

1 Lecture 2: Residency and Employment income

- Selected parts of Chapters 1, 3 and 21
- Web links are included to provide more information to those who are interested to learn more about particular topics
- Recommended exercises and self-study problems in chapter 3: Exercises 1-3, 5, 8-12, 14-16
- Self-Study Problem 3-11: As you are not responsible for the standby charge (and the operating cost benefit, if any), you can assume that the standby charge is \$4,871 (before taking into account any payments made by Ms. Firth to her employer)

2 Residency [ch. 1]

2.1 ITA 2 is the charging provision [1-76 to 1-132]

- It defines who the taxpayer is and what the base is = who is liable for tax on what taxable income
 - For residents of Canada for tax purposes
 - The base is worldwide taxable income in Division C of the Act
 - For non-residents of Canada for tax purposes
 - The base is certain Canadian source taxable income in Division D of the Act if they were
 - employed in Canada,
 - carried on a business in Canada, or
 - disposed of a taxable Canadian property (e.g., Canadian real estate) at any time in the year or a previous year
- Read ITA 2(1), 2(2), 2(3)

2.2 Definitions [1-81]

- Person = individuals, corporations, and trusts
- Resident – unless an individual severs all significant residential ties with Canada upon leaving Canada
- Significant residential ties include: having a spouse or minor child in Canada; and having a home in Canada
 - See also <http://www.cra-arc.gc.ca/tx/nrrsdnts/cmmn/rsdncy-eng.html>

2.3 Computation of Income [1-142 to 1-147]

2.3.1 Division B of Part I of the Act- Computation of Net Income for Tax Purposes

- Taxable income = Net income for tax purposes minus Division C deductions
- Division B has subdivisions for each source of income:
 - a = employment

- b = business or property
- c = taxable capital gains/allowable capital losses
- d = other income (e.g. spousal support received, pension income)
- e = other deductions (e.g. RRSP contributions, moving expenses, spousal support paid, child care expenses)

2.3.2 Computation of Income ITA 3 [1-148 to 1-124]

- See Fig 1-3
- ITA 3 brings together all the different sources of income to form Net Income for Tax Purposes
 - Taxable capital gain (TCG) = 1/2 of a capital gain
 - Allowable capital loss (ACL) = 1/2 of a capital loss
- One key point in ITA 3 is that if allowable capital losses are greater than taxable capital gains, the allowable capital losses deducted in computing net income is limited to the taxable capital gains for the year
- Excess ACLs are available for deduction in other years ("carried over"). They can be carried back to the preceding three years and deducted against TCGs in those years (if any) and/or carried forward indefinitely and deducted against future TCGs. If not deducted before death, they can be deducted in the year of death (and the immediately preceding year) against any type of income
- See Example at 1-166

3 Income or Loss from Employment [ch. 3]

3.1 General Rules [3-1 to 3-6]

- ITA calculates income by source
- For example, employment income is computed separately from business and property income and separately from capital gains/capital losses [ITA section 4]. Only deductions permitted under the Act are allowed for each source (i.e., employment income, business and property income, and capital gains/losses)
- Rules for computing employment income are in ITA 5, 6, 7 and 8 of subdivision a of Division B of Part I of ITA
 - ITA 5 = salary, wages, other remuneration, including gratuities received (gratuities = tips)
 - ITA 6 = taxable benefits
 - ITA 7 = stock option benefits
 - ITA 8 = deductions
- It is possible to have an employment income loss but it is very rare
- Read ITA 5(1)

3.2 Bonus Arrangements [3-7 to 3-11]

- ITA 5 taxes employment income on a "received" or "cash" basis rather than an accrual basis

- See examples in 3-8 and 3-9
- See Figure 3-1

3.3 Net Concept [3-12 to 3-13]

- Employment income = ITA 5, 6 and 7 inclusions minus ITA 8 deductions

3.4 Employed v. Self-Employed [3-14 to 3-44]

- Self-employed = business person = consultant = independent contractor earning business income
- Over the last few years, many firms have "contracted out" different services, hiring independent contractors to do work previously done by employees

3.4.1 Employee's perspective

- First, deductions for employees are limited by ITA 8 and are very limited
 - Commissioned employees enjoy more deductions than salaried employees but self-employed taxpayers get the most deductions
- Second, payroll withholdings must be made for employees
 - Tax [ITA 153]
 - No tax is withheld on business income; tax instalments are made instead (if required, as discussed in lecture 1) and there is some ability to defer tax here because instalments can be based on prior year's taxes
 - EI
 - Both employees and employers must pay; generally speaking there is no mandatory EI for a self-employed person
 - Beginning January 2011, self-employed individuals can opt into the EI program on a voluntary basis
 - Self-employed persons who participate in this voluntary program have been able to access employment insurance special benefits. This voluntary program will require the self-employed person to pay EI premiums (for at least 12 months) and it then allows them to access certain benefits such as maternity leave. There are no EI benefits when a self-employed person is "laid off" or loses clients
 - CPP
 - Both the employee and employer make CPP contributions
 - The rate for self-employed persons is double the rate for employees (because there is no "employer" making contributions so *they* pay it)
- Third, fringe benefits/job security
 - Only employees get fringe benefits such as medical plans & pensions and can get severance if they are terminated (i.e., an advantage to being an employee)
- Fourth, employees are unable to save tax by incorporating (disadvantage)

- Business income can be incorporated and taxed at a low rate (with the small business deduction)
- However, if employment income (as opposed to business income) is incorporated, the income will be considered to be a "personal services business" and taxed at the regular corporate tax rate (i.e., without the small business deduction)
- Fifth, self-employed consultants must register for HST/GST purposes if their revenues exceed \$30,000 (i.e. not a small supplier)
 - This means that they must charge HST/GST on their business income, but they can apply for input tax credits for the HST/GST that they have paid (in order to earn business income)

3.4.2 Employer's perspective

- An employer often prefers to hire independent contractors because it is less costly: no payroll taxes, no fringe benefits, no long term commitments
- However, the employer must be sure of the worker's status because if a CRA payroll audit determines that the workers were employees, payroll taxes and penalties must be paid

3.4.3 Making the Distinction (Employee vs. Self-Employed Independent Contractor)

- Office and employment are defined in ITA 248(1) but the real tests are common law (i.e., determined by court cases) tests
 - The common law factors are used to distinguish between employment income (subdivision a) and business income (subdivision b) and this distinction is very important
 - The non-exhaustive list of factors include:
 - Control (is the taxpayer treated like other employees? does he/she have specialized knowledge? fill out time sheets? have an office on the premises? adhere to office hours? and can he/she have other clients? Who controls the way the work is done?)
 - Who owns the tools and equipment used by the taxpayer? who is responsible for hiring helpers (if needed)
 - Does the taxpayer have a risk of loss/opportunity for profit? (is it a fixed fee contract or is he/she paid hourly? who pays for expenses?)
 - Does the taxpayer have other clients?, how much economic dependence on the work does the taxpayer have? (# days/week worked; % of total income)
 - Duration of contract/ is the contract for a specific result?
 - Are employee benefits provided?
 - Other relevant factors, including the intention of parties (e.g. written contract and invoices)
 - See CRA pamphlet RC4110 titled "Employee Or Self Employed" at <http://www.cra-arc.gc.ca/E/pub/tg/rc4110/README.html>

3.5 Computation of Employment Income Inclusions [3-45 to 3-59]

- ITA 5 includes salary and gratuities (gratuities = tips/gifts from clients)

- ITA 6 includes benefits
- ITA 7 includes stock option benefits
- ITA 8 contains deductions

3.5.1 Important Taxable Benefits

3.5.1.1 Examples in ITA 6 (Taxable benefits included in an employee's taxable income)

- ITA 6(3): Signing bonuses (before employment starts) and non-competition payments (after employment ends)
- ITA 6(4): Employer-paid life insurance premiums
- ITA 6(9): Low interest or interest-free loans
- ITA 6(1)(c): Fees paid to members of the Board of Directors are included in the recipient's income as employment income
- ITA 6(1)(e) and ITA 6(2): Cars provided by and car expenses paid by the employer
- ITA 6(1)(b): Allowances other than reasonable car or travel allowances
 - A reimbursement is a specific reimbursement of a bill whereas an allowance is not. Employees may get meal allowances, car allowances, moving allowances, entertainment allowances, etc.
 - A reimbursement by an employer for an employee-paid expense made for the employer's benefit (e.g., business travel paid by the employee and reimbursed by the employer) is not a taxable benefit.
- ITA 7: Stock options

3.5.1.2 Examples of Taxable Benefits in IT Folio S2-F3-C2 [Replaced IT-470 Employee's Fringe Benefits]

- <https://www.canada.ca/en/revenue-agency/services/tax/technical-information/income-tax/income-tax-folios-index/series-2-employers-employees/series-2-employers-employees-folio-3-employment-benefits/income-tax-folio-s2-f3-c2-benefits-allowances-received-employment.html>
- Board & lodging provided to an employee leads to a taxable benefit (computed at fair market value)
- Spouses' expenses on business trip unless the spouse is primarily engaged in business activities
- Trips, where the predominant reason was holiday (or the portion related to the holiday if the primary reason was business)
- More detailed information can be found in the CRA Employers' Guide – Taxable Benefits and Allowances (T4130).
 - <https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/t4130-employers-guide-taxable-benefits-allowances.html>

3.5.2 Important Non-Taxable Benefits

3.5.2.1 Examples in ITA 6

- ITA 6(1)(a) includes all benefits relating to employment except employer contributions to
 - registered pension plans (RPPs)
 - group sickness or accident insurance plans (e.g. disability insurance)
 - private health services plans (e.g. dental, drug or hospital plans)
 - supplementary unemployment benefit plans
 - deferred profit sharing plans (DPSPs, this is a type of pension plan)
 - employer-paid counseling in respect of mental or physical health, re-employment or retirement
- ITA 6 also says the following benefits are not taxable
 - ITA 6(1)(b): reasonable per-kilometer automobile allowance
 - ITA 6(1)(b): reasonable non-motor vehicle travel allowance (for meals, hotels, etc.)
 - ITA 6(6): board, lodging and transportation to a special work site

3.5.3 Non-Legislative Guidance – CRA Employers’ Guide – Taxable Benefits And Allowances (T4130) [3-60 to 3-66]

- Automobile Benefits – personal use of an automobile provided by an employer is a taxable benefit
- Board/Lodging – employer provided free board/lodging is a taxable benefit
 - Exception: Special work sites and remote work sites
- Discounts on the employer's merchandise, available to all employees – not a taxable benefit
- Meals while working overtime is not a taxable benefit
- Subsidized meals available to all employees if a reasonable charge is made to cover direct costs – not a taxable benefit
- Uniforms, protective clothing or footwear – not a taxable benefit
- Reimbursement of certain moving expenses upon relocation – not a taxable benefit
- Medical expenses paid for by the employer is a taxable benefit
- Cash and near cash gifts/rewards are a taxable benefit
- The first \$500 of non-cash gifts given to arm’s length employees each year. In order to qualify, the gifts cannot be cash or near-cash (i.e., gift cards)
- In addition to the \$500 annual non-cash gift limit, up to \$500 every 5 years can be paid to an employee as recognition for long service and be tax-free (ITTN #40).
- Use of the employer's recreation facilities – not a taxable benefit
- Membership in a social or athletic club, where such membership is primarily for the benefit of the employer – not a taxable benefit
 - Employer cannot deduct this cost (discussed below)
- Travel where the trip was undertaken predominantly for business reasons – not a taxable benefit
- Tuition, if the course is primarily for the employer's benefit

- The CRA's Technical News No. 13 (May 7, 1998) sets out the rules
 - Specific employer-related training is not a taxable benefit
 - e.g. tax training for a tax professional
 - General employment-related training that is business-related is not a taxable benefit
 - e.g. computer skills, stress management, leadership training, etc.
 - Personal interest training is a taxable benefit
 - e.g. basket weaving (taken as a hobby)
- Professional membership fees paid by the employer – not a taxable benefit if the employer is the primary beneficiary

3.6 Recreation Facilities/Clubs ITA 18(1)(l) [3-70 to 3-72]

- One employee benefit that is not deductible to the employer is employer-provided recreational facilities
 - e.g. a fitness club on the employer's premises (unless the facility is the employer's ordinary course of business e.g., the employer is a fitness club)
 - e.g. employer payment of club dues (a fitness club, golf club, country club)
- ITA 18(1)(l): The deduction is denied to the employer regardless of whether the benefit is tax-free (primarily used to entertain clients) or taxable (primarily for personal and family use)

3.7 HST/GST on Taxable Benefits [3-77 to 3-78]

- ITA 6(7) requires taxable benefits to include the relevant amount of PST and GST or HST if the benefit is a taxable supply
 - e.g. a free trip (the plane ticket and hotel (for example) will typically be subject to PST and GST or HST)
- Some benefits do not have a HST/GST component because they are exempt supplies
 - e.g. allowances, interest and insurance benefits, residential rent

3.8 Employer Supplied Automobiles [3-79 to 3-124]

3.8.1 If a car is provided

- The ITA has a standby charge formula for the personal benefit relating to having the car available for your use. If a car is leased, the taxable benefit is generally 2/3 of the annual lease cost. The benefit is reduced by a formula if your employment use of the car exceeds 50% of total use. [You are not responsible for the standby charge formula. The standby charge will always be given to you]

3.8.2 If car operating costs are paid for (e.g. gas, insurance, etc)

- The ITA has several rules that apply depending on the circumstances to compute an operating cost benefit associated with the personal benefit relating to these expenses [You are not

responsible for the operating cost benefit formulas. The operating cost benefit will always be given to you]

3.8.3 If a car allowance is provided (e.g., a mileage allowance, a daily or monthly allowance)

- This allowance may be tax-free or taxable
 - If the allowance is taxable, the employee may be able to deduct the work-related automobile expenses under ITA 8 if he/she uses his/her own car and pays for the expenses

3.8.4 Generally you are either reimbursed for car operating expenses or provided with an allowance

- The ITA contains a rule that says that if you get both reimbursement and allowance, the allowance will ALWAYS BE TAXABLE
- The Standby Charge or operating cost benefit are reduced by amounts paid by the employee to the employer
- If the employer provides no car and related benefits, the employee may be able to deduct work-related automobile expenses under ITA 8 for using his/her own car and paying for his/her own expenses
 - A form T2200 is signed by the employer, if the employee wants to deduct employment expenses. See <http://www.cra-arc.gc.ca/E/pbg/tf/t2200/README.html>

3.9 Allowances – General Rules [3-125 to 3-142]

- ITA 6(1)(b) excludes reasonable travel allowances from income so they are tax-free. Only allowances that are unreasonable are taxable
- Employees who are required to travel on business and don't receive a tax-free reimbursement of expenses or a tax-free allowance for expenses can deduct business-related travel expenses under ITA 8(1)(h) if they are required to work in different places
- Commissioned employees may deduct travel expenses under ITA 8(1)(h) or ITA 8(1)(f) but not both
 - The most common type of travel expense is car expenses. Examples of other travel expenses are meals, train, plane, taxi and hotel expenses
- In order to be tax-free,
 - an allowance must be reasonable
 - an automobile (car) allowance must be solely based on km driven for business and
 - the employee cannot receive both an allowance and a reimbursement
- ITA 6(1)(b): An employer-paid car allowance, based on anything other than business kilometers (mileage) is deemed to be unreasonable and must be included in the employee's income. Most car allowances paid in Canada are per kilometer allowances. See also <http://www.cra-arc.gc.ca/tx/bsnss/tpcs/pyrll/bnfts/tmbllwnc/menu-eng.html>
- Driving from home to work and vice versa is considered personal use (and hence not related to employee duties)

3.9.1 Rule #1: If you have a taxable allowance or no allowance or no reimbursement, you can deduct expenses

- Employees who are not compensated on a tax-free basis can deduct travel expenses related to their employment duties
- Employees who receive unreasonable allowances (too much or too little in relation to expenses) or car allowances that are not based on km. driven (e.g. monthly allowances) or no allowance or no reimbursement at all can deduct expenses related to their employment duties

3.9.2 Rule #2: If you get a tax-free car allowance, you cannot deduct expenses

- ITA 6(1)(b)(v), ITA 6(1)(b)(vii.1): Employees who receive a reasonable mileage allowance based on business km driven do not pay tax on these allowances
- ITA 8(1)(f), ITA 8(1)(h.1): Employees who receive tax-free travel allowances cannot deduct the travel expenses

3.9.3 Rule #3: If you get a tax-free reimbursement of car expenses, you cannot deduct expenses

- Rather than paying an allowance, the employer may simply reimburse the employee for actual business-related expenses (like car expenses, hotel costs or parking)
- Employees who receive a reimbursement for business-related expenses do not pay tax on these reimbursements and cannot deduct these items as expenses

3.9.4 Allowances vs. Reimbursements from the Employer's Perspective

- It is easier for employers to pay car and meal allowances rather than to reimburse employees for actual expenses. For other items, it is easier to pay actual expenses because it is difficult to determine what amounts are reasonable or not (e.g., for travel costs, like train, planes, hotel)
- ITA 18(1)(r): There is a rate for the maximum deductible automobile allowance for the first 5,000 km (i.e., 54 cents per km) driven for business each year and a lower rate for the remaining km (i.e., 48 cents per km). A slightly higher rate is allowed in the Territories.
- See <https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/payroll/benefits-allowances/automobile/automobile-motor-vehicle-allowances.html>.

3.9.5 Allowances vs. Reimbursements from the Employee's Perspective

- Non-taxable Allowances
 - Advantage of non-taxable allowances: there is no need to report on tax return
- Taxable Allowances
 - Advantage: deduction of costs if higher
- Reimbursement is best
 - Actual costs are reimbursed

- No employee deduction and no taxable benefit
- Simplest for employee if expenses are paid directly by the employer (e.g. by company credit card) and the employer claims the deduction (if the expense is reasonable and incurred to earn income)

3.10 Insurance Benefits

- There are no tax consequences to the employee when the insurer pays for the employee's insured health care services (or reimburses the employer for his/her payment of insured health care services)

3.10.1 Employer-paid Life Insurance [3-143]

- ITA 6(4): Life insurance premiums paid by the employer for the benefit of the employee is a taxable benefit. No HST/GST is charged on life insurance as it is an exempt supply

3.10.2 Employer-paid Disability Insurance (Group Sickness or Accident Insurance) [3-144 to 3-148]

- In the year that the premium is paid
 - if an employer pays all or part of the premiums on a group plan, there is no taxable benefit (assuming that if/when the employee receives the benefit, the benefit would be taxable)
 - premiums for plans for one individual (an individual plan) are always taxable benefits (very rare, top executives only, may have more generous definition of what a disability is and more generous benefits)
 - if the plan benefits are not taxable, then the employer contributions will be considered a taxable benefit
 - contributions made by employees towards the cost of premiums are not deductible until any benefits are received
- In the year that an employee becomes disabled and receives benefits
 - if it is a group plan and the employer paid premiums, the benefits will be taxable with a deduction for contributions made by the employee
 - This is why employee contributions are not deducted at the time that they are made
 - if an employer has not made any contributions to the plan, the benefits will be received tax-free
- No HST/GST included in benefit as insurance is an exempt supply
- See example at 3-147

3.11 Loans to Employees [3-149 to 3-150]

- An interest-free or low-interest loan or debt owed by an employee to an employer results in a taxable benefit
- The taxable benefit = prescribed rate x principal amount of the loan minus the interest paid by the employee in the year and up to 30 days after year end according to ITA 6(9) and ITA 80.4(1)

- The prescribed rates: ITR 4301
 - Include first day (i.e., the day that the loan is received) and exclude the day that the loan is repaid in the calculation
- If employee's spouse receives loan, employee gets taxable benefit
- ITA 80.4(3) exempts loans from rules if interest rate is considered a rate made in an arm's length (e.g. commercial) transaction
- See example in 3-150

3.11.1 Special rules [3-151 to 3-159]

- If the borrowed funds are used to acquire either an income earning investment or an automobile used in employment, all or part the interest paid or imputed can be deducted as an offsetting expense against the resulting investment or employment income. [ITA 80.5, 8(1)(j), 20(1)(c)]
 - This is because ITA 80.5 deems the ITA 80.4 benefit to be interest paid for the purposes of the ITA 8(1)(j) interest on car loan and 20(1)(c) interest on loans used to buy income earning investments
- The imputed benefit of a loan used for a home purchase is calculated using the lesser of the prescribed rate at the time the loan was made and the prescribed rate in the period [ITA 80.4(4)]
 - These loans are deemed to be renewed every five years [ITA 80.4(6)]
 - The prescribed rate on each 5-year anniversary becomes the rate at the time the loan is made (for purposes of the “lesser of” formula)
 - The loan must be received under ITA 80.4(1) by virtue of employment (not shareholdings under ITA 80.4(2))
 - An employee who receives a home relocation loan (relating to a move bringing them at least 40 km. closer to their new place of business/employment) can claim a special deduction under Division C (affects taxable income but not net income) = prescribed rate x first \$25,000 of loan principal for a maximum of five years [ITA 110(1)(j).]
 - If the loan qualifies, maximum deduction will be equal to the lesser of:
 - (a) the interest benefit; or
 - (b) \$25,000 x the prescribed rate
- The loan must be received under ITA 80.4(1) by virtue of employment (not shareholdings under ITA 80.4(2))

3.12 Employee Stock Options ITA 7 [3 -160 to 3-179]

- Employee stock options are agreements to issue shares of the employer company at a discount to employees
- The discount on the purchase price is the taxable benefit
- Taxable income deduction for options not in the money [ITA 110(1)(d)]. Options are referred to as in the money if the market price of the shares exceeds the option price (paid to acquire the shares)

- A deduction, equal to one-half of the employment income that is included under ITA 7(1), can be taken under ITA 110(1)(d) (Division C deduction) when at the time the options are issued (i.e., granted), the fair market value of the shares is equal to, or less than, the option price
- The employment income inclusion occurs in the year when the employee exercises the stock option (i.e., pays the option price and gets the shares). However, if the employer is a CCPC then the employment income inclusion is deferred until the shares (acquired by exercising the stock option) are sold
- Taxable income deduction for CCPC shares acquired under an employee stock option and held for at least 2 years [ITA 110(1)(d.1)]. ITA 110(1)(d.1) allows the taxpayer to deduct one-half of the employment income inclusion, provided the shares are held for at least two years after their acquisition
- The purpose of the taxable income deduction is to reduce the taxable income inclusion to ½ (like a capital gain) without treating the net inclusion as a capital gain (i.e., it's employment income)
 - This means that if you hold onto the stock and have a capital loss (1/2 of which is deductible as an allowable capital loss), you must wait until you have a taxable capital gain to use the allowable capital loss deduction (because allowable capital losses can only be deducted against taxable capital gains except in the year of death)
 - Historically you could not offset the allowable capital loss against the taxable income inclusion resulting from the stock option benefit. The 2010 federal budget has introduced new rules whereby a taxpayer who had elected to defer the stock option benefit on publicly traded shares can: elect to pay a special tax (equal to the proceeds of disposition from selling their shares); and then: 1) deduct their stock option benefit; and 2) report a capital gain that will essentially eliminate their capital loss
 - A taxpayer can only get one 50% deduction [either 110(1)(d) or 110(1)(d.1)] and not both; and a taxpayer must deal with his/her employer at arm's length in order to get a 110(1)(d) or (d.1) deduction
- See examples in 3-161, 3-168, 3-174, 3-178

3.13 Payments by Employer to Employee [3-180]

- ITA 6(3) includes certain payments before and after employment in employment income, i.e.
 - payments for accepting employment (signing bonuses)
 - payments for work to be completed subsequent to the termination of employment (e.g. post-employment non-competition agreements)

3.14 Forgiveness of Employee Loans [3-181]

- If an employer forgives an employee loan, the amount due (less any payments made by the employee) will be included in the employee's income

3.15 Housing Loss Reimbursement ITA 6(19) [3-182 to 3-185]

- When an employee moves, an employer may pay for moving expenses
- In most cases, the reimbursement is tax-free as long as the amount is reasonable
- However, if the employer reimburses the employee for a loss on the sale of a house, the reimbursement will be taxable:
 - If the move is < 40 km., the total amount will be taxable
 - If the move is 40 km or more (an eligible relocation), the first \$15,000 is tax-free and only half of the remainder will be taxable, e.g. If a \$40,000 eligible loss was reimbursed, the first \$15,000 would be received tax-free and the taxable benefit would be $\frac{1}{2} \times \$25,000$ (i.e., $\$40,000 - \$15,000 = \$12,500$)

3.16 Discounts on Employer's Merchandise [3-186 to 3-188]

- It is sufficient to know that such reimbursements are generally tax-free

4 Deductions

4.1 Overview of Employee Deductions [3-189 to 3-191]

- There are very few employment deductions because they are limited to those in ITA 8 according to ITA 8(2). Some include:
 - Legal expenses to collect wages are deductible. Wages don't actually have to be collected [ITA 8(1)(b)]
 - Travel expense deductions (other than motor vehicle expenses) available to all employees [ITA 8(1)(h)]
 - Motor vehicle travel expenses [ITA 8(1)(h.1)]
 - Employee RPP contributions are deductible [ITA 8(1)(m)]

4.2 Salesperson's Expenses under ITA 8(1)(f) [3-192 to 3-196]

- Individual employees who are involved with the selling of property or the negotiating of contracts are permitted to deduct all reasonable current expenses that can be considered necessary for the performance of their duties
- The additional expenses he/she can deduct are
 - 50% of meals & entertainment
 - the salesperson must be away from the municipality or metropolitan area where the employer's establishment is located for at least 12 hours to deduct (50% of) their meals [8(4)]
 - advertising and promotion
 - additional home office expenses
 - property taxes
 - insurance

- separate telephone line
- long distance charges
- To claim a deduction under 8(1)(f) the salesperson must claim all his/her expenses under ITA 8(1)(f) (including car and travel expenses normally deductible under ITA 8(1)(h) and ITA 8(1)(h.1)
 - The claim is limited to his commission income (or his/her bonus based on sales)
- She or he cannot make another claim under ITA 8(1)(h) or ITA 8(1)(h.1)
 - She or he must choose: 8(1)(f); or 8(1)(h) and 8(1)(h.1)
 - Because the total amount deducted under ITA 8(1)(f) cannot exceed his or her commission (or a bonus based on sales), the ITA 8(1)(f) deduction may work out to be a smaller amount, if commissions are small
 - All amounts normally deducted under 8(1)(i) and (j) (dues, interest & CCA on cars) are not affected
 - Normal claims can be made for these under ITA 8(1)(i) & (j) respectively in addition to a claim under 8(1)(f)
- T2200
 - Employees who wish to deduct employment expenses (including car expenses and home office expenses) must fill out form T2200
 - This form must be signed by their employer, certifying that the required conditions were met during the year, i.e. the employee is ordinarily required to work away from his employer's place of business and pay for his expenses
 - No form = no deduction

4.2.1 Traveling Expenses, including automobile expenses under ITA 8(1)(h) and (h.1) [3-197 to 3-205]

- Deductions can be claimed by any employee who meets specified criteria. Further, they are effectively not limited by employment income. They can be used to create a net employment loss which, if not usable against other types of income in the current year, is subject to the carry over provisions (i.e., non-capital loss)
- The employee must be ordinarily required to work away from his employer's place of business and pay for his expenses
- Travel expenses include air, rail, hotel, taxi etc. and car expenses
 - 50% of the cost of meals is deductible if the employee is away from the municipality or metropolitan area where the employer's establishment is located for at least 12 hours
- Automobile expenses include gasoline, insurance, maintenance, license, auto-club membership, leasing costs and interest on money borrowed to purchase the car, CCA (tax depreciation) if the car is owned and lease costs if the car is leased. Deductions for interest, CCA and lease costs are limited for expensive cars (in order to offset the personal use element of expensive cars)

4.2.2 Miscellaneous expenses under ITA 8(1)(i) [3-206]

- Professional dues; union dues; office rent, salary paid to an assistant; and supplies are deductible under 8(1)(i)

4.2.3 Home office expenses [3-210 to 3-215]

- In order to claim a deduction, ITA 8(13) says that the work space must be either
 - the place where duties are principally (i.e., more than 50%) performed; or
 - used exclusively for employment and a place where clients or others meet on a regular & continuous basis in the ordinary course of employment
- If one of the conditions is met, the deduction will be allowed but it is limited to employment income for the year. You cannot create a loss. The non-deductible "loss" (expenses) can be carried forward
- No employee can deduct capital cost allowance or mortgage interest related to an office that is maintained in their residence

4.2.4 Employee & Partner GST Rebate [21-157 to 21-165]

- = 5/105th of expenses that have a GST component. = 13/113 for expenses incurred in Ontario that have an HST component
 - see examples in 21-160 and 21-162
 - Any rebate received in a year is included in the employee's (or partner's) next year's employment income

****Becoming an Accountant – Learning the Necessary Skills****

- The qualification process to becoming a professional accountant in Canada is not simply based on core knowledge. There are several other required competencies that need to be demonstrated before an accounting designation can be obtained. These competencies are tested through the various examinations required in order to become a designated accountant. This lecture deals with many issues that require professional judgment. It ties directly into the competency map as a pervasive quality that needs to be demonstrated. All course content can be tied back to one or many of the competencies that need to be demonstrated in order to successfully become a designated accountant.