Chapter 3

Employment Income – Allowances, Expenses and Benefits

Learning Objectives:

Upon completion of this chapter, you should be able to:

1. Identify the difference between taxable and non-taxable allowances, expenses and benefits
2. Calculate allowances, expenses and benefits
    - Car allowance
    - Meal allowance
    - Clothing allowance
    - Personal living expenses
    - Group term life insurance benefits
    - Group sickness and accident insurance benefits
    - Private health insurance benefits
    - Provincial health insurance benefits
    - Employee assistance plan benefits
    - Cell phone and Internet benefits
    - Gifts and awards benefits
    - Parking benefits
    - Tuition benefits
    - Loan benefits
    - Automobile benefits
3. Calculate net pay

Communication Objective:

Upon completion of this chapter, you should be able to explain the difference between reasonable and unreasonable car allowances.

Chapter Contents

Introduction

In Chapter 2, we discussed regular earnings, one component of employment income. Other types of employment income that will be introduced in this chapter are allowances, expenses and benefits. To properly calculate an employee’s pay, payroll practitioners need to understand whether these types of income are taxable or non-taxable. In this chapter, we will look at each of these types of income and the conditions that determine their taxability.

Taxable cash allowances and taxable expense reimbursements are considered employment income and must be included in the employee’s gross earnings (GE), gross pensionable and taxable income (GPTI), as well as insurable earnings (IE). Just like regular earnings, they are subject to Canada/Québec Pension Plan (C/QPP) contributions, Employment Insurance (EI) and Québec Parental Insurance Plan (QPIP) premiums, federal and provincial income taxes and Northwest Territories (NT) and Nunavut (NU) payroll taxes.

Taxable benefits are another form of employment remuneration. When an employer provides employees with items that are to the employee’s benefit, the Canada Revenue Agency (CRA) and Revenu Québec (RQ) may determine that the benefit is taxable to the employee. If the employer pays the cost of the benefit to a third party, the value of the benefit is included in the employee’s income as a non-cash taxable benefit. If the employer reimburses employees for money they paid for the benefit, the reimbursement is included in the employee’s income as a cash taxable benefit.

Non-cash taxable benefits are subject to all statutory withholdings, except for EI and QPIP premiums. Taxable benefit reimbursements, paid in cash are subject to all statutory withholdings.

Understanding the difference between a cash allowance, a cash taxable benefit and a non-cash taxable benefit (which is a value), is critical when explaining the calculation of pay to an employee. Cash allowances and cash taxable benefits are added to an employee’s earnings and are part of their take home pay, whereas a non-cash taxable benefit is only a value added to the employee’s pay to calculate statutory deductions.

This chapter will explain the concepts of allowances, expense reimbursements and benefits, taxable and non-taxable, that employers make or provide to their employees, in addition to payments of salary and wages. It will also detail if any Goods and Services Tax (GST), Harmonized Sales Tax (HST), Provincial Sales tax (PST), Retail Sales Tax (RST), tax on insurance premiums or combined Québec Sales Tax (QST)/Goods and Services Tax (QST/GST) components apply to the benefits provided.

Allowances and Expenses

Allowances are amounts paid to employees, in addition to their earnings, for the use, or anticipated use, of their personal property for business purposes. Allowances can also be provided to employees to cover the cost of personal living expenses associated with employment.

Allowances are considered employment income and may or may not be taxable, depending on the conditions under which they are paid. The most common types of allowances cover employee costs for cars, meals, uniforms, safety shoes or other specific work-related clothing. Taxable allowances are included in an employee's income and are pensionable, insurable and taxable, subject to all statutory deductions. Non-taxable allowances, for example, a car allowance that is considered by the government to be reasonable, are not included in an employee's taxable income.

Expense reimbursements are amounts paid to employees to cover any expenses that they have incurred on behalf of the organization in the performance of their job. For the most part, expense reimbursements are not included in the calculation of an employee's pay because the expenses are part of the organization's cost of doing business. They are claimed on an expense report, supported by receipts, and usually submitted directly to accounts payable for reimbursement to the employee.

Note:
If an allowance is deemed taxable it is subject not only to federal and provincial income taxes, but also to Canada and Québec Pension Plan contributions, Employment Insurance and Québec Parental Insurance Plan premiums, and Northwest Territories and Nunavut payroll taxes. The term 'taxable' does not refer to income taxes alone.

Car Allowance

A car allowance is an amount paid or reimbursed to an employee who uses their personal automobile for business. The allowance is intended to cover the portion of the gas and maintenance costs related to the business use, along with the extra wear and tear on the automobile.

Car allowances can be provided as a:

- flat amount, for example, $350.00 per month
- fixed amount per business kilometre (km) driven, for example, $0.61/km
- credit card or reimbursement for gas purchases

The taxability of a car allowance or reimbursement is based on whether the allowance or reimbursement is considered reasonable or unreasonable by the Federal and Québec governments under their respective *Income Tax Acts.*

Note:
2022 per kilometre rates have been used for purposes of demonstrating process and practice. To obtain current rates go to https://www.fin.gc.ca/news-nouvelles/n.

Reasonable Car Allowance

Both the Canada Revenue Agency (CRA) and Revenu Québec (RQ) consider a car allowance reasonable when all of the following conditions apply:

- the allowance is based solely on business kilometres driven in a calendar year
- the amount provided is based on the following government-prescribed reasonable guidelines:
  - $0.61 per km for the first 5,000 business kilometres in the year ($0.65 per km in Yukon, Northwest Territories and Nunavut)
  - $0.55 for each business kilometre thereafter ($0.59 per km in Yukon, Northwest Territories and Nunavut)
- the employer does not reimburse the employee for expenses related to the same use of the vehicle

If the allowance or reimbursement provided meets all these conditions, it is considered reasonable; therefore, it is non-taxable and excluded from income.

Example:

Jackie Burke is a salesperson in Manitoba who uses a personal car to visit the company's customers in the sales district. The company reimburses Jackie for all the business kilometres driven, at a rate of $0.61 for the first 5,000 kilometres and $0.55for each kilometre above 5,000. The employer does not reimburse Jackie for any other automobile expenses. As this arrangement meets the government's conditions, the allowance would be considered reasonable, non-taxable and excluded from income.

Unreasonable Car Allowance

When a car allowance or reimbursement does not meet the three government-defined reasonable conditions, it is considered unreasonable. Unreasonable car allowances or reimbursements include a:

- a flat amount that is not based solely on business kilometres driven, for example, $500.00 a month
- fixed amount per business kilometre driven that is either lower or higher than the government-prescribed reasonable rates, for example, $0.28 or $0.68 per business kilometre
- credit card or reimbursement for gas purchases

Taxable car allowances and reimbursements must be included in an employee's income and are subject to statutory deductions.

Flat Amount

A flat dollar amount paid to an employee that is not based on the actual business kilometres driven is considered an unreasonable allowance and therefore taxable, subject to statutory deductions.

Example:

Optimum Eyewear provides each of its employees with a $450.00 monthly car allowance. The employees are not required to keep a logbook of the business kilometres they drive, nor are they required to report their business kilometres to the company. These car allowances would be considered unreasonable as they are not based on the actual business kilometres driven; the company must include the $450.00 allowance in the employees' taxable income.

Per Kilometre Reimbursement

If an employer provides an employee with a reimbursement for business kilometres driven that is higher or lower than the government-prescribed per kilometre rate, the allowance may be considered unreasonable and therefore taxable, and subject to statutory withholdings.

Example:

Rachel Meyer uses a personal vehicle for business purposes. The employer reimburses Rachel $0.68 for each business kilometre driven in the assigned sales territory. As this rate is higher than the government-prescribed per kilometre rate, the reimbursement is considered unreasonable and will be included in Rachel's taxable income.

Combination Allowance

Some employers provide a car allowance that is a combination of a flat dollar amount plus a per kilometre amount for business kilometres driven. If the two allowances are paid for the same use of the automobile, they are both considered taxable and must be included in the employee's income, subject to statutory deductions.

Example:

Alyson Charles is a salesperson using a personal vehicle for business purposes. The employer provides Alyson with a monthly car allowance of $300.00 and reimburses the government-prescribed per kilometre rate for each business kilometre driven in the sales territory. As Alyson is receiving both a monthly car allowance and a per business kilometre amount for the same use of the vehicle, the combination allowance is taxable and the employer must include the total of the $300.00 and the per kilometre reimbursement in income, subject to statutory deductions.

Example:

Another employer pays the government-prescribed per kilometre amount for employment-related travel outside of the employment district and a flat-rate allowance per month for travel inside of the employment district. Since the flat-rate allowance does not compensate the employee for any of the “same use” of the vehicle that the reasonable per-kilometre allowance compensates the employee for, the allowances are separate for purposes of the *Income Tax Act*.

Consequently, the reasonable per-kilometre allowance paid for travel outside of the district is not included in income, and the allowance paid based on the flat rate paid for travel inside the district is included in income.

Meal Allowance

A meal allowance is an amount paid or reimbursed to an employee that is intended to cover the cost of:

- a missed meal due to working overtime
- meal expenses incurred while on employer business

The employer must determine if the meal allowance paid is taxable, using the government’s criteria.

Overtime Meal Allowance

An overtime meal allowance is considered non-taxable by the CRA if **all** of the following conditions apply:

- the allowance or cost of the meal is reasonable; generally a value of up to $23 (including GST/HST and PST) will be considered reasonable.
- the employee must work two or more hours of overtime before or after their scheduled hours of work, and
- the overtime is infrequent and occasional in nature and occurs usually less than three times a week; this condition may also be met where the meal or allowance is provided three or more times per week on an occasional basis to meet workload demands such as major repairs or periodic financial reporting.

If the overtime regularly occurs three or more times a week, the allowance or reimbursement is considered taxable, as it starts to take on the characteristics of additional earnings. Taxable meal allowances or reimbursements are subject to statutory deductions.

An overtime meal allowance is considered non-taxable by RQ if the:

- overtime is done at the employer's request and is expected to last for at least two consecutive hours
- overtime is done rarely or on an occasional basis (fewer than three times a week)
- the meal expenses are reimbursed (in whole or in part) upon presentation of receipts
- the meal expenses reimbursed or the value of the meal provided is reasonable

Meal Expenses

If an employee is conducting business or is on a business trip, the meal expenses they incur will be reimbursed by the employer. The meal expenses are submitted to the accounting department on an expense report with receipts attached. These meals are considered a business-related expense and the expense reimbursement is not included in income.

Clothing Allowance

A clothing allowance is an amount paid or reimbursed to an employee for the purchase of a particular type of clothing required for work. The allowance is intended to cover or offset the cost of the clothing and any associated costs related to the upkeep, for example, cleaning of the clothing.

A clothing allowance can be provided to the employee as:

- an amount based on receipts submitted
- a flat dollar amount

The taxability of a clothing allowance is determined based on whether the clothing is a required distinctive uniform, or is needed for protection from hazards associated with work, such as safety boots or shoes.

Distinctive Uniform and Special Clothing

The cost of supplying an employee with a distinctive uniform that must be worn while on the job or providing special clothing (including safety footwear and safety glasses) designed to protect the employee from hazards associated with work is not taxable to the employee.

Paying for, or reimbursing, an employee for uniforms or protective clothing that is supported by receipts is considered to be a reimbursement of expenses, not a taxable benefit.

Reimbursement for the cost of protective clothing that is not supported by receipts is also considered non-taxable if all of the following three conditions are met:

- the law requires employees to wear protective clothing on the work site
- the employee bought the protective clothing, and
- the amount of the reimbursement is reasonable

If an employer pays or reimburses employees for the cleaning or laundering of uniforms or special clothing, the payment is considered non-taxable even if the employee does not provide a receipt.

A clothing allowance or reimbursement becomes taxable where the employee has the freedom to choose what they will wear. In other words, the clothing is neither a distinctive uniform nor required for safety reasons.

Taxable clothing allowances or reimbursements are subject to statutory deductions.

Examples:

All employees at Logan Enterprises must wear safety shoes while working in the plant, as protective footwear is required by law. Logan allows its employees to purchase their safety shoes and reimburses them for the cost, whether the employee provides a receipt or not if the cost is under $175.00. The reimbursement is not taxable to the employees.

A restaurant requires its servers to wear black pants or skirts and a white shirt or blouse. As the employees are free to choose their outfits, any money paid by the employer for the clothing would be a taxable clothing allowance.

Personal Living Expenses

If an employer reimburses an employee for personal living expenses, for example, travel from home to the office, then the expense reimbursement is taxable. This is not a common practice, but if personal living expenses are paid by the employer they become taxable expense reimbursements, which are pensionable, insurable, and taxable.

Net Pay Calculation

In Chapter 2 we discussed the steps required to calculate an employee’s regular earnings, statutory deductions and net pay. When an employee receives allowances and expense reimbursements in addition to their earnings, the payroll practitioner must determine whether the payments are to be included in the employee’s taxable income, subject to statutory deductions.

Example:

Jasmine Forsythe works for a retail clothing chain in Alberta as a supervisor in the Human Resources department. An annual salary of $39,000.00 is paid on a bi-weekly basis. The federal and Alberta TD1 claim code is 2.

Jasmine's employment duties include travelling to other store locations to conduct interviews. Jasmine uses a personal vehicle and is provided with an annual car allowance of $3,250.00. Reporting business mileage to the employer is not required; therefore, the car allowance is taxable, subject to statutory deductions.

All management employees must purchase and wear the company's clothing while working; employees submit their receipts and are reimbursed through payroll. Jasmine has submitted receipts for $285.00, including taxes, for reimbursement on the next pay. As this clothing is not a uniform or required for safety purposes, the clothing allowance is taxable, subject to statutory deductions.

Salary per pay period	= $\frac{\text{Annual salary}}{\text{Pay period frequency}}$
	= $\frac{\$39{,}000.00}{26}$
	= $1,500.00
Car allowance per pay period	= $\frac{\text{Annual allowance}}{\text{Pay period frequency}}$
	= $\frac{\$3{,}250.00}{26}$
	= $125.00
Clothing allowance	Reimbursement processed on this pay
	= $285.00

Step One: Determine Gross Earnings		
Gross Earnings (GE)	=	Earnings + taxable allowances + non-taxable allowances + cash taxable benefits
	=	$1,500.00 + ($125.00 + $285.00) + $0.00 + $0.00
	=	$1,910.00
Step Two: Determine Non-Cash or Near-Cash Taxable Benefits		
Taxable Benefits	=	Non-cash taxable benefits + near-cash taxable benefits
	=	$0.00 + $0.00
	=	$0.00
Step Three: Determine Canada/Quebec Pension Plan (C/QPP) contribution		
Pensionable Earnings (PE)	=	Earnings + taxable allowances + cash taxable benefits + non-cash taxable benefits + near-cash taxable benefits
	=	$1,500.00 + $410.00 + $0.00 + $0.00 + $0.00
	=	$1,910.00
	=	(PE – pay period exemption) x annual C/QPP rate
	=	($1,910.00 – $134.61) x $0.057
	=	$101.20
Step Four: Determine Employment Insurance (EI) premium		
Insurable Earnings (IE)	=	Earnings + taxable allowances + cash taxable benefits
	=	$1,500.00 + $410.00 + $0.00 + $0.00
	=	$1,910.00
	=	IE x annual EI rate
	=	$1,910.00 x $0.0158
	=	$30.18
Step Five: Determine Quebec Parental Insurance Plan (QPIP) premium		
Not applicable		Jasmine is an Alberta employee
Step Six: Determine Federal Income Tax		
Net Federal Taxable Income	=	Earnings + taxable allowances + cash taxable benefits + non-cash taxable benefits + near-cash taxable benefits – authorized deductions • Employee contribution to an RPP • Contributions to an RRSP • Union dues • Deduction for living in a prescribed zone • CRA authorized deductions

	=	$1,500.00 + $410.00 + $0.00 + $0.00 + $0.00 – $0.00
	=	$1,910.00
Federal income tax	Using the federal tax tables for an Alberta employee, bi-weekly pay period, claim code 2.	
	=	$285.70
Step Seven: Determine Provincial Income Tax		
Net Provincial Taxable Income (non-Quebec)	=	Earnings + taxable allowances + cash taxable benefits + non-cash taxable benefits + near-cash taxable benefits – authorized deductions • Employee contribution to an RPP • Contributions to an RRSP • Union dues • Deduction for living in a prescribed zone • CRA authorized deductions
	=	$1,500.00 + $410.00 + $0.00 + $0.00 + $0.00 – $0.00
	=	$1,910.00
Provincial income tax	Using the provincial tax tables for an Alberta employee, bi-weekly pay period, claim code 2.	
	=	$134.70
Total federal and provincial income taxes	=	$285.70 + $134.70
	=	$420.40
Step Eight: Total Deductions		
Total Deductions	+	C/QPP contributions
	+	EI premiums
	+	QPIP premiums
	+	Federal income tax
	+	Quebec provincial income tax
	+	Other deductions
		$101.20 (CPP) $ 30.18 (EI) 420.40 (Federal and provincial income tax) $551.78
Step Nine: Net Pay		
Net Pay	=	Gross Earnings – Total Deductions
	=	$1,910.00 – $551.78
	=	$1,358.22

Content Review

- Allowances are amounts paid to employees, in addition to their earnings, for the use, or anticipated use, of their personal property for business purposes.
- Taxable allowances are subject to all statutory deductions.
- Expense reimbursements are amounts paid to employees to cover any expenses that they have incurred on behalf of the organization in the performance of their job.
- A car allowance is an amount paid or reimbursed to an employee who uses their personal automobile for business.
- A car allowance is considered to be reasonable when all of the following conditions apply:
  - the allowance is based solely on business kilometres driven in a calendar year
  - the amount provided is based on the following government-prescribed reasonable guidelines:
    - $0.61 per km for the first 5,000 business kilometres (km) in the year ($0.65 per km in Yukon, Northwest Territories and Nunavut)
    - $0.55 for each business kilometre thereafter ($0.59 per km in Yukon, Northwest Territories and Nunavut)
  - the employer does not reimburse the employee for expenses related to the same use of the vehicle
- The government considers a car allowance to be unreasonable if it is a:
  - flat dollar amount paid to an employee that is not based on the actual business kilometres driven
  - reimbursement for business kilometres driven that is higher or lower than the government-prescribed per kilometre rate
  - credit card or reimbursement for gas purchases
- If a combination allowance of a flat dollar amount and a per kilometre amount is paid for the same use of the automobile, they are both considered taxable and must be included in the employee's income, subject to statutory deductions.
- A reasonable overtime meal allowance is considered to be non-taxable by the Canada Revenue Agency if the:
  - the allowance or cost of the meal is reasonable; generally a value of up to $23 (including GST/HST and PST) will be considered reasonable.
  - the employee must work two or more hours of overtime before or after their scheduled hours of work, and
  - the overtime is infrequent and occasional in nature and occurs usually less than three times a week; this condition may also be met where the meal or allowance is provided three or more times per week on an occasional basis to meet workload demands such as major repairs or periodic financial reporting.
- An overtime meal allowance is considered non-taxable by RQ if the:

    - overtime is done at the employer's request and is expected to last for at least two consecutive hours
    - overtime is done rarely or on an occasional basis (fewer than three times a week)
    - the meal expenses are reimbursed (in whole or in part) upon presentation of receipts
    - the meal expenses reimbursed or the value of the meal provided is reasonable
- Reimbursements of meal expenses incurred by an employee when conducting business are not included in income.
- The cost of supplying an employee with a distinctive uniform that must be worn while on the job or providing special clothing (including safety footwear and safety glasses) designed to protect the employee from hazards associated with work is not taxable to the employee.
- Reimbursement for the cost of protective clothing that is not supported by receipts is also considered non-taxable if all of the following three conditions are met:
    - the law requires employees to wear protective clothing on the work site
    - the employee bought the protective clothing
    - the amount of the reimbursement is reasonable
- If an employer reimburses an employee for personal living expenses, for example, travel from home to the office, then the expense reimbursement is taxable.

Review Questions

1. Name three common types of allowances that employers provide to employees.

2. Indicate whether the following remuneration amounts are considered taxable or non-taxable to the employee by the Canada Revenue Agency.

	TAXABLE	NON-TAXABLE
Leslie Lafarge receives 0.61 per kilometre for the first 5,000 business kilometres driven using a personal vehicle and $0.55 for each business kilometre after. No other compensation is paid for the use of the car.		
Due to late shipments, the employees who work in the shipping/receiving department are asked to work overtime every night for the next 4 weeks. The company reimburses the employees $15.00 each day for the cost of their dinners.		
Frances Miles is given a credit card to buy gas for a personal car at Sunshine Fuels.		
Marcella Morin took three clients to lunch on Wednesday and submitted the receipt to accounts payable with an expense claim.		
The company pays for the safety boots that Jennifer Giles must wear on the job.		

3. Which statutory deductions apply to taxable allowances?

4. What three conditions must be satisfied for a car allowance to be considered reasonable?

5. Player Flooring, located in Pointe Claire, Québec has a weekly pay period. France Lavergne works in the shipping/receiving department, earns $18.50 per hour and works 40 regular hours per week. France works overtime every week; in this pay period, 4 hours of overtime were worked each day from Monday through Thursday. The organization pays employees 1½ times their regular hourly rate for overtime hours worked and provides a $20.00 meal allowance per day to employees who work overtime.

   France has a claim code of 3 on the federal TD1 and a deduction code of C on the TP1015.3-V. Calculate France's net pay.

Step One:
Step Two:

Step Three:
Step Four:
Step Five:
Step Six:
Step Seven:

Step Eight:
Step Nine:

Benefits

As part of a total compensation plan, an employer may offer certain employer-paid benefits to employees. The employer is responsible for determining whether those benefits are taxable employment income.

It is important to note that employers may also provide benefits to former or retired employees, for example, employer-paid group term life insurance premiums.

Both the Canada Revenue Agency and Revenu Québec provide criteria that must be used to determine if the benefit is taxable to the employee. The primary payroll compliance requirement concerning benefits is that if they are taxable, both the Federal and Québec governments require that the value of the benefit is included in the employee's income as it is earned or enjoyed, meaning on a pay period basis.

The required statutory withholding amounts are determined based on the method in which the benefit is provided or delivered to the employee.

Cash benefits	The employee has access to cash from the employer (e.g. reimbursement of fitness club membership)
Near-cash benefits	These are items that can be used like cash (e.g. gift cards) or easily converted to cash (e.g. stock or gold nugget)
Non-cash benefits	The employer provides goods, services or property to the employee (e.g. use of employer owned or leased automobile).

The statutory withholding requirements for taxable benefits, based on delivery method, are:

	C/QPP CONTRIBUTIONS	EI OR QPIP PREMIUMS	FEDERAL AND PROVINCIAL INCOME TAX	NORTHWEST TERRITORIES AND NUNAVUT PAYROLL TAX
Cash	√	√	√	√
Near-cash	√	N/A	√	√
Non-cash	√	N/A	√	√

Example:

Flowers Unlimited reimburses its employees for the cost of fitness club memberships at a club of the employees' choice. The employees submit their receipts to the company and are reimbursed through payroll. The reimbursement is a cash taxable benefit to the employees and is subject to all statutory deductions.

Example:

Flowers Unlimited rewards employees with high sales by providing them with a gift card. This is a near-cash taxable benefit for the employees and is subject to subject to withholdings for Canada/Québec Pension Plan (C/QPP) contributions, income tax and Northwest Territories and Nunavut payroll taxes.

Example:

Flowers Unlimited provides group term life insurance for their employees. The company pays 100% of the cost of the insurance. As the employees enjoy the benefit of having life insurance coverage throughout the year, the company must calculate the life insurance premium costs per employee and include that amount in the employee's taxable income on a pay period basis. As the company is paying a third party for the benefit, the group term life insurance coverage is considered a non-cash taxable benefit, subject to withholdings for Canada/Québec Pension Plan (C/QPP) contributions, income tax and Northwest Territories and Nunavut payroll taxes.

Fair Market Value

The fair market value of a taxable benefit includes the cost of the goods, services or property provided plus any applicable sales taxes. For instance, when calculating the taxable benefit value for a company-provided automobile the cost of the vehicle includes the purchase or lease cost plus any applicable taxes.

The following chart details the GST/HST/PST/QST components across the country.

PROVINCE	TAX	RATE
Alberta	Goods and Services Tax (GST) only	5%
British Columbia	Goods and Services Tax (GST)	5%
	Provincial Sales Tax (PST)	7%
Manitoba	Goods and Services Tax (GST)	5%
	Provincial Sales Tax (PST	7%
New Brunswick	Harmonized Sales Tax (HST)	15%
Newfoundland and Labrador	Harmonized Sales Tax (HST)	15%
Northwest Territories	Goods and Services Tax (GST) only	5%
Nova Scotia	Harmonized Sales Tax (HST)	15%
Nunavut	Goods and Services Tax (GST) only	5%
Ontario	Harmonized Sales Tax (HST)	13%

PROVINCE	TAX	RATE
Prince Edward Island	Harmonized Sales Tax (HST)	15%
Québec	Goods and Services Tax (GST)	5%
	Québec Sales Tax (QST)	9.975%
Saskatchewan	Goods and Services Tax (GST)	5%
	Provincial Sales Tax (PST)	6%
Yukon	Goods and Services Tax (GST) only	5%

Note:
This course does not provide instruction on federal or jurisdiction sales tax legislation. In our examples, we will indicate what taxes apply to the fair market value of a benefit. In practice, we suggest payroll professionals request a copy of any invoices or service agreements to determine the fair market value of the benefit. These documents would indicate the base cost and whether any additional taxes would apply.

When the benefit is considered non-taxable, the value is excluded from the employee's income. Non-taxable benefits can include providing employees with a gift or award that meets government-specified conditions, paying the premiums for private health insurance coverage (for non-Québec employees) or employee assistance plan coverage.

In this material, we will review the most common employer-provided benefits including:

- Group Term Life Insurance Plans
- Group Sickness and Accident Insurance Plans
- Private Health Insurance Plans
- Provincial Health Insurance Plans
- Employee Assistance Plans
- Gifts and Awards
- Cell Phones and Internet Access
- Parking
- Tuition
- Loans
- Automobiles

For information on other employment benefits, refer to the Canada Revenue Agency (CRA) and the Revenu Québec (RQ) taxable benefit publications:

- *Employers' Guide – Taxable Benefits and Allowances* – T4130 (CRA)
- *Taxable Benefits* – IN-253-V (RQ)

These publications can be obtained from government websites.

Group Term Life Insurance Plans

Many employers offer group term life insurance as part of their employee benefits package. Life insurance coverage is normally calculated as a multiple of the employee's annual salary, rounded up to the nearest thousand ($1,000.00). The premiums paid by the employer for coverage under a group term life insurance policy are considered a taxable benefit to the employee. If the employer shares the premium cost with the employee, for example, the employer pays half and the employee pays half, then the taxable benefit would only be the portion of the premiums the employer pays or 50%. Group term life insurance taxable benefit calculations are based on the premium rates and sales taxes the employer pays and the amount of coverage provided. Premium rates are expressed per $1,000.00 of coverage on a monthly basis. The taxable benefit must be calculated on a pay period basis for inclusion in the employee's taxable income.

The following formula calculates the employee's monthly taxable benefit:

Coverage amount	=	**Annual salary x coverage multiplier** **Round coverage amount up to nearest $1,000.00**
Monthly taxable benefit	=	**<u>Coverage amount x premium rate</u>** **$1,000.00**

To ensure that the benefit is included in the employee's income as it is earned or enjoyed, the monthly benefit must be annualized and then prorated on a pay period basis, as follows:

Pay period taxable benefit	=	**<u>Monthly taxable benefit x 12</u>** **Pay period frequency**

Example:

Rhonda Gold's life insurance coverage, through the employer's group plan, is two times the annual salary of $30,300.00. The employer pays the insurer 100% of the cost of the life insurance coverage at a premium rate of $1.00 per $1,000.00 of coverage per month. Rhonda is paid weekly; the taxable benefit is calculated as follows:

Coverage amount	=	**Annual salary x coverage multiplier** **Round coverage amount up to nearest $1,000.00**
	=	($30,300 x 2)
	=	$60,600.00
	=	$61,000.00 (rounded)
Monthly taxable benefit	=	<u>coverage amount x premium rate</u> $1,000.00
	=	<u>$61,000 x $1.00</u> $1,000.00
	=	$61.00

Pay period taxable benefit	=	$\frac{\text{Monthly taxable benefit x 12}}{\text{Pay period frequency}}$
	=	$\frac{\$61.00 \times 12}{52}$
	=	$14.08

Insurance coverage is exempt from Goods and Services Tax (GST); however, Manitoba, Ontario and Québec impose taxes on certain group insurance premiums.

- Manitoba – 7%
- Ontario – 8%
- Quebec – 9%

As a result, the taxes paid on the premiums for Manitoba, Ontario and Quebec employees are included with the premium cost in calculating the employee's taxable benefit.

Example:

If Rhonda was a Québec employee, the benefit amount would increase by the applicable tax on insurance premiums of 9%.

Monthly taxable benefit	= $61.00 x 1.09 = $66.49
Pay period taxable benefit	= $\frac{\text{Monthly taxable benefit x 12}}{\text{Pay period frequency}}$
	= $\frac{\$66.49 \times 12}{52}$
	= $15.34

Group Sickness and Accident Insurance Plans

These are group plans that provide employees with income for a period of time, should the employee be away from work for reasons of sickness or accident. A group plan is generally one that provides coverage to a class or association of employees. There can also be multiple plans for a group of employees, for example, one plan for clerical staff and one for management staff. The types of sickness and accident insurance plans considered in this category include:

- short term disability plans (wage loss replacement, weekly indemnity)
- long term disability plans
- accident insurance plans (accidental death and dismemberment)

If an employer pays the premiums for group short-term or long-term disability plans there is no taxable benefit implication for the employee, however employer-paid accidental death and dismemberment (AD&D) premiums are considered a non-cash taxable benefit. As a result, employer-paid AD&D premiums, plus the 7% RST (Manitoba), 8% RST (Ontario) and the 9% tax on insurance premiums (Québec) are considered pensionable for C/QPP contributions and taxable for federal and provincial income taxes.

Employer-paid premiums for a non-group plan are considered a non-cash taxable benefit in all jurisdictions. A non-group plan is one that generally does not cover a group or association of employees. For example, if the organization pays the premiums for a long-term disability plan for only the president of the organization, this would be considered a non-cash taxable benefit to the president. When the benefit is taxable it is also pensionable for C/QPP contributions; however, as it is a non-cash benefit, it is not insurable, and no EI or QPIP premiums are deducted.

GST and HST are not included in the value of this type of benefit, but the provinces of Manitoba, Ontario, and Québec assess sales tax on AD&D insurance premiums.

Private Health Insurance Plans

Private health insurance plans were designed to supplement the universal health care system in Canada that provides for basic coverage for all residents, regardless of means. Private health coverage can cover all or some of the following benefits:

- supplementary hospital
- drugs
- private-duty nursing
- paramedical services
- medical supplies and services
- out-of-province emergency
- hearing aids

- vision care
- dental expenses

In Québec only, when an employer pays the premium for this type of plan, the value of the premium is a non-cash taxable benefit to the employee. The taxable benefit is also subject to the 9% tax on insurance premiums. The value of the taxable benefit and the tax is included in the employee's income and is subject to statutory deductions of QPP contributions and Québec provincial tax.

Employer-paid premiums for private health insurance plans, for all non-Québec employees, are not a taxable benefit to the employees.

Example:

ABC Manufacturing, located in Nova Scotia, provides its employees with a private health insurance plan that includes, among other services, dental coverage. The premiums that ABC pays to the insurance company for this coverage are considered a non-taxable benefit for the employees; the value is not included in the employees' pensionable, insurable or taxable income.

John Truman, an employee of ABC's Halifax office, paid $525.00 directly to a dentist for recent dental services. The services are covered at 80% under the company's dental plan. A standard dental claim form was submitted to the insurance company for reimbursement. The insurance company reimbursed John 80% of the amount paid to the dentist. As the reimbursement came from the insurance company for services covered under the plan, there is no taxable benefit.

If the employer pays the cost of an employee's expenses directly to the provider of a treatment not covered under a group insurance plan, the amount the employer pays would be considered a non-cash taxable benefit to the employee, subject to C/QPP, income taxes and Northwest Territories and Nunavut payroll taxes. If the employer reimburses the employee for any amount the employee paid for these expenses, the amount would be considered a cash taxable benefit, subject to all statutory withholdings, including EI and QPIP premiums.

Example:

The President of Omni Heating and Cooling paid a dentist directly for crown and bridge work that was not covered under the company dental plan. Omni reimbursed the $2,000.00 the employee paid. This cash taxable benefit will be included in taxable income, as it is fully pensionable, insurable and taxable.

Provincial Health Insurance Plans

The provinces of British Columbia, Manitoba, Newfoundland and Labrador, Ontario and Québec impose levies or health care taxes on employers. The amount the employer pays is not a taxable benefit to the employee. Employers are not permitted to deduct any related costs from their employees. Health care is funded through general tax revenues in the jurisdictions of Alberta, New Brunswick, Nova Scotia, Northwest Territories, Nunavut, Prince Edward Island, Saskatchewan and Yukon.

Employee Assistance Plans

Under employee assistance plans employers make confidential counselling services available to employees for:

- physical or mental health counselling, for example, stress management or chemical dependency
- family counselling, such as marital problems, behavioural issues, grief counselling

The fees an employer pays directly to the provider for employee assistance plan coverage are not considered taxable to the employee.

If, however, the employer reimbursed the employee for the fees, the reimbursement becomes a cash taxable benefit, subject to C/QPP, EI, QPIP, income taxes and Northwest Territories and Nunavut payroll taxes. When counselling fees are considered to be a taxable benefit, they are subject to GST/QST/HST.

When the employer pays for the following types of counselling services outside of an employee assistance plan, the benefit is not taxable to the employee:

- physical or mental health counselling, for example, tobacco, drug or alcohol abuse and stress management
- re-employment for employees whose employment services are being terminated, for example, job placement counselling
- retirement counselling (for employees nearing retirement)

If an employer chooses to pay for an employee’s personal financial or legal counselling fees, the amount the employer pays to the third party, plus all applicable taxes, is included in the employee’s income as a non-cash taxable benefit if paid directly to the service provider. The benefit is subject to C/QPP, income taxes and Northwest Territories and Nunavut payroll taxes; it is not insurable for EI or QPIP premiums.

Gifts and Awards

A gift or award presented to an employee is a taxable benefit from employment, whether it is cash, near-cash, or non-cash. However, both CRA and RQ have established administrative policies that exempt gifts and awards in some cases.

To determine if a taxable benefit value must be included in an employee's income the employer must review:

- The reason why the gift was presented
- How the gift was delivered, cash, near-cash or non-cash
- The total value of all gifts presented in the year

CRA-Specific Guidelines
There is no limit to the number of non-cash gifts and awards that an employee can receive per year. There is, however, a single $500.00 exemption that can be applied against the total value of all the non-cash gifts and awards given to an employee annually for the following reasons:

- Presented for a special occasion such as a religious holiday, a birthday, a wedding, or the birth of a child.
- Awarded for an employment-related accomplishment such as outstanding service or employees' suggestions. It is recognition of an employee's overall contribution to the workplace, not recognition of job performance. Generally, a valid, non-taxable award has clearly defined criteria, a nomination and evaluation process, and a limited number of recipients.

Example:

Indira got married in July and received a crystal picture frame, worth $300.00 as a wedding gift from the employer. In September, a birthday gift of a $175.00 watch was received. In December, an MP3 player, worth $195.00, was presented as an award for exceeding safety standards.

Indira has now received three gifts and awards:

Crystal frame:	$300.00	MP3 player:	$195.00
Watch:	$175.00	Total awards:	$195.00*
Total gifts:	$475.00*		

*Includes applicable sales taxes

The total value of gifts and awards received in the year: $475.00 + $195.00 = $670.00

There is no limit to the number of gifts and awards the employee can receive; however, the total value of the gifts and awards over $500.00 ($170.00) must be included in Indira's income as a non-cash taxable benefit.

The annual exemption of $500 may only be applied to non-cash gifts or awards. If the employee is provided with a cash or near-cash gift or award the full value will be considered a taxable benefit subject to all applicable statutory deductions.

A gift or award given to an employee for performance-related reasons (such as performing well in the job they were hired to do, exceeding production standards, completing a project ahead of schedule or under budget, putting in extra time to finish a project, covering for a sick manager/colleague) is considered a reward and is fully taxable subject to all applicable statutory deductions.

Additionally, there are special guidelines for long service awards. Once every five years, an employer can give an employee a non-cash long service or anniversary award valued at $500.00 or less, tax free. The award must be for a minimum of five years of service, and it has to have been at least five years since the employee received their last long service or anniversary award. Any amount over the $500.00 is taxable.

These long service or anniversary awards do not affect the $500.00 gifts and awards exemption for the year they were given. An employer can give an employee a non-cash long service or anniversary award worth $500.00 in the same year they gave the employee other non-cash gifts and awards worth $500.00. If the value of the long-service award is less than $500.00, the shortfall cannot be added to the annual $500.00 exemption.

Example:

Indira, from our previous example, also received an oil painting for a long-service award that met the criteria in the same year:

Crystal frame:	$300.00	MP3 player:	$195.00
Watch:	$175.00	Total awards:	$195.00*
Total Gifts:	$475.00*		

Long-service award:
Oil painting: $470.00*

*Includes applicable sales taxes

As the long-service award is less than $500.00, there is no taxable benefit. However, the value of the total amount of gifts and awards over $500.00 ($170.00) must be included in income as a non-cash taxable benefit.

The CRA has a series of questions on the ‘Rules for Gifts and Awards’ page on their website that can assist in determining if a gift, award or long-service award is a taxable benefit to the employee.

RQ-Specific Guidelines
In Québec, there is no limit on the number of gifts or awards that may be given to an employee. Annually two exemptions can be applied to non-monetary gifts or awards.

- Up to $500 (including taxes per year for a non-monetary gift given for a special occasion (such as Christmas, a birthday, a wedding or similar occasion; and
- Up to $500 (including taxes) per year for a non-monetary reward given in recognition of certain accomplishments (such as reaching a certain number of years of service, meeting or exceeding safety requirements, or achieving similar objectives).

Example:

Marie's Québec employer gave the following gifts and awards during the calendar year:

Birthday gift – watch:	$350.00	Safety award – hockey tickets:	$250.00
Wedding gift – vase:	$275.00	Suggestion award – artwork:	$575.00
Total gifts:	$625.00*	Total awards:	$825.00*

*Includes applicable sales taxes

Provincially:
For the gifts, the amount over $500.00 ($125.00) and for the awards, the amount over $500.00 ($325.00) would be included in Marie's income for a total of $450.00, subject to QPP and Québec provincial income tax.

Federally:
As there is only a single $500.00 exemption for all the non-cash gifts and awards given in a year, the total amount over $500.00 ($950.00) would be included in Marie's income, subject to federal income tax.

In Québec, gifts and awards paid in cash, are entirely taxable, subject to all applicable statutory deductions. However, the exemptions may be applied to near-cash gifts such as gift certificates or gift cards that must be used to purchase goods or services from a specified business or list of businesses, provided the other gift and award criteria are met.

A gift or award given to an employee for performance-related reasons (such as performing well in the job they were hired to do, exceeding production standards, completing a project ahead of schedule or under budget, putting in extra time to finish a project, covering for a sick manager/colleague) is considered a reward and is fully taxable benefit subject to all applicable statutory deductions.

A summary of the guidelines is provided in the following table.

Exhibit 3-1

	CRA GUIDELINES	RQ GUIDELINES
Number of non-cash gifts	No limit	No limit
Dollar value criteria for gifts		$500.00 on gifts is treated as an exemption
Number of non-cash awards	No limit	No limit
Dollar value criteria for awards		$500.00 on awards is treated as an exemption
Dollar value criteria for combined gifts and awards	$500.00 on the total combined cost of all gifts and awards is treated as an exemption	
Number of long-service awards	One every five years, for a minimum of five years' service and at least five years since the last award	Included in general awards
Dollar value criteria for long service awards	$500.00 on long service awards is treated as an exemption	Included in general awards
Cash gift or award	Pensionable, insurable and taxable, subject to all statutory deductions	Pensionable, insurable and taxable, subject to all statutory deductions
Near-cash gifts and awards	Gifts and awards that are easily convertible to cash are considered taxable and include gift certificates, gold nuggets, stocks, and securities, smart cards and debit cards. These gifts and awards are subject to CPP, income taxes and NT/NU payroll taxes.	Gift certificates, gift coupons and smart cards that must be used to purchase goods or services from a particular business or list of businesses are not considered taxable, provided the other gift and award criteria are met.

Cell Phones and Internet Access

Many employers provide employees with cell phones and home internet access to help carry out their duties when away from the workplace. Any fees an employer pays that are related to business use are not a taxable benefit to the employee. If an employer gives an employee an allowance to cover the cost of cell phone or internet services, the allowance would be considered a cash taxable benefit, subject to C/QPP, EI, QPIP, income taxes and NT/NU payroll taxes.

When the employer provides a company cell phone or pays for internet services at an employee's home the following guidelines apply.

CRA-Specific Guidelines
The value of the fees for the phone or internet that is related to personal use must be included in the employee's income as a taxable benefit. The value is based on the fair market value of the personal use of the service, **minus** any amounts reimbursed by the employee. The employer is responsible for determining the percentages of business and personal use and the fair market value.

For cell phone service only, the Canada Revenue Agency does not consider an employee's personal use to be a taxable benefit if **all** of the following apply:

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

RQ-Specific Guidelines
If the services are primarily for the employee's benefit or if the employee's personal cell phone or internet use results in additional fees, the employer should include the value in the employee's income as a taxable benefit.

For both cell phone and internet service, Revenu Québec does not consider a reimbursement or payment of the fees to be a taxable benefit if both of the following apply:

- the services are primarily for the employer's benefit
- the employee's personal use does not result in additional fees

Parking

Where an employer pays for all or part of an employee's parking costs at the regular workplace, the value of the parking costs is a non-cash taxable benefit to the employee. The taxable benefit equals the employer-paid cost of the parking space less any amount the employee pays towards the cost.

Where the employer owns the land on which the employee is parking, the fair market value of the parking space is the value of the taxable benefit. Fair market value is determined by finding the cost of similar parking in the same vicinity as the work location. If the office building is located in an area where there is plenty of free parking, the taxable value of the employer-provided parking would be nil. When the work location is in an area where other visitors are required to pay for parking, the fair market value would be the cost to park in a public parking lot near the work location.

There is no taxable benefit in the following situations:

- when free or subsidized parking is provided to a physically disabled employee
- when there is a distinct and regular requirement for an employee to have a parking space as part of their employment activities, for example, if the employee is required to make regular daily calls on their customers. In the event of an audit, the employer must be prepared to justify that the value of the parking space is not a taxable benefit
- when an employer pays for parking costs incurred by an employee who is travelling away from the normal place of business; these are reimbursements of business-related expenses, and are non-taxable
- when a business operates from a shopping centre or industrial park, where parking is available to employees and non-employees; the fair market value of parking, in this case, would be nil
- when an employer provides scramble parking (for example, there are significantly fewer spaces than there are employees and the spaces are available on a first-come, first-served basis)

Where parking fees are considered to be a taxable benefit, the fair market value should be included in the employee's income.

Example:

Dalton Industries has two locations in the Montréal area; the head office is located downtown while the plant is in an industrial park in Ville d'Anjou. The employees who work downtown have their monthly parking fees paid for by the company; the plant workers have parking available at the site.

As the plant operates in an industrial park, where there is no fair market value for parking, there is no parking taxable benefit for the employees at that location.

The monthly parking fee is $300 and in Quebec parking fees are subject to GST and QST. The company pays the parking lot vendor:

Monthly parking cost = Cost + GST + QST
= $300.00 + ($300.00 x 5.0%) + ($300.00 x 9.975%)
= $300.00 + $15.00 + $29.93
= $344.93

The taxable benefit to be included in the employee's income each pay, based on a bi-weekly frequency is determined as:

Pay period benefit $= \frac{\$344.93 \times 12}{26}$

= $159.20

Tuition

The costs related to taking education or training courses and programs, when paid on an employee's behalf by the employer, may be taxable. Where an educational institution provides free or subsidized courses (through scholarships or bursaries) to an employee, the employee is considered to have received a non-cash taxable benefit. The value of the benefit would equal the fair market value of the tuition, less any amount that the employee pays.

Both the Canada Revenue Agency (CRA) and Revenu Québec (RQ) have established guidelines for determining whether or not employer-paid tuition is taxable.

A taxable benefit results when the employer pays for any cost of an employee's course that primarily benefits the employee (for example, personal interest training). This applies whether the employer pays the educational institution directly (a non-cash taxable benefit) or reimburses the employee (a cash taxable benefit). An example of personal interest training would be an employer paying for the organization's receptionist to take a course in ballroom dancing.

There is no taxable benefit in the following situations:

- when an employer pays for an employee's course that is specifically related to the employee's position or career advancement and the employer is the primary beneficiary rather than the employee, for example, an employer paying for their bookkeeper's National Payroll Institute courses
- when an employer pays for a course that can benefit the employer, even though it is not directly related to the employee's current position, for example, an employer pays the tuition for an employee's courses in Administration and Management, anticipating that the employee will move into a management position in the future

If HST, GST, QST and/or PST are added to the tuition fees, the value of the taxable benefit must also include these taxes. Tuition fees for credit courses are not normally subject to additional sales taxes.

When the following tuition-related items are provided to an employee's family member, the CRA requires that they are reported on a T4A slip for the family member and RQ requires that they are reported on an RL-1 slip for the family member:

- free tuition provided to an employee's family member by a post-secondary educational institution
- payment or reimbursement by an employer for tuition fees, books and supplies related to post-secondary education for an employee's family member
- a post-secondary scholarship or bursary provided by an employer to the family member of an employee

Both the CRA and RQ require that the fair market value of scholarships, bursaries or tuition provided by an employer to an employee's family member who attends elementary or secondary school is included in the employee's income.

Loans

When an employer lends money to an employee interest-free or at a low rate of interest so that the employee can purchase a home computer, pay some bills or perhaps even buy a home, the loan must be classified as one of the following two types:

- regular loan
- home purchase loan

A regular loan also includes any unpaid purchase price of goods or services. Regardless of the reason for the loan, if the employer charges no interest or an interest rate lower than the government-prescribed interest rate, the employee is considered to have received a benefit from employment. The loan interest taxable benefit is included in income and subject to C/QPP contributions and income taxes. A loan interest taxable benefit is non-cash, so neither EI nor QPIP premiums apply. There are no applicable sales taxes on loans. If an employer forgives the loan principal, the forgiven amount must be included in the employee's income, subject to all statutory deductions.

The taxable benefit is calculated as the amount of interest that the employee would have paid on the loan for the year at the government-prescribed interest rate, less any interest the employee paid.

The government-prescribed interest rate is normally lower than the prime rate or the lowest rate charged by the bank. The federal government calculates the prescribed rate of interest on the average price of government treasury bills. They set the prescribed interest rate each calendar quarter and Québec sets its prescribed interest rate in harmony with the federal rate.

To calculate the value of the total annual interest taxable benefit, the following variable definitions and formulas are provided.

Exhibit 3-2

STEP	VARIABLE	FORMULA
Step 1	**Variable A**	**Calculate the interest taxable benefit per pay period, using the following formula:** **Outstanding loan amount x (Government-prescribed interest rate - organization interest rate) ÷ pay period frequency** **Variable A is the total of the pay period interest taxable benefit**
Step 2	**Variable B**	**Interest on the loan that was paid or payable for the year by the employer or related organization**
Step 3	**Variable C**	**The interest that was paid by any person on the loan during the year or within 30 days after the end of the year**
Step 4	**Variable D**	**Any repayment by the employee of the amounts in B**
Step 5	**Total Annual Interest Taxable Benefit**	**Total Annual Interest Taxable Benefit = (A + B) - (C + D)**

Note:
The interest rates used in the examples that follow are for demonstration purposes only. They are not the current government-prescribed interest rates. Variables B, C, and D have not been included in the examples, since they rarely occur.

Example:

On January 1, the organization lends Eric $10,000.00 interest-free. The government-prescribed interest rates for the year are:

1st quarter: 5%
2nd quarter: 4%
3rd quarter: 6%
4th quarter: 7%

Eric pays back the loan, through payroll deductions, by $500.00 at the end of each monthly pay period. As a result, the loan balance is reduced by $500.00 at the beginning of each month. Following the step-by-step process, we calculate Eric's monthly taxable benefit as follows:

Step 1
Calculate the interest taxable benefit per pay period on the loan, using the following formula:

$$\frac{\text{Outstanding loan amount x (Government-prescribed interest rate - organization interest rate)}}{\text{Pay period frequency}}$$

PAY PERIOD	FORMULA	MONTHLY BENEFIT
January	$10,000 x (5% - 0%) ÷ 12	$ 41.67
February	$ 9,500 x (5% - 0%) ÷ 12	$ 39.58
March	$ 9,000 x (5% - 0%) ÷ 12	$ 37.50
April	$ 8,500 x (4% - 0%) ÷ 12	$ 28.33
May	$ 8,000 x (4% - 0%) ÷ 12	$ 26.67
June	$ 7,500 x (4% - 0%) ÷ 12	$ 25.00
July	$ 7,000 x (6% - 0%) ÷ 12	$ 35.00
August	$ 6,500 x (6% - 0%) ÷ 12	$ 32.50
September	$ 6,000 x (6% - 0%) ÷ 12	$ 30.00
October	$ 5,500 x (7% - 0%) ÷ 12	$ 32.08
November	$ 5,000 x (7% - 0%) ÷ 12	$ 29.17
December	$ 4,500 x (7% - 0%) ÷ 12	$ 26.25
Step 1	Variable A	$383.75
Step 2	Variable B	$ 0.00
Step 3	Variable C	$ 0.00
Step 4	Variable D	$ 0.00
Step 5	Total Annual Interest Taxable Benefit (A + B) - (C + D)	$383.75

In the following example, the organization is charging the employee interest; however, the employee is not making any payments on the loan principal during the year.

Example:

The organization granted a personal loan to Jean-Luc of $75,000.00 on January 1, at an interest rate of 3%. It was agreed that no repayment of the loan would be made during the year. Jean-Luc is paid monthly.

The government-prescribed interest rates for the year are:

1st quarter: 5%
2nd quarter: 4%
3rd quarter: 6%
4th quarter: 7%

Employer interest rate: 3%

Step 1
Calculate the interest taxable benefit per pay period on the loan, using the following formula:

$$\frac{\text{Outstanding loan amount x (Government-prescribed interest rate - organization interest rate)}}{\text{Pay period frequency}}$$

PAY PERIOD	FORMULA	MONTHLY BENEFIT
January	$75,000 x (5% - 3%) ÷ 12	$ 125.00
February	$75,000 x (5% - 3%) ÷ 12	$ 125.00
March	$75,000 x (5% - 3%) ÷ 12	$ 125.00
April	$75,000 x (4% - 3%) ÷ 12	$ 62.50
May	$75,000 x (4% - 3%) ÷ 12	$ 62.50
June	$75,000 x (4% - 3%) ÷ 12	$ 62.50
July	$75,000 x (6% - 3%) ÷ 12	$ 187.50
August	$75,000 x (6% - 3%) ÷ 12	$ 187.50
September	$75,000 x (6% - 3%) ÷ 12	$ 187.50
October	$75,000 x (7% - 3%) ÷ 12	$ 250.00
November	$75,000 x (7% - 3%) ÷ 12	$ 250.00
December	$75,000 x (7% - 3%) ÷ 12	$ 250.00
Step 1	Variable A	$1,875.00
Step 2	Variable B	= $0.00
Step 3	Variable C	= $0.00
Step 4	Variable D	= $0.00
Step 5	Total Annual Interest Taxable Benefit (A + B) - (C + D)	$1,875.00

Note:
Employee loans can be very complex. This material is intended to provide you with a general understanding of how to calculate the taxable benefit on an employee loan.

Non-Taxable Loans

If an employer provides an employee with a loan and charges the employee the government-prescribed interest rate or higher, no taxable benefit is assessed.

Home Purchase Loans

An employer may loan an employee money to purchase or acquire a home, or to repay a loan that was used to purchase a home. The value of the interest taxable benefit for a home purchase loan is calculated using the same method as a regular interest-free or low interest loan with one key exception. The government-prescribed interest rate used in the calculation is capped for five years, or the term of the loan, whichever is less, at the rate that is in effect at the time the loan is granted. When calculating the employee's taxable benefit, the employer will not use the current government-prescribed interest rate if it is higher than the rate that was in effect when the loan was given. If the government-prescribed interest rate decreases below the prescribed interest rate at the time the loan was granted, the lower rate is used in the calculation. There are no applicable sales taxes on home purchase loans.

This measure protects the employee from any increase in the government-prescribed interest rate. If this rate were to increase during the first five years, the employee's interest taxable benefit would not increase; however, if the rate were to decrease, the employee would receive the benefit of the lower interest rate.

If the term of the loan exceeds five years, the outstanding loan balance is deemed to be outstanding at every fifth anniversary. The government-prescribed rate in effect at the fifth anniversary would be the capped rate.

Example:

A home purchase loan of $75,000.00 was granted to Andrew Thomas on January 1st. The employer charges Andrew an interest rate of 3%. Andrew does not make any payments against the principal during the year. This is the only loan Andrew receives from the employer this year.

As the loan is for the purchase of a home, the government-prescribed interest rate of 5% that was in effect at the time the loan was granted is capped for the next five years, unless the prescribed rate decreases. The government-prescribed interest rates for the year are:

1st quarter: 5%
2nd quarter: 4%
3rd quarter: 6%
4th quarter: 7%

Employer rate of interest: 3%

Following the step-by-step process, Andrew's monthly taxable interest benefit is calculated as follows:

Step 1
Calculate the interest taxable benefit per pay period on the loan, using the following formula:

$$\frac{\text{Outstanding loan amount x (Government-prescribed interest rate - organization interest rate)}}{\text{Pay period frequency}}$$

PAY PERIOD	FORMULA	MONTHLY BENEFIT
January	$75,000 x (5% - 3%) ÷ 12	$ 125.00
February	$75,000 x (5% - 3%) ÷ 12	$ 125.00
March	$75,000 x (5% - 3%) ÷ 12	$ 125.00
April	$75,000 x (4% - 3%) ÷ 12	$ 62.50
May	$75,000 x (4% - 3%) ÷ 12	$ 62.50
June	$75,000 x (4% - 3%) ÷ 12	$ 62.50
July	$75,000 x (5%* - 3%) ÷ 12	$ 125.00
August	$75,000 x (5%* - 3%) ÷ 12	$ 125.00
September	$75,000 x (5%* - 3%) ÷ 12	$ 125.00
October	$75,000 x (5%* - 3%) ÷ 12	$ 125.00
November	$75,000 x (5%* - 3%) ÷ 12	$ 125.00
December	$75,000 x (5%* - 3%) ÷ 12	$ 125.00
Step 1	Variable A	$1,312.50
Step 2	Variable B	= $0.00
Step 3	Variable C	= $0.00
Step 4	Variable D	= $0.00
Step 5	Total Annual Interest Taxable Benefit (A + B) - (C + D)	$1,312.50

*The interest rate is capped at 5% (the government-prescribed interest rate in effect when the loan was granted).

In the above example, the ceiling cap on the interest rate is set at 5% for the first five-year period. Assuming the term of the loan exceeds five years, on the fifth anniversary, the government-prescribed interest rate in effect at that time would become the new ceiling cap for the next five-year period. For example, if the prescribed rate was 7% on the fifth anniversary, the 7% rate would become the capped interest rate to be used for the next five-year period of the loan.

Automobiles

When an employer provides an employee with the use of an employer-owned or employer-leased vehicle, for both personal and business driving, the employee must be assessed a non-cash taxable benefit, based on their personal use of the vehicle.

Even though there is no federal requirement for recording the kilometres driven, a record of the number of personal and business-related kilometres (km) driven by the employee and/or a person related to the employee in a calendar year should be provided to the employer at the end of the calendar year. The employer must retain all records that would enable an objective determination of the employee's tax payable.

In Québec, an employee is required to keep a logbook for recording the trips made with the automobile and give a copy of the logbook to the employer no later than 10 days after the end of the calendar year, or the tenth day following the date on which the automobile was returned to the employer.

To properly assess the taxable benefit, the payroll practitioner should be familiar with the government-specific definitions associated with this benefit and the government-prescribed formulas used for the calculation. The Canada Revenue Agency has an Automobile Benefits Online Calculator available on its website.

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

An automobile does not include:

- an ambulance
- a motor vehicle bought primarily to be used as a taxi
- a bus used for transporting passengers
- a hearse or a motor vehicle bought to transport passengers used in connection with funerals
- a motor vehicle bought to sell, rent or lease in a motor vehicle sales, rental or leasing business, except for benefits arising from personal use of an automobile
- a van, pickup or similar vehicle that carries not more than the driver and two passengers and, in the taxation year it is acquired or leased, is used:
    - primarily to transport goods or equipment in the course of business or
    - at least 90% of the time to transport goods, equipment or passengers in the course of business
- a pickup truck used primarily for the transportation of goods, equipment or passengers in the course of earning or producing income at a work site at least 30 km from a community of at least 40,000 people

- a clearly marked police and fire emergency-response vehicle
- a clearly marked emergency medical response vehicle that is used to carry emergency medical equipment and one or more emergency medical attendants or paramedics

Note:
Employers who provide their employees with the use of a motor vehicle (truck, bus, etc.) for personal use, which is not included in the definition of an automobile, must still calculate a fair market value taxable benefit to include in the employee's income.

Availability
Availability is the number of thirty-day periods that the automobile is available to the employee in the current taxation year. An automobile is considered to be available to an employee as long as the employee has access to or control over the vehicle. Access ends only when an employee returns the automobile and the automobile's keys to the employer.

Business Driving
Business driving refers to any driving by an employee for business purposes including:

- driving to existing and prospective clients, points of call, and other office locations of the employer
- when an employee travels directly from home to a point of call, which is not the employer's place of business where the employee regularly reports for work
- when the employee travels home directly from a point of call

Capital Cost
Capital cost is the cost of the vehicle including options, accessories, and all sales taxes paid by the employer towards the purchase of the vehicle. Also included are the costs for any additions made to the vehicle after it was purchased, if the additions are added to the capital cost of the vehicle for depreciation purposes. Excluded from the capital cost of the vehicle are any costs for specialized equipment added to the automobile to meet the requirements of the employment, including cellular phones, two-way radios, heavy-duty suspension and power winches.

Employee Reimbursement
An employee reimbursement is an amount the employee pays the employer to offset the personal use of the employer-provided automobile. A reimbursement reduces the automobile taxable benefit assessed.

Lease Costs

Lease costs include the leasing costs plus all sales taxes, and any associated costs such as maintenance contracts, excess kilometre charges, and terminal charges paid by the employer. Leasing costs do not include liability or collision insurance costs.

Lump-sum Lease Payments

Lump-sum lease payments are payments made at the beginning or end of a lease that are not payments to purchase the automobile. A lump-sum payment made at the beginning of a lease must be prorated over the life of the lease.

Motor Vehicle

A motor vehicle is an automotive vehicle designed or adapted to be used on highways and streets. It does not include a trolley bus or a vehicle designed or adapted to be used only on rails.

Operating Cost Benefit

The operating cost benefit represents the benefit an employee receives when an employer pays the operating costs associated with the employee’s personal use of an employer-provided automobile. Operating costs include gasoline and oil, repairs and maintenance charges, insurance and licenses. They do not include interest, the capital cost of an employer-owned vehicle, the lease costs of an employer-leased vehicle and parking.

Personal driving

Personal driving refers to any driving by an employee, or a person related to the employee, for purposes other than business, including:

- vacation travel
- driving to conduct personal business
- travel between home and work, even if the employer insists the employee drive the vehicle home

Standby Charge

The standby charge represents the benefit the employee enjoys when an employer’s automobile is available for personal use. The standby charge is calculated differently depending on whether the employer owns or leases the automobile.

Taxes

Taxes include all applicable Provincial Sales Taxes (PST), Goods and Services Taxes (GST), Harmonized Sales Taxes (HST) and Québec Sales Taxes (QST) associated with the capital or lease costs.

Terminal Charge

A terminal charge is a lump-sum payment that is due at the end of a lease because the lease costs were too low over the term of the lease. As a result, the automobile taxable benefit has been understated and the employee and employer must agree on a method to correct the understatement by either:

- adding the terminal charge to the lease in the year the lease ends, or
- prorating the payment over the term of the lease

Terminal Credit

A terminal credit is a lump-sum payment the employer receives at the end of a lease because the lease costs were too high over the term of the lease. As a result, the automobile taxable benefit has been overstated. This overstatement can be corrected by either:

- deducting the terminal credit from the lease costs in the year the lease ends, or
- amending the employee's annual information return and providing them with a letter of explanation. The employee can then write to the CRA and RQ (if applicable) to request an adjustment to their tax return filing.

Government-Prescribed Formulas

The formulas prescribed by the Canada Revenue Agency (CRA) and Revenu Québec (RQ) to assess automobile taxable benefits will be explained in this material. For both an employer-owned and an employer-leased automobile, the taxable benefit is the total of the standby charge and the operating cost benefit, less any employee reimbursement. However, the standby charge calculation is different, depending on whether the automobile is owned or leased.

Automobile taxable benefit = Standby charge + operating cost benefit - employee reimbursement

The following information is required to complete the calculations for the standby charge and the operating cost benefit:

- the number of days the automobile is available to the employee in the current taxation year
- the breakdown between business and personal kilometres driven by the employee in the current taxation year
- the purchase cost or lease cost of the automobile, plus taxes

Availability Calculation

Availability is the number of thirty-day periods that the automobile is available to the employee in the current taxation year. Availability is calculated using the following formula:

Availability = Number of calendar days the automobile is available to the employee / 30

$$\text{Availability} = \frac{\text{Number of calendar days the automobile is available to the employee}}{30}$$

The result is rounded to the nearest whole number if it is greater than one.

Example:

Availability = $\frac{130 \text{ days}}{30}$ = 4.33 (round to 4) thirty-day periods

Availability = $\frac{135 \text{ days}}{30}$ = 4.50 (round to 4)* thirty-day periods

Availability = $\frac{140 \text{ days}}{30}$ = 4.67 (round to 5) thirty-day periods

*The government requirement is to round decimals down, not up, at .50.

If the total number of days available is less than 30, the number of days will be divided by 30 and **rounded to two decimals**.

Availability = $\frac{28 \text{ days}}{30}$ = .93 thirty-day period

Business and Personal Use

The total number of kilometres driven in a calendar year must be split between business and personal use. The employee is charged with a taxable benefit on only their personal use of the automobile, not the business use.

Personal use would include, but is not limited to, the following:

- travel from home to a place the employee regularly reports to work
- vacation trips
- travel for personal activities

Company-Owned Automobile Taxable Benefit

The first of the two components of the automobile taxable benefit is the standby charge. The prescribed formula for calculating the standby charge for a company-owned automobile is a percentage of the cost of the automobile plus applicable sales taxes, based on the period of availability.

Standby charge = 2% x (cost of automobile + taxes) x availability

Example:

Terrace Lakes Development Co. in Ontario provides Oliver Trahan with a company-owned automobile that is available to him 365 days a year. At the end of the current year, Oliver provided the company with the following information:

Business kilometres driven	48,000
Personal kilometres driven	+ 10,000
Total kilometres driven	58,000

Availability $\frac{365 \text{ days}}{30}$ = 12 thirty-day periods

The company-owned automobile that Terrace Lakes provided to Oliver cost $24,200, plus $3,146 HST, based on 13% HST. Oliver had the automobile available the full year, 12 thirty-day periods.

Standby charge = 2% x ($24,200 + 3,146) x 12
= 2% x $27,346 x 12
= $6,563.04

Reduced Standby Charge

The standby charge component of the taxable benefit calculation can be reduced if the following two conditions are met:

- the automobile is used more than 50% of the time for business purposes, and
- the kilometres for personal use do not exceed 1,667 per 30-day period, for a total of 20,004 kilometres per year

If the employee meets the two conditions required to be eligible for a reduced standby charge, the following formula is used:

Reduced standby charge =

$$\frac{\textbf{Personal kilometres}}{\textbf{1,667 x availability}} \textbf{ x [2\% x (cost of automobile + taxes) x availability]}$$

Example:

Using the information that Oliver provided, Terrace Lakes can determine whether a reduced standby charge would apply.

Business use percentage $\frac{48,000}{58,000}$ = 82.8%

Allowable personal kilometres 1,667 x 12 = 20,004

As the automobile was used more than 50% for business purposes and Oliver's personal use of 10,000 km was less than the allowable amount of 20,004, Oliver would be eligible for a reduced standby charge.

Reduced standby charge = $\frac{10,000}{1,667 \times 12}$ x [2% x ($24,200 + 3,146) x 12]

= $\frac{10,000}{20,004}$ x (2% x $27,346 x 12)

= $3,280.86

Note:
«year» operating cost per kilometre rates have been used for purposes of demonstrating process and practice.

The second of the two components of the automobile taxable benefit is the operating cost benefit. The prescribed formula for calculating the operating cost benefit is based on a rate ($«OP_EXP_RATE» for «year») per personal kilometre driven. The formula is the same for company-owned or company-leased automobiles.

Operating Cost Benefit = $0.29 x personal km driven

Example:

Oliver drove 10,000 personal kilometres in the current year. The operating cost benefit would be calculated as:

Operating cost benefit = $0.29 x 10,000
= $2,900.00

Optional Operating Cost Benefit Calculation Method

There is also an optional method of calculating the operating cost benefit that can be used if the following three conditions are met:

- the employee notifies the employer in writing, before the end of the year, to use the optional method
- the business use of the automobile is more than 50%
- a standby charge component is included in the employee's income

The formula for the optional method of calculating the operating cost benefit is the same for a company-owned or a company-leased automobile:

Optional Method = Standby charge (or reduced standby charge, if applicable) x 50%

Example:

Oliver used the company-owned automobile more than 50% for business in the current year. A reduced standby charge of $3,280.86 will be included in income as a taxable benefit and Oliver has advised Terrace Lakes in writing to use the optional method. The optional method for calculating the operating cost benefit is:

Optional Method = $3,280.86 x 50%
= $1,640.43

The total annual automobile taxable benefit is the sum of the standby charge (either the full charge or the reduced charge) plus the operating cost benefit (using either the regular or optional method), less any employee reimbursement.

Automobile taxable benefit = Standby charge (or reduced standby charge) + operating cost benefit - employee reimbursement

As with all other taxable benefits, the value of the taxable benefit must be included in the employee's income as it is earned or enjoyed, in other words, on a pay period basis. The annual automobile taxable benefit is based on the employee's personal kilometres driven in the calendar year, which may not be known until the end of the year. To determine an estimated taxable benefit amount to include in the employee's income on a pay period basis, the employer can either use the previous year's annual taxable benefit amount or an estimated amount. The amount included on a pay period basis must be reconciled with the actual taxable benefit amount for the current year, once calculated.

$$\textbf{Pay period taxable benefit} = \frac{\textbf{Annual automobile taxable benefit}}{\textbf{Pay period frequency}}$$

Example:

Terrace Lakes has calculated Oliver's current annual automobile taxable benefit as follows:

Standby charge (reduced)	= $3,280.86
Operating cost (optional method)	+1,640.43
Total annual automobile taxable benefit	= $4,921.29

Oliver is paid on a bi-weekly basis. The employer will use the current year's taxable benefit amount to estimate the pay period taxable benefit for the next year. When Terrace Lakes calculates Oliver's annual automobile taxable benefit next year, any required adjustments will be made.

Pay period taxable benefit in current year $= \frac{\$4,921.29}{26}$

$= \$189.28$

An automobile taxable benefit of $189.28 will be included in Oliver's income on each pay for the next year.

Company-Leased Automobile Taxable Benefit

The two components of the automobile taxable benefit for a company-leased automobile, the standby charge and the operating cost benefit, are the same as for a company-owned automobile. The prescribed formula for calculating the standby charge for a company-leased automobile is a fraction of the monthly cost of the automobile plus applicable sales taxes, based on the period of availability.

Standby charge = 2/3 x (monthly cost of automobile + taxes) x availability

Example:

Prince Packaging, in Ontario, leases automobiles for their senior management team. Diana Wilson joined the company on July 1 of the current year as Director, Product Development and was assigned a car for exclusive use for the balance of the year (184 days). In January of the following year, Diana submitted automobile usage as follows:

Business kilometres driven	35,000
Personal kilometres driven	+20,000
Total kilometres driven	55,000

Availability $\frac{184 \text{ days}}{30}$ = 6 thirty-day periods

Prince Packaging paid monthly costs of $350, plus $45.50 HST, based on 13% HST for Diana's automobile. Diana had the automobile available from July 1 of the current year, i.e., 184 days or 6 thirty-day periods.

Standby charge	= 2/3 x ($350 + $45.50) x 6
	= 2/3 x $395.50 x 6
	= $1,582.00

Reduced Standby Charge

As with a company-owned automobile, the standby charge component of the taxable benefit calculation for a company-leased automobile can be reduced if the following two conditions are met:

- the automobile is used more than 50% of the time for business purposes
- the kilometres for personal use do not exceed 1,667 per 30-day period, for a total of 20,004 kilometres per year

If the employee meets the two conditions required to be eligible for a reduced standby charge the following formula is used:

Reduced standby charge =

$$\frac{\textbf{Personal kilometres}}{\textbf{1,667 x availability}} \textbf{ x [2/3 x (monthly cost + taxes) x availability]}$$

Example:

Prince Packaging will use the information that Diana provided to determine whether a reduced standby charge applies.

Business use percentage	$\frac{35,000}{55,000}$	= 63.6%
Allowable personal kilometres	1,667 x 6	= 10,002

While the automobile was used more than 50% for business purposes, Diana's personal use of 20,000 km was more than the allowable amount of 10,002 for the six-month period the automobile was available. Diana would not be eligible for a reduced standby charge.

Had Diana only driven 9,000 personal kilometres in the current year, the reduced standby charge would be calculated as:

Reduced standby charge	$= \frac{9,000}{1,667 \times 6} \times [2/3 \times (\$350 + \$45.50) \times 6]$
	$= \frac{9,000}{10,002} \times [2/3 \times \$395.50 \times 6]$
	= $1,423.52

The second of the two components of the automobile taxable benefit is the operating cost benefit. The prescribed formula for calculating the operating cost benefit is based on a rate ($«OP_EXP_RATE» for «year») per personal kilometre driven. The formula is the same for company-owned or company-leased automobiles.

Operating Cost Benefit = $0.29 x personal km driven

Example:

Diana drove 20,000 personal kilometres in the current year. The operating cost benefit would be calculated as:

Operating cost benefit	= $0.29 x 20,000
	= $5,800.00

Optional Operating Cost Benefit Calculation Method

The optional method of calculating the operating cost benefit can be used if the following three conditions are met:

- the employee notifies the employer in writing, before the end of the year, to use the optional method
- the business use of the automobile is more than 50%
- a standby charge component is included in the employee's income

The formula for the optional method of calculating the operating cost benefit is the same for a company-owned or a company-leased automobile:

Optional Method = Standby charge (or reduced standby charge, if applicable) x 50%

Example:

Diana met the three conditions required for using the optional method. The company-leased automobile was used more than 50% for business in the current year. A standby charge of $1,582.00 will be included in income as a taxable benefit and the employee has notified the company in writing to use the optional method. The optional method for calculating the operating cost benefit is:

Optional Method = $1,582.00 x 50%
= $791.00

The total annual automobile taxable benefit is the sum of the standby charge (either the full charge or the reduced charge) plus the operating cost benefit (using either the regular or optional method), less any employee reimbursement.

Automobile taxable benefit = Standby charge (or reduced standby charge) + operating cost benefit - employee reimbursement

The annual automobile taxable benefit can be used to estimate a pay period taxable benefit for the following year. This annual estimated amount must be reconciled with the actual taxable benefit, once calculated.

Pay period taxable benefit $= \dfrac{\textbf{Annual automobile taxable benefit}}{\textbf{Pay period frequency}}$

Example:

Prince Packaging has calculated Diana's current annual automobile taxable benefit as follows:

Standby charge	= $1,582.00
Operating cost (optional method)	= + 791.00
Total annual automobile benefit	= $2,373.00

Diana is paid weekly. As the current year's taxable benefit is based on only six months of use, the company will use two times the benefit amount to estimate the pay period taxable benefit for the next year. At the end of the next year, the estimated taxable benefit will be reconciled against Diana's actual taxable benefit and any adjustments will be made.

Next year pay period taxable benefit $= \dfrac{\$2,373.00 \times 2}{52}$

$= \$91.27$

Employee's Personal Portion of Operating Expenses

An employee can eliminate the operating cost component of their taxable benefit by reimbursing the employer for their share of the employer's actual costs related to the automobile within 45 days after the end of the year. Note that this reimbursement is of the actual employer out-of-pocket costs for gasoline and oil, repairs and maintenance charges, insurance and licenses. The reimbursement does not include interest, the capital cost of an employer-owned vehicle or the lease costs of an employer-leased vehicle and parking.

To determine the amount of the actual costs attributable to the employee's personal use of the automobile, the following formula is used:

$$\textbf{Personal costs} = \frac{\textbf{Personal kilometres}}{\textbf{Total kilometres}} \textbf{ x (operating costs + applicable taxes)}$$

Example:

Terrace Lakes' actual operating costs for Oliver (from the company-owned automobile example) were $790.00, including taxes, in the current year. Oliver's portion of these costs is:

$$\text{Personal costs} = \frac{10{,}000}{58{,}000} \times \$790.00$$

$$= \$136.21$$

If Oliver reimburses the employer $136.21 for the personal share of the actual operating costs, within 45 days after the end of the year, the operating cost component of the taxable benefit will be eliminated. The total taxable benefit will only be the amount of the reduced standby charge, $3,280.86.

If the employee only reimburses a partial amount of their portion of the actual operating costs, then the employer must use the usual operating cost benefit formula (personal km x $0.29) and then subtract any reimbursement to determine the total benefit for the employee.

Operating Cost Benefit = ($0.29 x personal km driven) - reimbursement

If the optional method of calculating the operating cost benefit was used, a partial reimbursement is applied to that result.

Optional Method = [Standby charge (or reduced standby charge, if applicable) x 50%] - reimbursement

Example:

Prince Packaging paid $3,560.00, including taxes, on actual operating costs for Diana (from the company-leased automobile example) from July to December of the current year, as the automobile required some major repair work. Diana's portion of these costs is:

Personal costs $= \frac{20,000}{55,000} \times \$3,560.00$
$= \$1,294.55$

Diana reimbursed the company only $500.00 of the personal share of the costs. Since the full amount was not reimbursed the operating cost component of the taxable benefit will be reduced, not eliminated. The company used the optional method to calculate the operating cost component of Diana's taxable benefit.

Optional Method = ($1,582.00 x 50%) - $500.00
= $791.00 - $500.00
= $291.00

Diana's total automobile taxable benefit for the current year will now be:

Standby charge	= $1,582.00
Operating cost benefit	= + 291.00
Total taxable benefit	= $1,873.00

Employees Selling or Leasing Automobiles

Employees who are engaged in selling or leasing automobiles are eligible to have the standby charge component of their taxable benefit reduced, provided the following three conditions are met:

- the individual is employed principally to sell or lease automobiles
- an automobile was made available to that individual or to someone related to that individual
- the employer acquired at least one automobile during the year

When all three conditions are met, the employer will calculate the standby charge using a rate of 1.5% instead of 2%. The lower rate is then applied to the automobile cost, which is defined as the greater of the following two amounts:

- the average cost of all automobiles the employer acquired to sell or lease in the year
- the average cost of all new automobiles the employer acquired to sell or lease in the year

The standby charge formula used when an employee is principally engaged in selling or leasing automobiles is:

Standby charge = 1.5% x [(average cost of automobiles acquired in the year + taxes) x availability]

A reduced standby charge can be calculated if the employee meets the following conditions:

- business use is more than 50%
- personal kilometres are 1,667 or less in every thirty days of availability

The formula for the reduced standby charge for employees principally engaged in selling or leasing automobiles is:

Reduced standby charge =

$$\frac{\textbf{Personal kilometres}}{\textbf{1,667 x availability}} \ \textbf{x} \ \textbf{1.5\% x [(average cost of automobiles acquired in the year + taxes) x availability]}$$

The rate for calculating the operating cost benefit for employees who are engaged in selling or leasing automobiles is reduced to $0.26 (for 2022) per personal kilometre driven.

Operating cost benefit = $0.26 x personal kilometres driven

A summary of the components of the automobile taxable benefit calculation is provided in the following table.

Exhibit 3-3

Automobile Taxable Benefit =
Standby Charge + Operating Cost – Employee Reimbursement

	OWNED	**LEASED**	**SELLING OR LEASING AUTOMOBILES**
Standby Charge	**2% x (Cost of automobile + taxes) x Availability**	**2/3 x (Monthly Cost of automobile + taxes) x Availability**	**1.5% x (Average Cost of automobiles acquired in a year + taxes) x Availability**
Reduced Standby Charge	$\frac{\textbf{Personal kilometres}}{\textbf{1,667 x Availability}}$ **x Standby Charge** **If:** • kilometres used are more than 50% for business, <u>and</u> • personal kilometres used are less than 1,667 per 30 day period		
Operating Cost Benefit	**$0.29 x personal kilometres driven**		**$0.26 x personal kilometres driven**
Optional Operating Cost Method	**Standby charge (or reduced standby charge) x 50%** **If:** • kilometres used are more than 50% for business, <u>and</u> • a standby charge component is included in the employee's income, <u>and</u> • the employee requests in writing		

Net Pay Calculation

We can now calculate the net pay of an employee who receives taxable allowances and taxable benefits in addition to their salary.

Example:

Marc Potvin is an accounts payable administrator for a large retail clothing chain in Québec. An annual salary of $33,000.00 is paid bi-weekly. Marc's TD1 claim code is 1 and the TP1015.3-V deduction code is A.

In the current pay period, Marc received a $100 gift card from the employer as a performance reward. This amount must be included in income for the pay period in which it was received as a near-cash taxable benefit.

As part of the 100% employer-paid benefits package, Marc has group term life insurance coverage of two times the annual salary. The company pays $0.85 per $1,000 of coverage for the group term life insurance coverage.

Each administrative staff member receives an employer-paid parking spot at head office, located in downtown Montréal, where the fair market value of parking in the vicinity is $250.00 per month, plus tax. Parking benefits are assessed on a pay period basis. Marc receives a taxable car allowance of $75.00 per pay for using a personal automobile for business purposes.

Salary per pay period $= \dfrac{\text{Annual salary}}{\text{Pay period frequency}}$

$= \dfrac{\$33,000.00}{26}$

$= \$1,269.23$

Group term life insurance taxable benefit (monthly) $= \dfrac{\text{coverage x premium rate}}{\$1,000.00}$

$= \dfrac{(\$33,000.00 \text{ x } 2) \text{ x } 0.85}{\$1,000.00}$

$= \dfrac{\$66,000.00 \text{ x } 0.85}{\$1,000.00}$

$= \$56.10$

$= \$56.10 \text{ x } 1.09$

$= \$61.15$

Pay period taxable benefit	$= \frac{\text{Monthly taxable benefit x 12}}{\text{Pay period frequency}}$
	$= \frac{\$61.15 \text{ x } 12}{26}$
	= \$28.22
Pay period parking taxable benefit	$= \frac{\text{(Cost + GST + QST) x 12}}{\text{Pay period frequency}}$
	$= \frac{[\$250.00 + (\$250.00 \text{ x } 5.0\ \%) + (\ \$250.00 \text{ x } 9.975\%)] \text{ x } 12}{26}$
	$= \frac{(\$250.00 + \$12.50 + \$24.94) \text{ x } 12}{26}$
	$= \frac{\$287.44 \text{ x } 12}{26}$
	= \$132.66

Step One: Determine Gross Earnings		
Gross Earnings (GE)	=	Earnings + taxable allowances + non-taxable allowances + cash taxable benefits
	=	\$1,269.23 + \$75.00 + \$0.00 + \$0.00
	=	\$1,344.23
Step Two: Determine Non-Cash or Near-Cash Taxable Benefits		
Taxable Benefits	=	Non-cash taxable benefits + near-cash taxable benefits
	=	(\$28.22 + \$132.66) + \$100.00
	=	\$260.88
Step Three: Determine Canada/Quebec Pension Plan (C/QPP) contribution		
Pensionable Earnings (PE)	=	Earnings + taxable allowances + cash taxable benefits + non-cash taxable benefits + near-cash taxable benefits
	=	\$1,269.23 + \$75.00 + \$0.00 + \$160.88 + \$100.00
	=	\$1,605.11
	=	(PE – pay period exemption) x annual C/QPP rate
	=	(\$1,605.11 – \$134.61) x \$0.0615
	=	\$90.44

Step Four: Determine Employment Insurance (EI) premium		
Insurable Earnings (IE)	=	Earnings + taxable allowances + cash taxable benefits
	=	$1,269.23 + $75.00 + $0.00
	=	$1,344.23
	=	IE x annual EI rate
	=	$1,344.23 x $0.012
	=	$16.13
Step Five: Determine Quebec Parental Insurance Plan (QPIP) premium		
Insurable Earnings (IE)	=	Earnings + taxable allowances + cash taxable benefits
	=	$1,269.23 + $75.00 + $0.00
	=	$1,344.23
	=	IE x annual QPIP rate
	=	$1,344.23 x $0.00494
	=	$6.64
Step Six: Determine Federal Income Tax		
Net Federal Taxable Income	=	Earnings + taxable allowances + cash taxable benefits + non-cash taxable benefits + near-cash taxable benefits – authorized deductions • Employee contribution to an RPP • Contributions to an RRSP • Union dues • Deduction for living in a prescribed zone • CRA authorized deductions
	=	$1,269.23 + $75.00 + $0.00 + $160.88 + $100.00 – $0.00
	=	$1,605.11
Federal income tax		Using the federal tax tables for a Quebec employee, bi-weekly pay period, claim code 1.
	=	$184.75

Step Seven: Determine Provincial Income Tax

Net Provincial Taxable Income (Quebec) = Earnings + taxable allowances + cash taxable benefits + non-cash taxable benefits + near-cash taxable benefits – authorized deductions

- Employee contribution to an RPP
- Contributions to an RRSP
- Deduction for living in a prescribed zone
- CRA authorized deductions

= $1,269.23 + $75.00 + $0.00 + $160.88 + 100.00 – 0.00

= $1,605.11

Quebec income tax: Using the tax tables for a Quebec employee, semi-monthly pay period, claim code A.

= $247.66

Step Eight: Total Deductions

Total Deductions

+ C/QPP contributions
+ EI premiums
+ QPIP premiums
+ Federal income tax
+ Quebec provincial income tax
+ Other deductions

$90.44 (QPP)
16.13 (EI)
6.64 (QPIP)
184.75 (Federal income tax)
247.66 (Quebec income tax)
$545.62

Step Nine: Net Pay

Net Pay = Gross Earnings – Total Deductions

= $1,344.23 – $545.62

= $798.61

Content Review

- Non-cash benefits are items the employer either provides to an employee or pays for on an employee's behalf.
- The primary payroll compliance requirement concerning benefits is that if they are taxable, both the federal and Québec governments require that the value of the non-cash benefit or cash reimbursement amount is included in the employee's income as it is earned or enjoyed.
- Non-cash taxable benefits are subject to statutory deductions for Canada/Québec Pension Plan (C/QPP) contributions, income tax, and Northwest Territories and Nunavut payroll taxes. They are not considered insurable earnings and therefore are not subject to Employment Insurance (EI) or Québec Parental Insurance Plan (QPIP) premiums. EI and QPIP premiums only apply to cash taxable benefits, which are considered insurable earnings.
- Premiums paid by the employer for coverage under a group term life insurance policy are considered a taxable benefit to the employee.
- The taxable benefit value for employer paid insurance includes the premium plus the applicable tax in Manitoba (7%), Ontario (8%) and Quebec (9%).
- In Québec only, when an employer pays the premium for a private health insurance plan, the value of the premium, plus the tax on insurance premiums, is a non-cash taxable benefit to the employee.
- The fees an employer pays for employee assistance plan coverage are not considered taxable to the employee.
- Gifts or awards given in cash are subject to all statutory deductions.
- Federally, there is a single $500.00 exemption that can be applied against the total value of all the non-cash gifts and awards given to an employee annually; any amount over $500.00 is included in the employee's income as a non-cash taxable benefit.
- In Québec, there is no limit on the number of gifts or awards that may be given to an employee. If the total cost of the gifts is greater than $500.00 or the total cost of the awards is greater than $500.00, then only the amount over the $500.00 limit is taxable for each category.
- If an employer gives an employee an allowance to cover the cost of cell phone or Internet services, the allowance would be considered a cash taxable benefit, subject to all statutory withholdings.
- Where an employer pays for all or part of an employee's parking costs at the regular workplace, the value of the parking costs is a non-cash taxable benefit to the employee.
- A taxable benefit results when the employer pays for any cost of an employee's course that primarily benefits the employee (for example, personal interest training).
- If an employer charges no interest or an interest rate lower than the government-prescribed interest rate on a loan given to an employee, the employee is considered to have received a taxable benefit from employment.

- When an employer provides an employee with the use of an employer-owned or employer-leased vehicle, for both personal and business driving, the employee must be assessed a non-cash taxable benefit, based on their personal use of the vehicle.
- In Québec, an employee is required to keep a logbook for recording the trips made with the automobile and give a copy of the logbook to the employer not later than 10 days after the end of the calendar year, or the tenth day following the date on which the automobile was returned to the employer.
- For both an employer-owned and an employer-leased automobile, the taxable benefit is the total of the standby charge plus the operating cost benefit less any employee reimbursement.

Review Questions

6. What is the primary payroll compliance requirement concerning benefits?

7. What statutory deductions are calculated on a non-cash taxable benefit?

8. Which provinces impose a tax on insurance premiums?

9. Frontier Bookstores has employees in Alberta, Ontario and Québec; the company has a bi-weekly pay period. Frontier's employees have group term life insurance coverage of two times their annual salary, paid 100% by the company. The premium rate is $1.15 per $1,000.00 of coverage per month.

   Calculate the pay period taxable benefit for the following employees:

	LOCATION	ANNUAL SALARY
Angie Ameer	Alberta	$57,290.00
Lorraine Francks	Ontario	$36,570.00
Paula Girard	Québec	$46,720.00

10. Indicate whether the following benefits are taxable or non-taxable to the employee.

BENEFIT	TAXABLE	NON-TAXABLE
Chemical dependency coverage under an employee assistance plan		
Provincial health care taxes paid by an employer for their Ontario employees		
Personal income tax preparation provided to senior management employees		
Job placement counselling for an employee whose employment is being terminated		

11. Indicate whether the following would be considered taxable or non-taxable, federally and in Québec. If the gift or award is considered taxable, give the taxable amount. Assume all costs include applicable taxes.

AN EMPLOYEE RECEIVES:	FEDERALLY		QUÉBEC	
	TAXABLE	NON-TAXABLE	TAXABLE	NON-TAXABLE
A $600 watch for a birthday gift				
A non-cash holiday gift valued at $500 plus a non-cash award valued at $400 for exceeding safety standards				
Three non-cash gifts worth $300, $150 and $100				
A $400 camera for a 5-year service award				
A $100 gift certificate from Jackson’s Jewellers				

12. Provide two situations where employer-provided parking would not be considered a taxable benefit to the employee.

13. Indicate whether each of the following benefits is taxable or non-taxable.

BENEFIT	TAXABLE	NON-TAXABLE
A Québec employer provides Accidental Death and Dismemberment insurance for their employees.		
An Alberta employer provides private health insurance coverage for their employees.		
A British Columbia employer pays 50% of the cost of the employees' group term life insurance coverage.		
A Nova Scotia employer offers an Employee Assistance Plan that covers their employees for alcohol dependency counselling services.		
Justin Lemaire is physically disabled; the company provides him with a paid parking spot.		
National Merchandisers, with 23 payroll practitioners across Canada, pays for these employees to take the CPA's CPM Certification courses.		

14. True or False. If an employer charges a loan interest rate that is higher than the government-prescribed rate, the employee has received a taxable benefit from employment.

15. On January 1st, Mitchell Mirrors lends Luanne Dufferin $20,000.00 at a 3% interest rate. Luanne will pay back $1,000.00 on the loan through payroll deductions at the end of each month. The government-prescribed rates for the year are:

QUARTER	RATE
1st	3%
2nd	4%
3rd	3%
4th	5%

Calculate Luanne's monthly taxable benefit and total taxable benefit for the year.

PAY PERIOD	LOAN BALANCE	GOVERNMENT-PRESCRIBED INTEREST RATE	ORGANIZATION INTEREST RATE	MONTHLY TAXABLE BENEFIT (ANNUAL ÷ 12)
January				
February				
March				
April				
May				
June				
July				
August				
September				
October				
November				
December				
Total taxable benefit for the year				

16. Gwen Reynolds works as a salesperson for Empire Stationary in Nova Scotia and is provided with a company-owned automobile. Given the following details, calculate Gwen's annual automobile taxable benefit (stand-by charge + operating benefit). Gwen took possession of the automobile on the date of hire, September 1, of the current year and has asked that the company use the optional method of calculating the operating cost benefit.

Purchase price of the automobile	$29,500.00
HST on purchase price (15%)	$ 4,425.00
Days available (Sept. 1 – Dec. 31, of the current year)	122
Total kilometres driven	20,000
Personal kilometres driven	8,000
Employee reimbursement	$ 0.00

17. Claire Rozon works for Lebrun Ind. in Montréal and has a company-leased automobile for use during the year. Given the following information, calculate Claire's annual taxable benefit (stand-by charge + operating benefit). Claire has asked the company to use the optional method of calculating the operating cost benefit.

Monthly cost of the automobile	$399.91
GST on monthly cost (5.00%)	$ 20.00
QST on monthly cost (9.975%)	$ 39.89
Days available (Jan 1 – Dec. 31, of the current year)	365
Total kilometres driven	40,000
Personal kilometres driven	15,000
Employee reimbursement	$ 0.00

18. Edna Robson is a marketing manager for Blossom Cosmetics in Lethbridge, Alberta. An annual salary of $45,000.00 is paid on a semi-monthly basis. Edna's federal and provincial TD1 claim codes are 3.

    Blossom Cosmetics provides the following benefits:

    - group term life insurance of two times the annual salary (the premium rate is $0.90 per $1,000.00 of coverage)
    - a company-leased automobile (the company estimates the pay period taxable benefit based on last year's annual taxable benefit of $4,440.00)

    Calculate Edna's net pay.

Step One:
Step Two:

Step Three:
Step Four:
Step Five: \
Step Six:

Step Seven:
Step Eight:
Step Nine:

Chapter Review Questions and Answers

1. Name three common types of allowances that employers provide to employees.

   The most common types of allowances that employers provide cover employee costs for cars, meals, uniforms, safety shoes or other specific work-related clothing.

2. Indicate whether the following remuneration amounts are considered taxable or non-taxable to the employee by the Canada Revenue Agency.

	TAXABLE	NON-TAXABLE
Leslie Lafarge receives $0.61 per kilometre for the first 5000 business kilometres driven using a personal vehicle and $0.55 for each business kilometre after. No other compensation is paid for the use of the car.		**X**
Due to late shipments, the employees who work in the shipping/receiving department are asked to work overtime every night for the next 4 weeks. The company reimburses the employees $15.00 each day for the cost of their dinners.	**X**	
Frances Miles is given a credit card to buy gas for a personal car at Sunshine Fuels.	**X**	
Marcella Morin took three clients to lunch on Wednesday and submitted the receipt to accounts payable with an expense claim.		**X**
The company pays for the safety boots that Jennifer Giles must wear on the job.		**X**

3. Which statutory deductions apply to taxable allowances?

   Taxable allowances are subject to withholding and reporting for Canada and Québec Pension Plan contributions, Employment Insurance and Québec Parental Insurance Plan premiums, federal and provincial income taxes and Northwest Territories and Nunavut payroll taxes.

4. What three conditions must be satisfied for a car allowance to be considered reasonable?

   A car allowance is considered reasonable when all of the following conditions apply:

   - **the allowance is based solely on business kilometres driven in a calendar year**
   - **the amount provided is based on the following government-prescribed reasonable guidelines:**
     - **$0.61 per km for the first 5,000 business kilometres in the year ($0.65 per km in Yukon, Northwest Territories and Nunavut)**
     - **$0.55 for each business kilometre thereafter (0.59 per km in Yukon, Northwest Territories and Nunavut)**
   - **the employer does not reimburse the employee for expenses related to the same use of the vehicle**

5. Player Flooring, located in Pointe Claire, Québec, has a weekly pay period. France Lavergne works in the shipping/receiving department, earns $18.50 per hour and works 40 regular hours per week. France works overtime every week; in this pay period, 4 hours of overtime were worked each day from Monday through Thursday. The organization pays employees 1½ times their regular hourly rate for overtime hours worked and provides a $20.00 meal allowance per day to employees who work overtime.

   France has a claim code of 3 on the federal TD1 and a deduction code of C on the TP1015.3-V. Calculate France's net pay.

Regular wages	**= $18.50 x 40** **= $740.00**
Overtime wages	**= $18.50 x 1.5 x 16** **= $444.00**
Taxable meal allowance	**= $20.00 x 4** **= $80.00**

As France works overtime regularly, the meal allowance is considered taxable for both the Canada Revenue Agency and the Revenu Québec.

Step One: Determine Gross Earnings

Gross Earnings (GE)	=	**Earnings + taxable allowances + non-taxable allowances + cash taxable benefits**
	=	**($740.00 + 444.00) + $80.00 + $0.00 + $0.00**
	=	**$1,264.00**

Step Two: Determine Non-Cash or Near-Cash Taxable Benefits

Taxable Benefits	=	**Non-cash taxable benefits + near-cash taxable benefits**
	=	**$0.00 + $0.00**
	=	**$0.00**

Step Three: Determine Canada/Quebec Pension Plan (C/QPP) contribution

Pensionable Earnings (PE)	=	**Earnings + taxable allowances + cash taxable benefits + non-cash taxable benefits + near-cash taxable benefits**
	=	**($740.00 + $444.00) + $80.00 + $0.00 + $0.00 + $0.00**
	=	**$1,264.00**
	=	**(PE – pay period exemption) x annual C/QPP rate**
	=	**($1,264.00 – $67.30) x $0.0615**
	=	$73.60

Step Four: Determine Employment Insurance (EI) premium

Insurable Earnings (IE)	=	**Earnings + taxable allowances + cash taxable benefits**
	=	**($740.00 + $444.00) + $80.00 + $0.00 + $0.00**
	=	**$1,264.00**
	=	**IE x annual EI rate**
	=	**$1,264.00 x $0.012**
	=	**$15.17**

Step Five: Determine Quebec Parental Insurance Plan (QPIP) premium

Insurable Earnings (IE)	=	**Earnings + taxable allowances + cash taxable benefits**
	=	**($740.00 + $444.00) + $80.00 + $0.00 + $0.00**
	=	**$1,264.00**
	=	**IE x annual QPIP rate**
	=	**$1,264.00 x 0.00494**
	=	**$6.24**

Step Six: Determine Federal Income Tax

Net Federal Taxable Income = **Earnings + taxable allowances + cash taxable benefits + non-cash taxable benefits + near-cash taxable benefits – authorized deductions**

- **Employee contribution to an RPP**
- **Contributions to an RRSP**
- **Union dues**
- **Deduction for living in a prescribed zone**
- **CRA authorized deductions**

= **($740.00 + $444.00) + $80.00 + $0.00 + $0.00 + $0.00 – $0.00**

= **$1,264.00**

Federal income tax **Using the federal tax tables for a Quebec employee, weekly pay period, claim code 3.**

= **$172.70**

Step Seven: Determine Provincial Income Tax

Net Provincial Taxable Income (Quebec) = **Earnings + taxable allowances + cash taxable benefits + non-cash taxable benefits + near-cash taxable benefits – authorized deductions**

- **Employee contribution to an RPP**
- **Contributions to an RRSP**
- **Deduction for living in a prescribed zone**
- **CRA authorized deductions**

= **($740.00 + $444.00) + $80.00 + $0.00 + $0.00 + $0.00 – $0.00**

= **$1,264.00**

Quebec income tax **Using the tax tables for a Quebec employee, weekly pay period, claim code C.**

= **$221.96**

Step Eight: Total Deductions		
Total Deductions	+	**C/QPP contributions**
	+	**EI premiums**
	+	**QPIP premiums**
	+	**Federal income tax**
	+	**Quebec provincial income tax**
	+	**Other deductions**
		$73.60 (QPP)
		15.17 (EI)
		6.24 (QPIP)
		172.70 (Federal income tax)
		<u>221.96</u> (Quebec income tax)
		$489.67

Step Nine: Net Pay		
Net Pay	=	**Gross Earnings – Total Deductions**
	=	**$1,264.00 – $489.67**
	=	**$774.33**

6. What is the primary payroll compliance requirement concerning benefits?

   The primary payroll compliance requirement concerning benefits is that if they are taxable, both the federal and Québec governments require that the value of the non-cash benefit or cash reimbursement amount is included in the employee's income as it is earned or enjoyed, meaning on a pay period basis.

7. What statutory deductions are calculated on a non-cash taxable benefit?

   Non-cash taxable benefits are subject to statutory deductions for Canada/Québec Pension Plan (C/QPP) contributions, income tax and Northwest Territories (NT)/Nunavut (NU) payroll taxes.

8. Which provinces impose a tax on insurance premiums?

   The province of Manitoba assesses a Retail Sales Tax of 7% and Ontario assesses a Retail Sales Tax of 8% on insurance premiums, the province of Québec assesses a 9% tax on insurance premiums.

9. Frontier Bookstores has employees in Alberta, Ontario and Québec; the company has a bi-weekly pay period. Frontier's employees have group term life insurance coverage of two times their annual salary, paid 100% by the company. The premium rate is $1.15 per $1,000.00 of coverage per month.

   Calculate the pay period taxable benefit for the following employees:

	LOCATION	ANNUAL SALARY
Angie Ameer	Alberta	$57,290.00
Lorraine Francks	Ontario	$36,570.00
Paula Girard	Québec	$46,720.00

Angie Ameer (Alberta):

Coverage amount = **Annual salary x coverage multiplier**
Round coverage amount up to nearest $1,000.00
= **$57,290.00 x 2**
= **$114,580.00**
= **$115,000.00 (rounded)**

Monthly taxable benefit = $\dfrac{\textbf{Coverage amount x premium rate}}{\textbf{\$1,000.00}}$

= $\dfrac{\textbf{\$115,000.00 x \$1.15}}{\textbf{\$1,000.00}}$

= **$132.25**

Pay period taxable benefit = $\dfrac{\textbf{Monthly taxable benefit x 12}}{\textbf{Pay period frequency}}$

= $\dfrac{\textbf{\$132.25 x 12}}{\textbf{26}}$

= **$61.04**

Lorraine Francks (Ontario):

Coverage amount = Annual salary x coverage multiplier
Round coverage amount up to nearest $1,000.00
= $36,570.00 x 2
= $73,140.00
= $74,000.00 (rounded)

Monthly taxable benefit = $\dfrac{\text{Coverage amount x premium rate}}{\$1,000.00}$

= $\dfrac{\$74,000.00 \text{ x } \$1.15}{\$1,000.00}$

= $85.10 x 1.08

= $91.91

Pay period taxable benefit = $\dfrac{\text{Monthly taxable benefit x 12}}{\text{Pay period frequency}}$

= $\dfrac{\$91.91 \text{ x } 12}{26}$

= $42.42

Paula Girard (Québec):

Coverage amount = Annual salary x coverage multiplier
Round coverage amount up to nearest $1,000.00
= $46,720.00 x 2
= $93,440.00
= $94,000.00 (rounded)

Monthly taxable benefit = $\dfrac{\text{Coverage amount x premium rate}}{\$1,000.00}$

= $\dfrac{\$94,000.00 \text{ x } \$1.15}{\$1,000.00}$

= $108.10 x 1.09

= $117.83

Pay period taxable benefit = $\dfrac{\text{Monthly taxable benefit x 12}}{\text{Pay period frequency}}$

= $\dfrac{\$117.83 \text{ x } 12}{26}$

= $54.38

10. Indicate whether the following benefits are taxable or non-taxable to the employee.

BENEFIT	TAXABLE	NON-TAXABLE
Chemical dependency coverage under an employee assistance plan		**X**
Provincial health care taxes paid by an employer for their Ontario employees		**X**
Personal income tax preparation provided to senior management employees	**X**	
Job placement counselling for an employee whose employment is being terminated		**X**

11. Indicate whether the following would be considered taxable or non-taxable, federally and in Québec. If the gift or award is considered taxable, give the taxable amount. Assume all costs include applicable taxes.

AN EMPLOYEE RECEIVES:	FEDERALLY		QUÉBEC	
	TAXABLE	NON-TAXABLE	TAXABLE	NON-TAXABLE
A $600 watch for a birthday gift	**$100**		**$100**	
A non-cash holiday gift valued at $500 plus a non-cash award valued at $400 for exceeding safety standards	**$400**			**X**
Three non-cash gifts worth $300, $150 and $100	**$50**		**$50**	
A $400 camera for a 5-year service award		**X**		**X**
A $100 gift certificate from Jackson's Jewellers	**$100**			**X**

12. Provide two situations where employer-provided parking would not be considered a taxable benefit to the employee.

    There is no parking taxable benefit in the following situations:

    - **when free or subsidized parking is provided to a physically disabled employee**
    - **when there is a distinct and regular requirement for an employee to have a parking space as part of their employment activities, for example, if the employee is required to make regular daily calls on their customers. In the event of an audit, the employer must be prepared to justify that the value of the parking space is not a taxable benefit**
    - **when an employer pays for parking costs incurred by an employee who is travelling away from the normal place of business. These are reimbursements of business-related expenses and are non-taxable**
    - **when a business operates from a shopping centre or industrial park, where parking is available to employees and non-employees; the fair market value of parking, in this case, would be nil**
    - **when an employer provides scramble parking (for example, there are significantly fewer spaces than there are employees and the spaces are available on a first-come-first-served basis)**

13. Indicate whether each of the following benefits is taxable or non-taxable.

BENEFIT	TAXABLE	NON-TAXABLE
A Québec employer provides Accidental Death and Dismemberment insurance for their employees	**X**	
An Alberta employer provides private health insurance coverage for their employees.		**X**
A British Columbia employer pays 50% of the cost of the employees' group term life insurance coverage.	**X**	
A Nova Scotia employer offers an Employee Assistance Plan that covers their employees for alcohol dependency counselling services.		**X**
Justin Lemaire is physically disabled; the company provides him with a paid parking spot.		**X**
National Merchandisers, with 23 payroll practitioners across Canada, pays for these employees to take the CPA's CPM Certification courses.		**X**

14. True or False. If an employer charges a loan interest rate that is higher than the government-prescribed rate, the employee has received a taxable benefit from employment.

    False. If an employer provides an employee with a loan and charges the employee the government-prescribed interest rate or higher, no taxable benefit is assessed.

15. On January 1st, Mitchell Mirrors lends Luanne Dufferin $20,000.00 at a 3% interest rate. Luanne will pay back $1,000.00 on the loan through payroll deductions at the end of each month. The government-prescribed rates for the year are:

QUARTER	RATE
1st	3%
2nd	4%
3rd	3%
4th	5%

Calculate Luanne's monthly taxable benefit and total taxable benefit for the year.

PAY PERIOD	LOAN BALANCE	GOVERNMENT-PRESCRIBED INTEREST RATE	ORGANIZATION INTEREST RATE	MONTHLY TAXABLE BENEFIT (ANNUAL ÷ 12)
January	**$20,000**	**3%**	**3%**	**$ 0.00**
February	**$19,000**	**3%**	**3%**	**$ 0.00**
March	**$18,000**	**3%**	**3%**	**$ 0.00**
April	**$17,000**	**4%**	**3%**	**$14.17**
May	**$16,000**	**4%**	**3%**	**$13.33**
June	**$15,000**	**4%**	**3%**	**$12.50**
July	**$14,000**	**3%**	**3%**	**$ 0.00**
August	**$13,000**	**3%**	**3%**	**$ 0.00**
September	**$12,000**	**3%**	**3%**	**$ 0.00**
October	**$11,000**	**5%**	**3%**	**$18.33**
November	**$10,000**	**5%**	**3%**	**$16.67**
December	**$ 9,000**	**5%**	**3%**	**$15.00**
Total taxable benefit for the year				**$90.00**

16. Gwen Reynolds works as a salesperson for Empire Stationary in Nova Scotia and is provided with a company-owned automobile. Given the following details, calculate Gwen's annual automobile taxable benefit (stand-by charge + operating benefit). Gwen took possession of the automobile on the date of hire, September 1, of the current year and has asked that the company use the optional method of calculating the operating cost benefit.

Purchase price of the automobile	$29,500.00
HST on purchase price (15%)	$ 4,425.00
Days available (01 Sept. – 31 Dec. of the current year)	122
Total kilometres driven	20,000
Personal kilometres driven	8,000
Employee reimbursement	$0.00

Calculate the automobile availability.

$$\textbf{Availability} = \frac{\textbf{Number of calendar days the automobile is available to the employee}}{\textbf{30}}$$

$$\textbf{Availability} = \frac{\textbf{122}}{\textbf{30}} = \textbf{4}$$

Calculate the standby charge.

Standby charge = 2% x (cost of automobile + taxes) x availability
= 2% x ($29,500.00 + $4,425.00) x 4
= 2% x $33,925.00 x 4
= $2,714.00

Determine if a reduced standby charge applies. If so, calculate.

Gwen used the automobile more than 50% for business purposes; however, personal use of 8,000 kilometres (km) exceeded the 1,667 km per 30-day period limit (6,668), so a reduced standby charge will not apply in this case.

Calculate the operating cost benefit.

Operating Cost Benefit = $0.29 x personal km driven
= $0.29 x 8,000
= $2,320.00

Determine if the optional method of calculating the operating cost benefit applies. If so, calculate.

The optional method of calculating the operating cost benefit can be used if the following three conditions are met:

- **the employee notifies the employer in writing to use the optional method**
- **the business use of the automobile is more than 50%**
- **a standby charge component is included in the employee's income**

As Gwen met the required conditions, the optional method of calculating the operating cost benefit is as follows:

Optional Method = **Standby charge (or reduced standby charge, if applicable) x 50%**
= **$2,714.00 x 50%**
= **$1,357.00**

Calculate the annual taxable benefit.

Automobile taxable benefit = **Standby charge (or reduced standby charge) + operating cost benefit - employee reimbursement**

= **$2,714.00 + $1,357.00 - $0.00**
= **$4,071.00**

17. Claire Rozon works for Lebrun Ind. in Montréal and has a company-leased automobile for use during the year. Given the following information, calculate Claire's annual taxable benefit (stand-by charge + operating benefit). Claire has asked the company to use the optional method of calculating the operating cost benefit.

Monthly cost of the automobile	$399.91
GST on monthly cost (5.00%)	$ 20.00
QST on monthly cost (9.975%)	$ 39.89
Days available	
(Jan 1 – Dec. 31, of the current year)	365
Total kilometres driven	40,000
Personal kilometres driven	15,000
Employee reimbursement	$ 0.00

Calculate the automobile availability.

Availability $= \dfrac{\textbf{Number of calendar days the automobile is available to the employee}}{\textbf{30}}$

Availability $= \dfrac{\textbf{365}}{\textbf{30}} = \textbf{12}$

Calculate the standby charge.

Standby charge = 2/3 x (monthly cost of automobile + taxes) x availability
= 2/3 x ($399.91 + $20.00 + $39.89) x 12
= 2/3 x $459.80 x 12
= $3,678.40

Determine if a reduced standby charge applies. If so, calculate.

Claire used the automobile more than 50% for business purposes and personal use of 15,000 kilometres (km) did not exceed the 1,667 km per 30-day period limit (20,004), so a reduced standby charge will apply in this case.

Reduced standby charge =

$$\frac{\text{Personal kilometres}}{\text{1,667 x availability}} \text{ x [2/3 x (monthly cost + taxes) x availability]}$$

$$= \frac{15{,}000}{20{,}004} \text{ x \$3,678.40}$$

= $2,758.25

Calculate the operating cost benefit.

Operating Cost Benefit = $0.29 x personal km driven
= $0.29 x 15,000
= $4,350.00

Determine if the optional method of calculating the operating cost benefit applies. If so, calculate.

The optional method of calculating the operating cost benefit can be used if the following three conditions are met:

- **the employee notifies the employer in writing to use the optional method**
- **the business use of the automobile is more than 50%**
- **a standby charge component is included in the employee's income**

As Claire met the required conditions, the optional method is calculated as follows:

Optional Method = Standby charge (or reduced standby charge, if applicable) x 50%
= $2,758.25 x 50%
= $1,379.13

Calculate the annual taxable benefit.

Automobile taxable benefit = Standby charge (or reduced standby charge) + operating cost benefit - employee reimbursement

= $2,758.25+ $1,379.13 - $0.00
= $4,137.38

18. Edna Robson is a marketing manager for Blossom Cosmetics in Lethbridge, Alberta. An annual salary of $45,000.00 is paid on a semi-monthly basis. Edna's federal and provincial TD1 claim codes are 3.

    Blossom Cosmetics provides the following benefits:

    - group term life insurance of two times the annual salary (the premium rate is $0.90 per $1,000.00 of coverage)
    - a company-leased automobile (the company estimates the pay period taxable benefit based on last year's annual taxable benefit of $4,440.00)

    Calculate Edna's net pay.

Salary per pay period $= \dfrac{\textbf{Annual salary}}{\textbf{Pay period frequency}}$

$= \dfrac{\$45{,}000.00}{24}$

= $1,875.00

Group term life insurance taxable benefit:

Coverage amount = Annual salary x coverage multiplier
Round coverage amount up to nearest $1,000.00

= $45,000.00 x 2
= $90,000.00

Monthly taxable benefit $= \dfrac{\textbf{Coverage amount x premium rate}}{\$1{,}000.00}$

$= \dfrac{\$90{,}000.00 \times \$0.90}{\$1{,}000.00}$

= $81.00

Pay period taxable benefit $= \dfrac{\textbf{Monthly taxable benefit x 12}}{\textbf{Pay period frequency}}$

$= \dfrac{\$81.00 \times 12}{24}$

= $40.50

Pay period automobile taxable benefit = **Prior annual taxable benefit / Pay period frequency**

= **$4,440.00 / 24**

= **$185.00**

Step One: Determine Gross Earnings		
Gross Earnings (GE)	=	**Earnings + taxable allowances + non-taxable allowances + cash taxable benefits**
	=	**$1,875.00 + $0.00 + $0.00 + $0.00**
	=	**$1,875.00**
Step Two: Determine Non-Cash or Near-Cash Taxable Benefits		
Taxable Benefits	=	**Non-cash taxable benefits + near-cash taxable benefits**
	=	**($40.50 + $185.00) + $0.00**
	=	**$225.50**
Step Three: Determine Canada/Quebec Pension Plan (C/QPP) contribution		
Pensionable Earnings (PE)	=	**Earnings + taxable allowances + cash taxable benefits + non-cash taxable benefits + near-cash taxable benefits**
	=	**$1,875.00 + $0.00 + $0.00 + $225.50 + $0.00**
	=	**$2,100.50**
	=	**(PE – pay period exemption) x $0.057**
	=	**($2,100.50 – $145.83) x $0.057**
	=	**$111.42**
Step Four: Determine Employment Insurance (EI) premium		
Insurable Earnings (IE)	=	**Earnings + taxable allowances + cash taxable benefits**
	=	**$1,875.00+ $0.00 + $0.00 + $0.00**
	=	**$1,875.00**
	=	**IE x annual EI rate**
	=	**$1,875.00 x $0.0158**
	=	**$29.63**
Step Five: Determine Quebec Parental Insurance Plan (QPIP) premium		
Not applicable		**Edna is an Alberta employee**

Step Six: Determine Federal Income Tax

Net Federal Taxable Income	=	**Earnings + taxable allowances + cash taxable benefits + non-cash taxable benefits + near-cash taxable benefits – authorized deductions** • **Employee contribution to an RPP** • **Contributions to an RRSP** • **Union dues** • **Deduction for living in a prescribed zone** • **CRA authorized deductions**
	=	**$1,875.00 + $0.00 + $0.00 + $225.50 + $0.00 – $0.00**
	=	**$2,100.50**
Federal income tax		**Using the federal tax tables for an Alberta employee, semi-monthly pay period, claim code 3.**
	=	**$305.85**

Step Seven: Determine Provincial Income Tax

Net Provincial Taxable Income (non-Quebec)	=	**Earnings + taxable allowances + cash taxable benefits + non-cash taxable benefits + near-cash taxable benefits – authorized deductions** • **Employee contribution to an RPP** • **Contributions to an RRSP** • **Union dues** • **Deduction for living in a prescribed zone** • **CRA authorized deductions**
	=	**$1,875.00 + $0.00 + $0.00 + $225.50 + $0.00 – $0.00**
	=	**$2,100.50**
Provincial income tax		**Using the provincial tax tables for an Alberta employee, semi-monthly pay period, claim code 3.**
	=	**$140.80**
Total federal and provincial income tax	=	**$305.85 + $140.80**
	=	**$446.65**

Step Eight: Total Deductions		
Total Deductions	+	**C/QPP contributions**
	+	**EI premiums**
	+	**QPIP premiums**
	+	**Federal income tax**
	+	**Quebec provincial income tax**
	+	**Other deductions**
		$111.42 (CPP)
		29.63 (EI)
		$446.65 (Federal and provincial income tax)
		$587.70
Step Nine: Net Pay		
Net Pay	=	**Gross Earnings – Total Deductions**
	=	**$1,875.00 – $587.70**
	=	**$1,287.30**