

## ALLOWANCES AND DEDUCTION FROM EMPLOYMENT INCOME

- **Allowance** = amount provided by an employer to an employee
- The only allowance that is **not taxable** are **reasonable travel allowances**; all other allowances are taxable in the hands of the employees
- Types of travel allowances:
  1. **Car expense allowance (gas, maintenance)**– for this allowance to be considered reasonable, CRA says the allowance must be based on KM driven (not a fixed amount)
    - **If the amount is not reasonable** – include a benefit in the T4
  2. **Non-car travel expenses (i.e. train, bus, meals)** – use judgement in determining whether the allowances are reasonable; compare the actual costs to the allowance provided
    - **If the amount is not reasonable** – include a benefit in the T4

### Deductions Employees can claim:

#### For all types of Employees:

1. **Motor Vehicle Costs/Car Expenses – 8(1)(h.1)**  
**Examples:** gas, licence, repairs and maintenance, insurance (excluding interest and CCA)
2. **Non-Car Travel Expenses – 8(1)(h)**  
**Examples:** Airline tickets, bus pass, taxi fare, rail tickets, meals

In order to claim car expenses under **8(1)(h)** and **8(1)(h.1)** the following conditions need to be met:

1. Employee is **required to pay** for his/her motor vehicle expenses (must fill out T2200)
2. Employee must ordinarily be required to **carry out his/her employment duties away from the employer's office**
3. The employee **must not have received a reasonable allowance** (i.e. an allowance based on km driven)
4. No deduction can be made under Salesperson's Expense 8(1)(f)

**NOTE: Remember to prorate the expenses between personal use and employment purposes**

#### For Salespersons who Earn commission Income

##### 1. Salesperson's Expenses – 8(1)(f)

Special rules apply to Salespersons who earn commission income

1. In addition to all of the car expenses and non-car travel expenses mentioned in section 8(1)(h) and 8(1)(h.1); they are also able to deduct the following expenses:
  - a. Advertising and promotion

- b. 50% of Entertainment costs
  
2. The amount that can be deducted under 8(1)(f) – Salesperson’s Expenses is limited to the amount of commission income this person earns during the year; therefore if the travel expenses are higher than the commission income, it may make more sense for this person to use 8(1)(h) and 8(1)(h.1) instead of 8(1)(f).

In order to take deductions under 8(1)(f) – Salesperson’s expenses; you must meet the following conditions:

1. Employee is **required to pay** for his/her motor vehicle expenses (must fill out T2200)
2. Employee must ordinarily be required to **carry out his/her employment duties away from the employer’s office**
3. The employee **must not have received a reasonable allowance** (i.e. an allowance based on km driven)
4. This employee was paid in whole or in part by commissions or in reference to volume of sales or contracts negotiated
5. **No deduction made under 8(1)(h) or 8(1)(h.1) – must choose either 8(1)(h/h.1) or 8(1)(f)**

**NOTE: Remember to prorate the expenses between personal and employment purposes**

#### Other deductions available to all employees

##### 1. Other Expenses of Performing Employment Duties 8(1)(i)

- Professional membership dues
- Union dues
- Office Rent – Employee must be required to pay under employment contract; must be supported with T2200
- Salary to assistant or substitute – Employee must be required to pay under employment contract; must be supported with T2200
- Supplies consumed while performing duties (including home office expense) – Employee must be required to pay under employment contract; must be supported with T2200

##### 2. Automobile and Aircraft Expenses 8(1)(j)

- **Capital Cost Allowance (CCA)** on an **automobile** or **aircraft** that is used in carrying out employment duties
  - i. Automobile – 30% declining balance method (use class 10 or 10.1)
  - ii. Aircraft – 25% declining balance method

- **Interest costs** incurred on an **automobile** or **aircraft** that is used in carrying out employment duties
  - **Example:** you borrow money to buy a car used for work
  - Remember, **imputed interest benefit** on loans from employers are deemed to be paid. Therefore the imputed interest benefit on a car loan from an employer can be deducted in this section (assuming the car is used for work purposes).
- **NOTE: Remember to prorate the expenses between personal and employment purposes**

**3. Home Office Expenses [ claimable under 8(1)(f) or 8(1)(i) ]**

- In order to deduct home office expenses under section 8(1)(f) or 8(1)(i); you must meet one of the following criteria:
  1. The home office is where duties are **principally** performed (>50% of the time) **or**
  2. The home office is used **exclusively** for employment and used to meet customers and other stakeholders in the course of performing employment duties
- Cannot create an employment loss with home office expenses; you can **carry forward** the unused home office expenses indefinitely
- NOTE: mortgage interest is never deductible as home office expense!
- **NOTE: Remember to prorate the expenses between personal and employment purposes**

**4. Employee’s RPP (Registered Pension Plan) contributions 8(1)(m)**

**5. Legal Expenses 8(1)(b)**

- Employees can deduct legal expenses incurred to collect or gain rights to salaries and wages owed from an employer (including former employers)

**Summary of Employee’s Deductions:**

<b>8(1)(f)</b>	<p><b>Salesperson’s expense (MAX = COMMISSION INCOME)</b></p> <ul style="list-style-type: none"> <li>• 50% meals/Entertainment (when taking out clients)</li> <li>• 50% of meals for tax payer - must be atleast 12 hrs. away from office</li> <li>• Advertising/promotion</li> <li>• Car and Non-Car Travelling Expenses (similar to 8(1)(h) &amp; (h.1))</li> <li>• Parking Expenses</li> <li>• Home Office 8(13)                             <ul style="list-style-type: none"> <li>○ Utilities; lights</li> <li>○ Cleaning</li> <li>○ Minor repairs</li> <li>○ Rent</li> <li>○ <b>Property tax</b></li> <li>○ <b>Insurance on home</b></li> <li>○ <b>Equipment Rental(computer/fax)</b></li> </ul> </li> </ul> <p style="font-size: small; margin-top: 10px;">Note how <b>property taxes, insurance on home, and equipment rental</b> are only allowed for employees earning commission income</p>
<b>8(1)(h)</b>	<p><b>Non-Car travelling Expense</b></p> <ul style="list-style-type: none"> <li>• Train, bus, hotel, 50% meals (&gt;12 hrs away), car rentals</li> </ul>

	<ul style="list-style-type: none"> <li>50% meals - 12 hr. rule</li> </ul>
<b>8(1)(h.1)</b>	<b>Car travelling expense (business portion only)</b> <ul style="list-style-type: none"> <li>Gas, licence, repairs, insurance,</li> <li>lease payments (maximum \$800 + HST per month)</li> </ul>
<b>8(1)(i)</b>	<ul style="list-style-type: none"> <li>Professional dues,</li> <li>Accounting fees</li> <li>Salary to assistant,</li> <li>Union dues,</li> <li>Supplies for work,</li> <li>home office 8(13)                             <ul style="list-style-type: none"> <li>Utilities; lights</li> <li>Cleaning</li> <li>Minor repairs</li> <li>Rent</li> </ul> </li> </ul>
<b>8(1)(j)</b>	Car capital costs: <ul style="list-style-type: none"> <li>CCA on cars - Class 10/10.1</li> <li>interest on \$ borrowed to buy car; (includes imputed interest benefit) - (maximum \$300 per month)</li> </ul>
<b>8(1)(m)</b>	Employee RPP Contributions
<b>8(1)(b)</b>	Legal costs to fight right to salary

### Big Picture look at the expenses deductible by employees

	<b>f</b> <b>+</b> <b>i,j,m,b</b>	<b>(h,h.1)</b> <b>+</b> <b>i,j,m,b</b>
50% Meals (away for >12 hours)	Y	No*
Entertainment	Y	
Promotion/Advertising	Y	
Non-car travelling expense (hotels, bus, trains)	Y	Y
Car Expenses (gas, licence, R&M, CCA, interest, Imputed interest)	Y	Y
<b>HOME OFFICE</b>		
<ul style="list-style-type: none"> <li>Where you <u>principally</u> perform employment duties (&gt;50%) or</li> <li>used <u>exclusively</u> for doing work and meeting people (i.e. clients)</li> </ul>		
<ul style="list-style-type: none"> <li>Utilities/bulbs</li> </ul>	Y	Y
<ul style="list-style-type: none"> <li>Cleaning, small repairs</li> </ul>	Y	Y
<ul style="list-style-type: none"> <li>Rent</li> </ul>	Y	Y
<ul style="list-style-type: none"> <li>Property tax</li> </ul>	Y	
<ul style="list-style-type: none"> <li>Insurance</li> </ul>	Y	
<ul style="list-style-type: none"> <li>Equipment rental</li> </ul>	Y	
Supplies	Y	Y
Professional and Union Dues	Y	Y
Salary to Assistant	Y	Y
RPP Contributions	Y	Y
Legal Fees to Establish Right to Wages/Salary	Y	Y