and CMP are responsible for the compensation policies and function.

4. This FAM Chapter will support the CFO in his responsibilities in accordance with the TB *Directive on Financial Management of Pay Administration*.

Consequences

5. In instances of non-compliance, the Deputy Minister of National Defence (DM) is responsible for taking corrective actions that are consistent with the TB *Framework for the Management of Compliance* with those responsible for implementing the requirements of this FAM Chapter.

6. In support of the responsibility of the DM to implement the TB *Policy on Internal Control* and related instruments, the CFO or, in the case of a member of the CAF, the military chain of command, at the CFO's direction, must ensure corrective actions are taken to address instances of non-compliance with the

requirements of this FAM Chapter. Corrective actions can include requiring additional training, changes to procedures and systems, the suspension or removal of delegated authority, disciplinary action, and other measures as appropriate.

Losses of Public Money or Property 7. Individuals will be held responsible for any losses of Public Money or Property resulting from negligence, lack of controls or criminal acts. All losses shall be reported to the Commanding Officer (Level One (L1) Comptroller if in the National Capital Region), and to the Regional Departmental Accounting Office (RDAO) Comptroller.

8. Individuals are reminded that the *Financial Administration Act* (FAA) sections 76 to 81 (Civil Liabilities and Offences) as well as the *Criminal Code* sections 121 – Frauds against the Government, 122 – Breach of Trust, 322 – Theft and 380 – Fraud may apply and they should be familiar with the TB *Directive on Losses of Money or Property*.

Document Retention 9. All supporting financial documentation, such as contracts, receipt documents, invoices, emails, Defence Resource Management Information System (DRMIS) transactions, FAA certifications, and all other relevant documents in both paper and electronic form must be retained for six fiscal years after the last administrative action (i.e. update or amendment) as per the Library and Archives Canada's *Retention Guidelines for Common Administrative Records of the Government of Canada - Comptrollership Function*, Section 1, Part 4. When criminal, disciplinary or recovery action is taken, all documentation must be retained and protected for six fiscal years after the process is completed. For additional information on the retention and disposition of information resources of business value, refer to the Defence Subject Classification and Disposition System (DSCDS).

10. Unless otherwise directed by the RDAO Comptroller, all original supporting documents are to be retained by the office performing FAA Section 34 certification. An exception is the original contract, which for audit purposes, must be retained by the individual who exercised the transaction authority. Documents supporting FAA Section 33 certification shall be retained by the office that performed the FAA Section 33 certification. Life cycle management of information resources of business value continues to apply regardless of the movement of staff, managers or organizational changes.

Responsibilities

General

11. The following table identifies the responsibilities related to the requirement for recording and reporting taxable benefits and allowances:

The ...	Shall be responsible and accountable for...
DM	<ul style="list-style-type: none"> a. Establishing a pay administration process for the recording and reporting of employment income, including taxable benefits and allowances, within DND that ensures the accuracy, integrity and control of payroll expenditures, in support of the <i>TB Policy on Internal Control</i>, and in compliance with legislation, regulations and policies; and b. The application and administration of the terms and conditions of employment, including monitoring and assessing the performance of the human resources systems, processes and procedures in compliance with this direction.
CFO	<ul style="list-style-type: none"> a. Establishing and maintaining management practices and controls within DND/CAF to ensure adequate recordkeeping to meet the requirements of the ITA and provincial/territorial income tax legislation with respect to employment income, including taxable benefits and allowances paid or provided to DND employees/CAF members; b. Overseeing the implementation and monitoring of this policy; c. Bringing to the DM's attention any significant difficulties, gaps in performance or compliance issues and recommendations to address them; and d. Reporting significant performance or compliance issues to the Office of the Comptroller General.
Director General Financial Operations	<ul style="list-style-type: none"> a. Supporting the implementation and monitoring of this policy; b. Bringing to the CFO's attention any significant

The ...	Shall be responsible and accountable for...
(DG Fin Ops)	<p>difficulties, gaps in performance or compliance issues and providing recommendations on how to address them; and</p> <p>c. Ensuring that all relevant information is transferred to the civilian or military pay systems where benefits and allowances are paid or acquired through the financial system.</p>
Director Financial Controls (DFC)	<p>a. Supporting CMP and ADM (HR-Civ) in meeting their responsibilities to develop and maintain procedures that:</p> <ul style="list-style-type: none"> i. Meet internal control requirements; and ii. Do not interfere with DND's capability to identify, record and report taxable benefits and allowances; <p>b. Ensuring that any pay process or procedure change relating to internal controls requirements do not interfere with the capability to identify, record and report taxable benefits and allowances; and</p> <p>c. Supporting the RDAOs in the development of procedures to fulfill their responsibilities identified in this policy.</p>
Central Departmental Accounting Office (CDAO)	<p>a. Supporting the implementation of this policy;</p> <p>b. Supporting the RDAOs in the development of procedures to fulfill their responsibilities identified in this policy; and</p> <p>c. Monitoring RDAO compliance with this FAM Chapter.</p>
Financial Community Management	Determining training requirements.
L1 Comptroller	<p>Ensuring that:</p> <p>a. All staff within their organization who are involved in the process for the recording and reporting of taxable benefits and allowances fully understand and apply this policy; and</p> <p>b. All processes and controls for recording and reporting taxable benefits and allowances are working effectively.</p>

The ...	Shall be responsible and accountable for...
RDAO	<p>Ensuring that:</p> <ul style="list-style-type: none"> a. Procedures are developed and implemented to: <ul style="list-style-type: none"> i. Identify taxable benefits and allowances that are not recorded and reported through the authorized pay systems (civilian or military); ii. Ensure that all relevant information is transferred to the civilian or military pay systems in the case where benefits and allowances are paid or acquired through the financial system (accounts payable); and iii. Ensure that any non-cash benefits not captured in the civilian or military pay systems are correctly valued and all relevant information is transferred to the appropriate pay system; b. This policy is fully implemented for their region; c. Periodic reviews are performed to ascertain that the taxable benefits and allowances control frameworks of Responsibility Centre (RC) Managers are functioning properly; d. All staff involved in the taxable benefits and allowances recording and reporting process understand and apply this policy; and e. The payroll organizations are supported as required where manual tax slips are issued in compliance with this policy.
CMP/Director General Compensation and Benefits (DGCB)/Director of Military Pay and Allowances Processing (DMPAP)	<p>In the case of all military benefits and allowances, support the implementation and monitoring of this policy by:</p> <ul style="list-style-type: none"> a. Ensuring that adequate processes, procedures and information management solutions are in place to identify, record and report all taxable benefits and allowances received by CAF members; b. Adhering to the requirements of the ITA and provincial/territorial income tax legislation for determining the tax status of all employment benefits and allowances as described in this policy; c. Ensuring that all taxable benefits and allowances are correctly valued and adequately documented;

The ...	Shall be responsible and accountable for...
	<ul style="list-style-type: none"> d. Ensuring relevant information that is received from RC managers for any benefits and allowances that are processed outside the military pay system is appropriately identified, recorded and reported as described in this policy; e. Ensuring applicable payroll deductions and withholdings are correctly applied and remitted on time to the appropriate tax authorities, and all required information returns are filed; f. Ensuring that all taxable benefits and allowances are processed, recorded and reported in the pay system in accordance with Military Pay Administrative Instructions; and g. Bringing to the CFO's attention any significant difficulties, gaps in performance or compliance issues and providing recommendations on how to address them.
ADM (HR-Civ)	<p>In the case of all civilian benefits and allowances, supporting the implementation of this policy in conjunction with Public Works and Government Services Canada (PWGSC) Compensation Sector by:</p> <ul style="list-style-type: none"> a. Ensuring that adequate processes, procedures and information management solutions are in place to identify, record and report all taxable benefits and allowances received by DND employees; b. Adhering to the requirements of the ITA and provincial or territorial income tax legislation for determining the tax status of all employment benefits and allowances as described in this policy; c. Ensuring relevant information that is received from RC managers for any benefits and allowances that are processed outside the civilian pay system is appropriately identified, recorded and reported as described in this policy; d. Ensuring that all taxable benefits and allowances are correctly valued and adequately documented; e. Ensuring applicable payroll deductions and withholdings are correctly applied and remitted to the appropriate tax authorities, and all required information returns filed;

The ...	Shall be responsible and accountable for...
	<p>f. Ensuring that manual tax slips are issued in the case where the civilian pay system is unable to record and report taxable benefits or allowances that are processed through the financial system (accounts payable), or are received as a non-cash benefit that are not able to be recorded and reported in the pay system; and</p> <p>g. Bringing to the CFO's attention any significant difficulties, gaps in performance or compliance issues and providing recommendations on how to address them.</p>
RC Manager	<p>When exercising authorities to provide taxable benefits and allowances to DND employees/CAF members that are not directly recorded in either the military or civilian pay systems:</p> <p>a. Ensuring that all information with respect to the benefits and allowances provided is given to the appropriate payroll organization on a timely basis; and</p> <p>b. Supporting the responsible payroll organizations in the recording and reporting of taxable benefits and allowances.</p>
DFP	<p>a. Defining and developing policies in support of the recording and reporting of taxable benefits and allowances;</p> <p>b. Providing policy interpretation assistance to CFO, L1 Comptrollers, DFC, CDAO, and the CMP and ADM (HR-Civ) policy development and compensation groups;</p> <p>c. Providing Canadian income tax legislation interpretation guidance to CFO, L1 Comptrollers, DFC, CDAO, and the CMP and ADM (HR-Civ) policy development and compensation groups in support of this policy; and</p> <p>d. Liaising with competent taxation authorities (e.g. Canada Revenue Agency (CRA) and Revenu Québec (RQ)) on matters of technical policy interpretation and rulings.</p>

Taxable Benefits and Allowances – Recording and Reporting

General

12. Except where legislation or administrative policies issued by the taxation authorities provide otherwise, DND employees/CAF members are generally required to pay income tax on employment income, including the value of all taxable [benefits](#) and [allowances](#) they receive by virtue of their employment.

13. DND is responsible to determine the value of taxable benefits and allowances provided directly or indirectly by DND to DND employees/CAF members, and ensure that these are correctly recorded in employment income and reported to the appropriate taxation authorities.

Note: DND would be considered to have provided a benefit or allowance indirectly where DND pays or reimburses a third party to provide the benefit or allowance to DND employees/CAF members.

What is a Benefit for Tax purposes?

14. A benefit can include any economic advantage provided directly or indirectly by DND, such as:

- a. A payment or reimbursement of a DND employee's/CAF member's personal expenses;
- b. Use of property, goods, or services owned or made available by the DND/CAF or the Government of Canada;
- c. An allowance; or
- d. Any payment or advantage provided to a DND employee's/CAF member's spouse, child or sibling, or any other person with whom a close relationship exists (i.e. non-arm's length).

Notes:

- i. See the definitions section in Annex A for additional information on benefits; and
- ii. While allowances are generally viewed as a type of benefit for tax purposes, their tax status is determined as explained at paragraphs 17 to 20.

15. Except where legislation or administrative policies issued by the taxation authorities provides otherwise, a taxable benefit is considered to be received by a DND employee/CAF member under the ITA where by virtue of his/her office or employment:

- a. He/she is the primary beneficiary of an amount paid/reimbursed or a privilege provided; and
- b. A measurable economic advantage is bestowed on the recipient by virtue of the payment, reimbursement or privilege.

Notes:

- i. For income tax purposes, any payment or advantage that is provided to a DND employee's/CAF member's spouse, child or sibling, or any other person with whom a close relationship exists (i.e. non-arm's length) is deemed to be received by the DND employee/CAF member;
- ii. See paragraphs 21 and 22 for additional information in regards to determining when a benefit is received by virtue of an office or employment;
- iii. See paragraphs 23 to 26 for additional information related to determining the primary beneficiary;
- iv. CRA's administrative policies for common benefits are published in the guide *T4130 Employer's Guide – Taxable Benefits and Allowances*; and
- v. RQ's administrative policies for common benefits are published in the guide *IN-253-V Taxable Benefits*.

16. Examples of the tax treatment of benefits include:

- a. The payment or reimbursement by DND of a DND employee's/CAF member's home utility costs would be a benefit and considered taxable, except where legislation provides otherwise; versus
- b. The reimbursement of a DND employee's/CAF member's transportation costs to attend a meeting to discuss DND related business matters would not be a taxable benefit.

What is an Allowance for Tax purposes?

17. The definition of the term "allowance" for tax legislation purposes sometimes differs from that used by DND. Consequently, DND must be careful to apply the definition for income tax purposes when determining that tax status of payments made to DND employees/CAF members. Many of the payments entitled "allowances", as used by DND/CAF, are actually remuneration for services rendered (e.g. salary).

18. To be regarded as an "allowance" for income tax purposes, a payment must meet three conditions. The amount paid must be:

- a. Reasonable, limited and predetermined;

- b. Paid to enable the recipient to discharge a certain type of expense; and
- c. At the complete disposition of the recipient, who is not required to account to anyone for its use by vouchers or receipts or return the portion that they did not spend.

Any payment intended to compensate for personal expense that does not meet all three of these conditions is considered to be a reimbursement under paragraph 14(a), and the tax implications at paragraph 15 must be considered.

Note: See the definitions section in Annex A for additional information on allowances.

19. Allowances paid directly or indirectly by DND to a DND employee/CAF member are always taxable unless the governing tax legislation provides a specific exception or the taxation authorities' administrative policies state otherwise. The specific legislative exceptions are identified in ITA subparagraphs 6(1)(b)(i) to (ix), and are similarly reflected throughout the Quebec *Taxation Act* (TA). Annex B contains a list of some non-taxable allowances that are of relevance to DND.

20. Examples of the tax treatment of allowances include:

- a. A reasonable per diem meal allowance, that is in accordance with TB approved rates and is received as a result of overnight travel to attend business meetings at the request of DND, is considered to be a non-taxable allowance by virtue of the exception in ITA subparagraph 6(1)(b)(vii) and section 40 of the Quebec TA; versus
- b. An automobile allowance paid to cover the costs of a DND employee's/CAF member's travel between his/her home and their usual place of employment would be considered a taxable allowance and must be included in the DND employee's/CAF member's employment income. In this latter case, there is no specific exception identified for this type of allowance.

**Considerations
for
Determining
Benefit
received by
Virtue of
Employment**

21. Important considerations in the determination of the tax status of a benefit are:
 - a. Was the benefit paid or provided as a result of the individual's employment; and
 - b. Does the benefit have the character of economic compensation for services provided?
22. The tax courts have applied a very wide view in making the determination of whether or not there is a connection between a benefit and employment status. If the benefit would not have been received except for or because of the employment status/former employment status, then this is

sufficient for establishing the employment link. For example, an amount paid or reimbursed to a family member for personal travel costs would most likely be considered a taxable benefit to the DND employee/CAF member, even though there is only an indirect link between an employment service provided and the cash payment.

**Considerations
for
Determining
Primary
Beneficiary**

23. A determination of who is the primary beneficiary of an amount paid/reimbursed or a privilege provided, and whether an economic advantage is given, can only be made by an examination of the facts. If DND directly or indirectly pays for or provides something that is personal in nature, it is generally regarded that the primary beneficiary is the recipient. That is, if the benefit fulfills a personal need, rather than a need of the department in the operation of its mandate. Likewise, where the need exists independent from DND, then this would be an indication that it is personal in nature.

24. If the primary beneficiary is DND, then there is no taxable benefit to the DND employee/CAF member. However, if the primary beneficiary is the DND employee/CAF member, then the benefit is taxable to the DND employee/CAF member.

25. Considerations in determining the primary beneficiary include (not all inclusive):

- a. Is a personal or a departmental need being met?
- b. Would the need exist regardless of the employment relationship?
- c. Does the benefit fulfill a “condition of employment”?
- d. Is the benefit personal in nature or provide a personal advantage; or rather, does it meet a DND business requirement for the delivery of its mandate?

Note: A “condition of employment” refers to a formal requirement that must be met in order for an individual to be considered for employment. For instance, if DND pays for a DND employee/CAF member to take an annual exam to maintain a practitioner’s license, which they must have as part of the formal written terms and conditions of their employment, then the payment is not considered a taxable benefit.

26. For example, if a DND employee/CAF member receives a reasonable transportation reimbursement as a result of a requirement to conduct DND business away from his/her usual workplace, and the travel is not for personal reasons, then the reimbursement would not be considered a taxable benefit since:

- a. The reimbursement is related to a DND need to conduct business in an

- alternate location;
- b. The benefit meets a DND business need, as stated in the preceding point, which would exist regardless of the person who occupies the position; and
 - c. The reimbursement fulfills a condition of employment, as specified in the National Joint Council (NJC) *Travel Directive* or the Canadian Forces Temporary Duty Travel Instructions, which provide for the reimbursement of transportation expenses when travelling on DND business.
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Methods of Providing Benefits and Allowances

27. There are three manners in which benefits can be provided, each of which has different implications for valuing the benefit. The three manners are:
 - a. Payment in cash (e.g. a monetary merit award);
 - b. Provided in a manner that is near-cash (e.g. a precious metal coin that can easily be converted to cash, or equivalent to cash as defined by a competent taxation authority); or
 - c. Provided in a manner that is non-cash (e.g. free or low-cost parking or departmental vehicle made available for personal use).
 28. Allowances are paid in cash based on a reasonable and pre-determined amount, such as a per-kilometre allowance, per-diem meal rate or monthly living differential.
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Considerations for Valuing Benefits and Allowances

29. The value of a benefit or allowance paid in cash is the Canadian dollar value.
30. The value of a near-cash benefit is the Canadian dollar value of what was provided, including all applicable sales taxes.
31. The value of a non-cash benefit is generally its [fair market value](#) (FMV), including applicable sales taxes, less any payment made by the DND employee/CAF member. The FMV is defined as the price that can be obtained in an open market between two individuals dealing at arm's length. The cost to DND, for the particular property, good, or service may be used if it accurately reflects the FMV of the item or service (e.g. going price on the open market).
32. Other benefit valuation considerations include (not all inclusive):
 - a. The benefit valuation must be reflective of the region or locale where the benefit is provided;
 - b. All applicable sales taxes (e.g. Goods and Service Tax/Harmonized Sales Tax (GST/HST), provincial sales taxes (PST) and/or other

applicable taxes) must be included in the benefit valuation;

- c. Sales taxes are not included for cash remuneration or the provision of a benefit that is not subject to a given sales tax (e.g. GST/HST in respect of an exempt or zero-rated supply as defined in the *Excise Tax Act*, such as the benefit associated with below fair market value long-term rental accommodation); and
- d. Where DND acquires a near-cash or non-cash benefit exempt of any applicable sales taxes, the value of these sales taxes must be added to the value of the benefit (e.g. the value of a non-cash award given in Manitoba, Saskatchewan or British Columbia must include applicable PST even though DND is exempt from paying PST on the purchase of the award, since DND employees/CAF members are not personally exempt from paying PST).

33. DND must be able to support the value calculated for benefit and allowance reporting purposes. This requires that the office of primary interest (OPI) for any given benefit or allowance ensures that appropriate records are prepared and maintained to support the valuation, and retained in accordance with the applicable document retention policy. The OPI may be the RC Manager in the case of a benefit or allowance recorded only in the financial system, or CMP/ADM (HR-Civ) if the benefit or allowance is recorded in the payroll system.

34. Where the value of a taxable benefit or allowance is specified in a foreign currency, it must be converted to Canadian dollars using the Bank of Canada exchange rate in effect on the day the benefit or allowance was provided.

**Considerations
for Reporting
Benefits and
Allowances**

35. Canada's tax system is based on the principle of self-assessment. The reporting of the value of taxable benefits and allowances on information slips is an important part of this system.

36. Based on the application of income tax legislation, a benefit is considered taxable unless deemed non-taxable:

- a. By specific legislation or administrative policy issued by the taxation authorities; or
- b. Because of the nature and reason for the payment or the privilege provided as explained in this FAM Chapter.

37. Allowances paid by DND to a DND employee/CAF member are always taxable unless the governing tax legislation or administrative policy issued by the taxation authorities provides a specific exception.

38. DND must include the value of taxable benefits and allowances in the DND employee's/CAF member's income during the pay period in which the

benefit was paid or provided in order to determine the total amount that is subject to [payroll deductions](#). In the case of near-cash and non-cash benefits, this requires that the value of the benefit must be reported in the pay period it is received or enjoyed by the DND employee/CAF member (e.g. the value of free or low-value rental housing accommodation provide to a CAF member during the first week of March must be reported in the pay period ending 15 March).

39. The responsible payroll organizations must prepare and file the required information returns/slips, such as T4 and Relevé 1 (RL-1) slips, in compliance with the taxation authorities' guidance (CRA and/or RQ). The required filing date is generally the last day of February. In the case of DND employees, ADM (HR-Civ) ensures compliance with this requirement using the services of PWGSC Compensation Sector.

40. In the case of taxable benefits or allowances that are not recorded and reported in the payroll system, the responsible payroll organization must ensure that the required tax slips are prepared and filed manually. RC managers must provide the payroll organizations with the necessary supporting information.

41. It is important to note that the manual generation of the required tax slips may be necessary in the case where automated capability is unavailable. The lack of automation or system tools is not justification for non-compliance with required tax legislation. The legislation also stipulates the manner of T4/RL-1 slip delivery, with electronic delivery format requiring the express consent of the taxpayer (i.e. the DND employee/CAF member).

Steps for Determining Tax Status of a Benefit

42. The following steps should be followed to determine whether or not a benefit (including where the benefit is currently provided, being amended or newly created) is taxable, and consequently must be included in a DND employee's/CAF member's reported employment income:

Step	The responsible DND payroll organization (CMP/ADM (HR-Civ)) or any other DND organization providing a benefit shall ...
1	<p>Identify when a benefit of economic value has been received by or provided to a DND employee/CAF member.</p> <p>Note: See paragraphs 14-15 for additional information.</p>
2	<p>Determine if the benefit was received in the course of, or by virtue of an office or employment.</p> <p>Note: See paragraphs 21-22 for additional information.</p>
3	<p>Determine the primary beneficiary of the benefit.</p> <p>Note: See paragraphs 23-26 for additional information.</p>

4	<p>Determine if the benefit is taxable. Based on an examination of the facts, including the responses to the previous steps, a determination of the taxable benefit status must be made. In addition, particular benefits may be exempt from tax by specific statute, or as documented by a competent taxation authority (e.g. CRA or RQ).</p> <p>Note: The CRA T4130 <i>Employers' Guide - Taxable Benefits and Allowances</i> and the RQ IN-253-V <i>Taxable Benefits</i> guide are useful documents for understanding common benefits and allowances, and the required income tax treatment.</p>
5	<p>Identify the method of providing the benefit (i.e. cash, near-cash, or non-cash).</p> <p>Note: See paragraphs 27-28 for additional information.</p>
6	<p>Determine the value for income tax purposes of the benefit(s) paid/provided to a DND employee/CAF member during the pay period.</p> <p>Note: See paragraphs 29-34 for additional information.</p>

Notes:

- i. ADM (HR-Civ) ensures compliance with the above requirements using the services of PWGSC Compensation Sector as required by authoritative directives and guidelines;
 - ii. Guidance with this process is available from DFP, through the appropriate financial chain-of-command, upon providing full disclosure of information on the nature and reason for the benefit; and
 - iii. In addition, all communication with tax authorities (e.g. CRA, RQ) with respect to the determination of whether a benefit is taxable or not, and the valuation methodology must be directed through or vetted by DFP.
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Steps for Determining Tax Status of an Allowance

43. The following steps should be followed to determine whether or not an allowance (including where the allowance is currently provided, being amended or newly created) is taxable, and consequently must be included in a DND employee's/CAF member's reported employment income:

Step	The responsible DND payroll organization (CMP/ADM (HR-Civ)) or any other DND organization providing an allowance shall ...
1	<p>Identify when an allowance has been received by a DND employee/CAF member.</p> <p>Note: See paragraphs 17-20 for additional information.</p>
2	<p>Determine if the allowance is taxable. Allowances are always taxable unless the governing tax legislation provides a specific exception.</p> <p>Note: The CRA T4130 <i>Employers' Guide -Taxable Benefits and Allowances</i> and the RQ IN-253-V <i>Taxable Benefits</i> guide are useful documents for understanding common benefits and allowances and the required income tax treatment.</p>
3	<p>Determine the value for income tax purposes of the allowance(s) paid to a DND employee/CAF member during the pay period.</p> <p>Note: See paragraphs 29, 33, and 34 for additional information.</p>

Notes:

- i. ADM (HR-Civ) ensures compliance with the above requirements using the services of PWGSC Compensation Sector as required by authoritative directives and guidelines;
 - ii. Guidance with this process is available from DFP, through the appropriate financial chain-of-command, upon providing full disclosure of information on the nature and reason for the allowance; and
 - iii. In addition, all communication with tax authorities (e.g. CRA, RQ) with respect to the determination of the tax status of an allowance, must be directed through or vetted by DFP.
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Steps for Determining Payroll Deductions and Reporting

44. The following steps should be followed to determine the payroll deductions and reporting requirements for taxable benefits and allowances that are included in the DND employee's/CAF member's employment income:

Step	The responsible DND payroll organization (CMP/ADM (HR-Civ)) shall ...
1	<p>Determine the payroll deductions. The total value of taxable benefits and allowances must be included in the DND employee's/CAF member's income for the pay period in which the</p>

	<p>benefit(s) and/or allowance(s) is/are received or enjoyed. This provides the total income subject to payroll deductions. In the case of a benefit, the applicable deductions will depend on whether the benefit is cash, near-cash or non-cash.</p> <p>Note: The CRA T4130 <i>Employers' Guide - Taxable Benefits and Allowances</i> and the RQ IN-253-V <i>Taxable Benefits</i> guide provide useful information for determining the applicable payroll withholding requirements for various benefits.</p>
2	<p>Prepare and file the required information returns/slips, including T4 and Relevé 1 (RL-1) slips, with the appropriate taxation authorities, accurately and in the required format. The required filing date is generally the last day of February of the year following that in which the benefit or allowance is received or enjoyed.</p> <p>Notes:</p> <ul style="list-style-type: none"> i. The CRA RC4120 <i>Employers' Guide - Filing the T4 Slip and Summary</i> provides information on filing the T4 slip and summary; ii. The RQ RL-1.G-V - <i>Guide to Filing the RL-1 Slip: Employment and Other Income</i> provides information on the Relevé 1/RL-1 slip filing requirements; and iii. See paragraphs 35-41 for additional reporting considerations.

Note: ADM (HR-Civ) ensures compliance with the above requirements using the services of PWGSC Compensation Sector as required by authoritative directives and guidelines.

Tax Slip Amendments and Statute of Limitations

45. The Canadian *Income Tax Regulations* require that correct T4 slips must be prepared and issued. Similarly, the Québec *Regulations respecting the Taxation Act* require that correct RL-1 slips must be prepared and issued. The issuance of an erroneous tax slip equates to non-compliance with the legislation. In the case where DND becomes aware that an erroneous slip(s) has been issued, DND is responsible to amend and reissue a corrected tax slip(s) in accordance with the governing legislation.

46. The ITA provides that the limitation period for the collection of a tax debt of a taxpayer begins 90 days after the notice of assessment advising of the debt is sent to the taxpayer, and ends ten years after the day on which it began. Similarly, RQ states that the recovery period for the collection of a tax debt is ten years after the day on which the notice of assessment was sent.

47. **It is important to note that the liability for tax arises by operation of law and is not dependent on being assessed by the tax authority.** Therefore,

a DND employee's/CAF member's liability for tax does not depend on the administrative discretion of tax officials and the issuance of notices. Instead, it is based on the applicable provisions of the tax legislation in force at the time a taxpayer receives or is paid income. Therefore, it is incumbent on DND to ensure employment income, including taxable benefits, are correctly identified, valued and reported to avoid undue hardship on DND employees/CAF members.

Additional Document Retention Considerations

48. In addition to the standard departmental Document Retention direction at paragraphs 9 and 10, and any additional pay or pension document retention requirements, DND organizations that are responsible for any given benefit or allowance must maintain documentation in support of the determination of the tax status, valuation and reporting of the benefit or allowance. All books, records and supporting documents must be kept for at least six years after the taxation year to which they apply.

Note: Both CRA and RQ publish interpretation bulletins which explain the recordkeeping requirements as follows:

- a. CRA: *IC78-10R5 Books and Records Retention/Destruction*; and
 - b. RQ: *LMR.34-1/R1 Retention and Destruction of Registers and Supporting Documents*.
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Implications of Non-compliance with Income Tax Legislation

49. In addition to the Consequences direction at paragraphs 5 and 6, DND organizations must also be aware of additional implications that could apply under income tax legislation. If DND organizations do not fulfill their obligations and/or fail to comply with legislative taxation and payroll requirements as described in this policy, DND and/or responsible DND employee(s)/CAF member(s) may be assessed a penalty, interest, and/or incur other consequences.

50. In accordance with subsection 238(1) of the ITA, failure to comply with the deducting, remitting, and reporting requirements, may result in fines to the responsible person(s) from \$1,000 up to \$25,000, or a fine and imprisonment for a term of up to 12 months.

51. In addition, CRA provides specific penalties for the failure to file required slips (including T4 slips) and information returns with CRA, and bases the penalty on the number of slips filed late. Specific penalties for failure to file an information return by the due date are detailed on the following CRA webpage:

<http://www.cra-arc.gc.ca/tx/bsnss/tpcs/pyrll/hwpyrllwrks/pnltys/pnltchrgs-eng.html>

52. Division VII of the Quebec *Taxation Administration Act* (TAA) contains

several provisions related to fines and penalties associated with inaccurate, incomplete or late filed tax slips levied against those responsible for TAA compliance. These include the following (not all inclusive):

- a. Every person who fails to deduct, withhold or collect an amount he was required to deduct, withhold or collect under a fiscal law incurs a penalty of 15% of that amount (TAA section 59.2); and
 - b. Failure to file a return or report with RQ may result in fines of at least \$100 for each day the failure continues (TAA section 60).
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References

Source References

- [*Financial Administration Act*](#)
 - [*Canadian Income Tax Act*](#)
 - [*Canadian Income Tax Regulations*](#)
 - [*Quebec Taxation Act*](#)
 - [*Quebec Tax Administration Act*](#)
 - [*TB Directive on Financial Management of Pay Administration*](#)
 - [*T4130 Employers' Guide - Taxable Benefits and Allowances*](#)
 - [*RC4120 - Employers' Guide - Filing the T4 Slip and Summary*](#)
 - RQ - [*Taxable Benefits*](#)
 - RQ - [*Guide to Filing the RL-1 Slip: Employment and Other Income*](#)
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Related References

- [*Excise Tax Act*](#)
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Annex A: Definitions

General

The following definitions are provided for the purpose of this policy:

Note: For income tax purposes, the use of the term “employee” in tax legislation or administrative policy and guidance issued by competent taxation authorities (e.g. Canada Revenue Agency (CRA) and Revenu Québec (RQ)) refers to:

- a. Department of National Defence (DND) employees and Canadian Armed Forces (CAF) members; and
 - b. Individuals who are deemed employees due to their specific relationship with DND. The facts of a working relationship as a whole determine the employment status. For example, under certain circumstances a self-employed contractor may be determined to be an employee of DND for tax purposes. These circumstances include the degree of control that DND has over the manner and method of the work performed, including if DND provides the workspace, tools and equipment, determines the hours of work, and if the worker has to do the work personally or can hire replacements. CRA and RQ have published guides to assist in making this determination.
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Allowance

For income tax purposes, the Canadian Courts have defined the term “allowance”. CRA has accepted that definition and refers to it in their Income Tax Rulings. An allowance is any cash payment that an employee receives from an employer in connection with or in the course of their employment without having to account for its use. This payment is in addition to the employee’s salary or wages. The Supreme Court of Canada has further provided that a payment must meet the following three conditions to be regarded as an “allowance” for income tax purposes. The amount paid must be:

1. Reasonable, limited and predetermined;
2. Paid to enable the recipient to discharge a certain type of expense; and
3. At the complete disposition of the recipient, who is not required to account for its use by vouchers or receipts to anyone or return the portion not spent.

Regardless of whether the word “allowance” is included in the name of a type of payment, the payment must meet the criteria identified above in order to be considered as an allowance for income tax purposes.

Note: In DND/CAF, the term “allowance” is frequently used in

Compensation Benefit Instructions (CBI's) and *Queen's Regulations and Orders* (QR&Os), however, these entitlements generally do not align with the tax courts' and tax authorities' definition as described above and in paragraph 18 of this policy. Instead, these "allowance" entitlements are most likely considered regular employment income for tax purposes. CAF members should contact their local pay office for additional information on whether DND will report the payment as employment income.

Benefit	<p>For income tax purposes, the Supreme Court of Canada has defined the term "benefit" quite broadly as "a material acquisition which confers an economic benefit on the taxpayer".</p> <p>A benefit may be received in cash, near-cash or non-cash form, and can include the reimbursement of personal expenses, no-interest or low interest loans, the use of property/goods owned or services provided by the employer at less than Fair Market Value (FMV), or an allowance.</p> <p>A cash benefit is when the benefit occurs as a cash payment made directly or indirectly to an employee.</p> <p>Near-cash benefits are treated the same as cash benefits. A near-cash item is one that can be easily converted to cash, or that is equivalent to cash as defined by a competent taxation authority (e.g. CRA or RQ).</p> <p>A non-cash benefit is received if DND provides the use of property, goods or services, or DND is responsible for paying the expense to a third party or benefit provider.</p> <hr/>
Cash	"Cash" for the purposes of this policy means bank notes, coinage, and negotiable instruments including any cheque, draft, or similar instrument (e.g. pre-paid credit card), as well as direct deposit by automatic deposit to any bank or financial institution.
Fair Market Value (FMV)	CRA provides the following with regard to defining the FMV of an item, service or privilege: "This is the price that can be obtained in an open market between two individuals dealing at arm's length". Generally, the value of a non-cash benefit is its FMV, including applicable sales taxes, less any payment made by the employee.
Payroll deductions	Also referred to as "source" deductions, these are amounts withheld from remuneration, and can include Canada Pension Plan (CPP) contributions, Employment Insurance (EI) premiums, Québec Pension Plan (QPP), Québec

parental insurance plan (QPIP), health taxes, and income taxes.

Remuneration Remuneration is generally the payment received for the performance of the duties of a position or office. It can be salary and wages, benefits and allowances, bonuses, and cash, near-cash and non-cash incentives.

Annex B: Non-taxable Allowances

General

The following is a table of the allowances, as defined in Annex A, for which governing income tax legislation provides a specific exception and which may be of significance for Department of National Defence (DND) and to DND employees/Canadian Armed Forces (CAF) members:

<i>Income Tax Act (ITA) 6(1)(b)(ii)/ Quebec Taxation Act (TA) 39(b)</i>	Travel and separation allowances received under service regulations as a CAF member.
ITA 6(1)(b)(iii)/ Quebec TA 39(c)	Representation or other special allowances received in respect of a period of absence from Canada in respect of certain persons, which include CAF members.
ITA 6(1)(b)(vii)/ Quebec TA 40(b)	Reasonable allowances for travelling expenses in the performance of the duties of an office or employment.
ITA 6(1)(b)(vii.1)/ Quebec TA 40(c)	Reasonable allowances for motor vehicle expenses in the performance of the duties of an office or employment.