

LOANS TO EMPLOYEES

- If an employee receives a loan from his/her employer at an interest that is below the market rate, there is an **imputed interest benefit**
- **Imputed interest benefit** = interest based on the prescribed CRA quarterly rate *less* the Interest paid by an employee up to January 30th of the following year.

Imputed Interest Benefit that can be deducted by the Employee

- **Car Purchase Loans**
 - If an employer provides an employee a loan to purchase a motor vehicle, the imputed interest benefit on this loan is deemed to be paid; and as such, the employee can deduct this imputed interest benefit as a “motor-vehicle cost” if the vehicle purchased is used by the employee in performing his employment duties (i.e. meeting clients) 8(1)(j).
- **Stock Purchase Loans**
 - If an employer provides a loan to an employee to purchase shares of the employer, the imputed interest benefit on this loan is deemed to be paid; and as such, the employee can deduct this imputed interest benefit as interest paid on borrowed money used to earn property income 20(1)(c).

Home Purchase Loans and Home Relocation Loans

- For home purchase **and** home relocation loans, the CRA’s prescribed interest rate for calculating the imputed interest benefit is the **lesser of**:
 - a) The prescribed rate at the time the loan was made
 - b) The current prescribed rate
- The loan is deemed to be **renewed every 5 years**; so the prescribed rate at the time loan was made changes every 5 years for the calculation above.
- Special rules apply for **home relocation loans**
 - Home relocation loans are home purchase loans that meet the following 2 conditions:
 - Loan provided to an employee to move to a new work location in Canada
 - The new home needs to be at least 40 km closer to the work than the old home
 - Home location loans get a **division c deduction** for the first 5 years of the loan; equal to the **lesser of**
 - a) The imputed interest benefit
 - b) \$25,000 * Prescribed CRA Rate

