Article

Employee Benefits Can Be Taxing

Throughout a typical year, many businesses will give their employees gifts or perks to reward a job well done or show appreciation. In addition, employers often provide items to help employees complete tasks or work from home, and these things might also personally benefit employees. In 2020, because of the COVID-19 pandemic, record numbers of employees were forced to work from home, and many employers assisted with the set-up of home offices, leading to questions about whether such assistance might constitute a taxable benefit.

Any time a gift, perk, or other type of benefit is provided to an employee, it may be considered additional compensation beyond their regular salary or wages, in other words, a taxable benefit. If this is the case, a value will have to be assigned to the benefit provided and this value will have to be reported as taxable income for the employee—a secondary gift (Some gifts are better than others!). The calculations necessary to determine the value of a taxable benefit are often complex and the timeline for reporting and remitting the tax associated with these benefits is short. To minimize the impact of unexpected challenges when calculating taxable benefits, an early start to the process is suggested.

The starting point for this process is to create a list of all items provided to employees during the calendar year that may give rise to a taxable benefit. Once this exercise has been completed, an organization must determine if any of the items constitute a taxable benefit. The federal *Income Tax Act* (ITA) generally requires the amount of the benefit, including any applicable sales tax, to be added to the employee's income in the year the benefit was awarded. In addition, the employer must ascertain whether GST/HST or QST is required to be remitted in respect of any taxable benefits provided to employees.

An employer who confers a taxable benefit of a property or service on an employee is generally required to account for GST/HST or QST on the total value of the benefit through an adjustment to its net tax calculation. Unfortunately, the requirement to determine the sales tax component of taxable benefits is often overlooked and failing to remit GST/HST or QST on the value of taxable benefits is a common audit exposure for many organizations. Making a complicated task even more daunting, there are exceptions to consider that relieve employers from the necessity of remitting sales tax on specific types of taxable benefits.

With a view to assisting clients in minimizing their potential sales tax liability exposure in this area, Ryan prepares this yearly digest of the latest rules surrounding the application of GST/HST and QST to taxable benefits. Personnel responsible for overseeing or preparing taxable benefit calculations for their organization are urged to review these rules annually.[1]

Tax Status of Benefits

The tax status of employee and shareholder benefits may be affected by various circumstances surrounding each supply. For this reason, taxpayers are advised to consult their income or payroll tax advisors for guidance on the income tax status of specific benefits. General information on this subject may be found in the Employers' Guide – Taxable Benefits and Allowances (T4130), which is published annually by the Canada Revenue Agency

(CRA). Similarly, Revenue Quebec (RQ) has brochure number IN-253-V, Taxable Benefits available to address the tax treatment of benefits under the *Taxation Act*, the Quebec equivalent to the ITA. While the Quebec and federal positions generally follow the same principles, there are some differences. In recent years, the CRA has adjusted several of its policies to match those put in place by RQ (e.g., frequent flyer points and tuition benefits).

The ITA imposes tax on most employee benefits, including benefits related to employer-provided automobiles, gifts and awards, and other incentives and allowances provided to employees by employers. Perhaps some of the most recognizable benefits are associated with the "company car" or employer-paid automobile expenses, including:

- personal use of an employer-provided motor vehicle;
- the personal portion of any employer-paid automobile operating costs;
- flat rate and similar employee car allowances; and
- employer-provided parking made available only to employees (except for "scramble parking," where there are fewer parking spaces than employees).

However, there are many other types of taxable benefits. Common examples include:

- certain counselling services (including financial planning and tax return preparation);
- gifts, incentive awards, trips, and other prizes (in excess of allowable limits for non-cash gifts and awards);
- rent-free and subsidized housing, board or lodging, as well as allowances for housing and travel assistance (exceptions exist for special and remote work sites);
- interest-free and low-interest loans;
- benefits from exercising stock options;
- tickets acquired by using frequent flyer points related to business travel, where the employer controls the credits accumulated under the plan;
- group term life insurance, including accidental death and dismemberment;
- premiums paid to provincial hospitalization and medical care insurance plans on an employee's behalf;
- medical expenses paid on an employee's behalf;
- wage-loss replacement plans;
- employer-provided social events costing more than $150 per person; and
- the value of entertainment tickets given to employees.

COVID-19 Relief for Home Office Equipment

One notable change from previous years relates to the supply of home office equipment or the reimbursement of such costs. Numerous employees found themselves working from home during 2020 to help minimize the impact of the COVID-19 pandemic. With this abrupt change, many employees acquired home office equipment and asked their employers about the possibility of being reimbursed for various home office expenses.

Previously, where an employer paid for or reimbursed an employee for home office equipment, it was generally regarded as a taxable benefit because the items were for the exclusive personal use of the employee. However, the CRA has revised its current policy on home office equipment, under which it will not consider the purchase of home office equipment for an employee, or the reimbursement of such costs to an employee, to be a taxable benefit provided the cost of the equipment or reimbursement does not exceed $500. Personal computer equipment (e.g., laptops, monitors, printers, docking stations, and webcams), desks, chairs, filing cabinets, and shredders are all examples of equipment that will qualify for relief under the new policy. To illustrate, if a desk chair costing $750 is provided by an employer to an employee for a home office, the first $500 of the cost of the chair will not be a taxable benefit. However, the remaining $250 in value will be considered a reportable taxable benefit by the CRA.

GST/HST and QST Treatment of Taxable Benefits

The rationale behind the requirement for an employer to remit GST/HST and QST on the value of certain taxable benefits is that an employee who receives a taxable supply as a benefit would have been required to pay tax out of their after-tax income had the supply been purchased directly. Consequently, the GST/HST or QST paid on the supply becomes a component of the benefit received by the employee and should be included in their employment income.

In addition, as the employer may have claimed an input tax credit (ITC) or input tax refund (ITR) for any GST/HST or QST paid on the acquisition of the item giving rise to the taxable benefit, this amount should be repaid, because the employee would not have been entitled to recover the tax.

To accomplish both objectives, the employer is deemed to have collected tax on the provision of a taxable benefit to an employee, and that amount of tax must be remitted on the employer's GST/HST or QST return. The legislation does not require the employer to actually collect GST/HST or QST from the employee; only to remit the tax deemed collected and include tax in the taxable benefit calculation. Note that the calculated amount of tax to be remitted may differ from the tax amount required to be included in the taxable benefit on an employee's T4.

Valuation of Taxable Benefits

In valuing the benefit for income tax purposes, any GST/HST, QST, or provincial sales tax charged by a supplier to the employer must be included in the amount recorded on the T4. The amount of the benefit cannot be reduced by any ITC, ITR, or rebate claimed or received by the employer.

If tax was not required to be paid on the purchase of the benefit by virtue of an exemption available to the employer, the value of the benefit must include the amount of tax that would have been payable had the supply been purchased directly by the employee. Furthermore, the benefit amount cannot be reduced by the value of any trade-in at the time of purchase or lease. However, a reduction of the benefit is allowed where an employee reimburses the employer. For taxable benefits related to automobiles, this reduction is only allowed for income tax purposes.

Remittances and Due Dates

Section 173 of the Excise Tax Act (ETA) and section 290 of an Act respecting the Québec sales tax (QSTA) require employers to remit GST/HST and QST in respect of certain taxable benefits.

Employers are generally required to remit GST/HST owing on taxable benefits, calculated using a factor of the benefit amount, on the GST/HST return covering the last day of February following the end of the taxation year. Where the last establishment of the employer at which an employee ordinarily worked or reported is in a non-participating province or territory (i.e., British Columbia, Alberta, Saskatchewan, Manitoba, Northwest Territories, Yukon, Nunavut, or Quebec), the remittance factor for GST included in a taxable benefit is 4/104 for 2020.

Where the last establishment of the employer at which an employee ordinarily worked or reported is in an HST participating province (i.e., Ontario, New Brunswick, Newfoundland and Labrador, Nova Scotia, and Prince Edward Island), the HST remittance factor will generally be calculated as follows [unless the taxable benefit relates to a qualifying motor vehicle that is subject to the recapture of ITC (RITC) requirements in Prince Edward Island or an automobile operating cost benefit]:

A or B, where:

A. is the total of 4%, plus the provincial component of the HST in the participating province where the last establishment of the employer is located, or where an employee ordinarily worked or reported to work; and

B. is the amount calculated for A, plus 100%.

Where a registered employer that is a large business confers a taxable benefit on an employee related to a qualifying motor vehicle subject to the RITC requirements in Prince Edward Island, the remittance factor will be 11.5/111.5 for 2020.[2]

Example: *Internet services are purchased for an employee in Prince Edward Island each month for $60 plus $9 HST. The internet services will be used 60% of the time for business use and 40% of the time for the employee's personal use. The employer, which is a large business for RITC purposes, was entitled to a $9 ITC for the HST paid on each month's purchase. At year-end, the employee's taxable benefit would be $331.20 [($60 + $9) x 12 x 40%]. The employer would then be required to remit $40.67 ($331.20 x 14/114) in relation to this benefit on their GST/HST return covering the last day of February in 2021. Note that the reduced factor of 11.5/111.5 does not apply in this situation because the taxable benefit is not related to an expense subject to the RITC requirements.*

For automobile operating cost benefits, GST is currently remitted based on 3% of the taxable benefit amount. This rate applies in all non-participating provinces.

However, where the last establishment of the employer at which an employee ordinarily worked or reported in 2020 is in a participating province, the HST remittance rate for an automobile operating cost benefit will depend on the employer's location. For instance, in Ontario, HST is remitted at 9% of the taxable benefit amount, but in Prince Edward Island, HST is remitted at 11% of the taxable benefit amount. However, the latter rate for Prince Edward Island is reduced to 9.4% where the registrant is subject to RITCs.

Note that, for the purposes of calculating the GST/HST to be remitted on taxable benefits, the location of an employee's residence and the tax status of the underlying vehicle (for automobile operating cost benefits) have no impact on the determination of whether or not the benefit is subject to HST.

For 2020, QST registrants are generally required to remit QST included in taxable benefits, based on a factor of 9.975/109.975 of the benefit amount, on the employer's QST return covering the last day of February subsequent to the taxation year. The QST automobile operating cost benefit remittance rate is 6%. However, this is reduced to 4.5% for organizations considered to be large businesses in 2020.

Special rules (described below) apply to taxable benefits involving automobiles.

2020 Taxable Benefit GST/HST and QST Remittance Rates

Location of last establishment of employer where employee reported	*Factor for most taxable benefits and automobile standby charges*	*Automobile operating cost benefit rate*	*Factor for employee reimbursements**
Ontario	12/112	9%	13/113
Prince Edward Island	14/114 (11.5/111.5** where related to a motor vehicle subject to the RITC requirements)	11% (9.4% where employer is a large business for RITC purposes)	15/115
New Brunswick	14/114	11%	15/115
Newfoundland and Labrador	14/114	11%	15/115
Nova Scotia	14/114	11%	15/115
Non-participating province or territory	4/104	3%	5/105
Quebec (QST factors and rates only)	9.975/109.975 (9.975/109.975 x 75% for automobile standby charges where the employer is a large business)	6% (4.5% where the employer is a large business)	9.975/109.975

* To be remitted in the GST/HST return filed for the reporting period that includes the date of the reimbursement. This does not apply to automobile benefits.
** CRA GST/HST Interpretations verbally agreed with Ryan's view on this remittance rate.

Employee Reimbursements

Under the ITA, amounts reimbursed by employees to employers to defray the cost of a taxable benefit can generally be deducted from the amount required to be included in the employee's income. For taxable benefits other than those related to automobiles, employers are deemed to have collected GST/HST and QST on employee reimbursements received in the period in which the reimbursements are paid. To reduce the taxable benefit for a given year, reimbursements must be made during the year or no later than 45 days after the end of the year. In non-participating provinces, the deemed GST is calculated at a rate of 5/105. In participating provinces, the factor is calculated as follows:

A or B, where:

A. is the total of 5%, plus the provincial component of the HST in the participating province where the last establishment of the employer is located, or where an employee ordinarily worked or reported to work; and

B. is the amount calculated for A, plus 100%.

In Quebec, the deemed QST for a reimbursement is calculated using a factor of 9.975/109.975.

Example: *An employee wishes to upgrade her cell phone purchased through a company plan. The cell phone she wants is $100 more expensive than what the company will cover, so she agrees to write the company a cheque for $100 upon purchase. The cell phone is purchased in Ontario on March 1, 2020 for $700 plus $91 HST. This cell phone will be used 50% of the time for business use and 50% of the time for the employee's personal use. The employer is entitled to a $91 ITC for the HST paid on the purchase and the employer is a monthly filer. At the same time, the employer is required to remit tax on the reimbursement received from the employee on the return covering the period in which it was received. Thus, $11.50 ($100 x 13/113) should have been added to the employer's net tax for the month ending March 31, 2020 (for which the return would have been due on April 30, 2020.). At year-end, the employee's taxable benefit would be $295.50 [($791) x 50% - $100] and the employer would be required to remit $31.66 ($295.50 x 12/112) on its GST/HST return covering the last day of February in 2021.*

However, for automobile standby charge and operating cost benefits, the February tax remittance must be calculated on the gross amount of the taxable benefit, prior to deducting any employee reimbursements, even if total reimbursements eliminate the taxable benefit for income tax purposes entirely. Unlike with other types of taxable benefits, reimbursements made by employees related to automobile benefits do not trigger a tax liability when they are paid.

No Remittance Required

There are various situations in which no GST/HST or QST remittance is required of the employer, including benefits involving exempt or zero-rated supplies, items acquired for personal use, automobiles acquired for non-commercial use, and eligible allowances. In addition, certain purchases by large businesses in Quebec and Prince Edward Island are subject to special rules.

Exempt or zero-rated supplies

Where the original supply resulting in the benefit is exempt or zero-rated, it effectively retains this status when provided to the employee, and the employer is not considered to have collected tax on the benefit. Accordingly, no remittance is required. The taxable benefit, however, must still be reported on the employee's T4.

Personal use restrictions

Certain restrictions deny employers an ITC or ITR for tax paid on purchases for personal use, including:

- most memberships in dining, recreational, or sporting facilities; and
- property or services acquired or leased for the exclusive personal use or enjoyment of an employee or related individual (unless re-supplied to the employee at fair market value, in which case, there would be no taxable benefit).

Since an ITC or ITR cannot be claimed in the above-noted circumstances, an employer is not deemed to have collected tax on the provision of the benefit to the employee and no remittance is required.

Non-commercial use of automobiles

GST/HST and QST remittances are generally not required where automobiles are purchased for use other than primarily in commercial activities. Under the general rules, no ITCs or ITRs are available in respect of taxes paid on the initial acquisition of such vehicles. For example, GST/HST is not remitted on the standby charge for a passenger vehicle purchased by a school board and provided to an employee for use primarily in the employer's exempt education activities.

Employee allowances

Employee allowances do not constitute taxable benefits when they are considered reasonable for income tax purposes. For example, vehicle allowances based solely on the number of business kilometres driven may be considered reasonable. On the other hand, flat rate allowances or combinations of flat rate and per kilometre allowances are not considered reasonable.

For a vehicle allowance to be considered reasonable, no other vehicle expenses can be reimbursed to the employee and the rate per kilometre must be reasonable. The Department of Finance's 2020 guidelines for reasonable per-kilometre allowance rates are 59 cents for the first 5,000 kilometres and 53 cents for each additional kilometre. These rates are 4 cents higher in the territories. The CRA cautions taxpayers that unreasonable per-kilometre allowances, because of rates that are either too high or too low, are considered taxable benefits and must be included in an employee's income. In the past, per-kilometre rates below the published guidelines were generally thought to be considered reasonable. However, Ryan is aware of situations where the use of per-kilometre rates below the guidelines have been considered unreasonable by the CRA because the rates were insufficient to cover the vehicle's operating cost, resulting in taxable benefits.

For other travel allowances paid to a non-sales employee, the employee must generally be travelling away from the employer's establishment where that employee normally reports to work for the allowance to be considered reasonable.

If it is determined that an allowance is a taxable benefit, the amount paid to the employee must be included on their T4. However, no additional GST/HST or QST needs to be added to the allowance when calculating the taxable benefit amount because the allowance is deemed to be tax-included where it is in relation to taxable (other than zero-rated) supplies. Furthermore, no remittance of GST/HST or QST is required for a taxable allowance that is considered unreasonable as no ITC or ITR will be permitted with respect to the original payment.

QST, HST, and large businesses

Effective January 1, 2021, Quebec completed phasing out its ITR restrictions on "large businesses" for QST paid in respect of certain categories of expenses, including leases and purchases of licensed road vehicles weighing less than 3,000 kilograms; gasoline for use in such vehicles; telecommunication services (excluding toll-free and internet services); gas, electricity, and other combustibles not used in manufacturing; and meals and entertainment expenses subject to restrictions under the Taxation Act. Large businesses included most financial institutions and other registrants with annual sales of taxable supplies (including exports and sales by associated persons) exceeding $10 million in the previous fiscal year. As a result of these restrictions, which were still being phased out in 2020, QST registrants that are also large businesses are not required to remit the full QST amount in respect of standby charges and operating cost benefits for vehicles on which an ITR should not have been claimed in full.

Similar reasoning is behind the reduced rates and factors used for the remittance of HST on taxable benefits involving motor vehicles that are subject to the RITC requirements in Prince Edward Island (see discussion and chart under "Remittances and Due Dates" above). For instance, the full provincial component of the HST is not required to be remitted on a standby charge where the ITC for this amount should have been recaptured by the employer.

Employee Gifts and Awards Policy

A cash gift or award provided to an employee is generally considered to be a taxable benefit. However, the CRA will not consider non-cash gifts or awards given to employees to be taxable benefits under certain conditions. Under an administrative policy, a maximum of $500 in non-cash gifts for special occasions and awards may be given to an employee in a calendar year. In addition, the policy provides for a separate non-cash, long-service or anniversary award up to $500 to be given to an employee every five years. This relief does not apply to cash or near-cash gifts and awards or amounts exceeding the $500 thresholds. The CRA provides further information on this policy at Gifts, Awards, and Long-Service Awards.

Automobile Standby Charges and Operating Cost Benefits

The benefit of having an employer-provided vehicle available for personal use is comprised of two components: a "standby charge"; and an "operating cost benefit." Under normal circumstances, the standby charge is calculated as 2% per month of the original cost of the vehicle or two-thirds of the vehicle lease payment. However, the standby charge may be reduced where personal driving is limited or restricted. To qualify for the reduction, the vehicle must be used primarily (i.e., more than 50%) for business purposes and personal driving cannot exceed 1,667 kilometres per month (a total of 20,004 kilometres per year).

During 2020, employees may have used their employer-provided vehicle less often for business purposes because of COVID-19 related lockdowns and reduced business activity, impacting their eligibility to use the reduced standby charge calculation. In recognition of this fact, the CRA recently announced that employees who have been provided with an automobile by the same employer during 2019, 2020 and 2021 may choose to use their 2019 automobile usage to determine if the primary business use test has been met. This temporary change to the conditions for using the reduced standby charge should make this option viable for more taxpayers during the pandemic.

The Reduced Standby Charge Formula:

Reduced Standby Charge =

$$\text{Standby Charge} \times \frac{\text{\# of personal kms driven}}{\text{\# of 30-day periods available to employee} \times 1{,}667}$$

Certain police and fire vehicles, as well as pick-up trucks used primarily in the transportation of goods, equipment, or passengers in the course of earning income at a remote work location or special work site, are excluded from the standby charge calculation requirements.

Generally, the operating cost benefit is calculated at a set rate per kilometre of personal use, regardless of whether a vehicle is leased or owned. For 2020, a rate of 28 cents per personal use kilometre is used to calculate this benefit. A reduced rate of 25 cents per kilometre applies to employees whose principal source of employment income is selling or leasing automobiles. These rates have not changed from those that were in place for 2019. Alternatively, an employee can elect to use one-half of the standby charge as the basis for calculating the operating cost benefit, provided the vehicle is used primarily (i.e., more than 50%) for business purposes.

For the 2020 tax year, as part of the temporary changes because of COVID-19 discussed above, employees who were eligible for the optional operating cost benefit based on 2019 automobile usage will have their operating cost benefit calculated as the lesser of the result under the regular operating cost benefit calculation and the amount under the optional calculation. Under this temporary relief, the employee is not required to request in writing that the employer use the optional method.

Prescribed limits

The deduction allowed for the lease cost or capital cost allowance in respect of the purchase price of a passenger vehicle is subject to prescribed limits for income tax purposes. For vehicles purchased from 2001 to the present, the specified limit is $30,000 (plus applicable federal and provincial sales taxes). Similarly, for vehicles leased under an agreement entered from 2001 to the present, the monthly limit is $800 (plus applicable federal and provincial sales taxes). ITC claims are also restricted based on these limits, and a similar restriction exists with respect to ITRs for QST purposes. Notwithstanding that an employer may not have been able to claim an ITC or ITR for all tax paid on the acquisition or lease of a vehicle, the required GST/HST and QST remittances for taxable benefits related to these vehicles are calculated based on the full value of the benefit, with reference to the actual cost, rather than the prescribed limits.

Passenger vehicle elections

Over time, GST/HST or QST remittances on automobile standby charges and operating cost benefits may exceed available ITCs or ITRs. This may be the case where a vehicle's cost exceeds the prescribed capital cost or lease payment thresholds, or a registrant is restricted with respect to claims for ITCs or ITRs, such as a financial institution making exempt supplies of financial services. To address this issue, certain employers may elect not to remit GST/HST (and QST, if applicable) on standby charges and operating cost benefits, provided the employer also foregoes any ITCs (and/or ITRs) available on the purchase or lease of the vehicle and ongoing operating costs. Financial institutions may make this election for any passenger vehicle acquired by way of purchase or lease. However, non-financial institutions are only permitted to make the election for passenger vehicles acquired by way of lease that are not used primarily in commercial activities. To make the GST/HST election, registrants are required to complete form GST30. The election does not have to be filed with the CRA, but it should be completed and retained in case of an audit.

Examples

The calculation of remittances for automobile standby charges and operating costs is best illustrated through examples. The automobile expense limits shown in the examples below are based on the purchase or lease of a passenger vehicle in 2020. For simplicity, most of the examples assume that the lease of the vehicle began on January 1, 2020, providing 12 months of employee use, but show the ITC calculation for only one month of lease activity.

Example 1: Lease in Ontario

Lease cost:	
Monthly lease cost	700
HST (13%)	91
Monthly lease cost (tax-included)	791
Input tax credit:	
Deductible portion of lease, excl. tax (max. $800)	700
HST	13%
ITC available	91
Taxable benefit on employee's T4:	
Tax-included lease cost	791
x number of months vehicle used	12
x standby charge on leases	2/3
Total T4 taxable benefit	6,328
Employer's HST liability:	
Total T4 taxable benefit	6,328
x deemed HST rate	12/112
Employer HST liability	678

Example 2: Lease in Ontario – Luxury Vehicle

Lease cost:	
Monthly lease cost	1,200
HST (13%)	156
Monthly lease cost (tax-included)	1,356
Input tax credit:	
Deductible portion of lease, excl. tax (max. $800)	800
HST	13%
ITC available	104
Taxable benefit on employee's T4:	
Tax-included lease cost	1,356
x number of months vehicle used	12
x standby charge on leases	2/3
Total T4 taxable benefit	10,848
Employer's HST liability:	
Total T4 taxable benefit	10,848
x deemed HST rate	12/112
Employer HST liability	1,162

Example 3: Lease in Ontario with limited personal use
(reduced standby charge)

Lease cost:	
Monthly lease cost	900
HST (13%)	117
Monthly lease cost (tax-included)	1,017
Input tax credit:	
Deductible portion of lease, excl. tax (max. $800)	800
HST	13%
Monthly ITC available	104
Normal standby charge calculation:	
Tax-included lease cost	1,017
x number of months vehicle used	12
x standby charge on leases	2/3
	8,136

Reduced standby charge calculation:
Total business kilometres driven 25,000
Total personal kilometres driven 15,000
(<1,667 per 30-day period)
Percentage of business to total use (> 50%) 62.5%

$$\frac{8{,}136 \times 15{,}000}{12 \times 1{,}667}$$

Total T4 taxable benefit	6,101
Employer's HST liability:	
Total T4 taxable benefit	6,101
x deemed HST rate	12/112
Employer HST liability	654

Example 4: Employee reports to work in Nova Scotia

Lease cost:	
Monthly lease cost	850
HST (15%)	128
Monthly lease cost (tax-included)	978
Input tax credit:	
Deductible portion of lease, excl. tax (max. $800)	800
HST	15%
Monthly ITC available	120
Taxable benefit on employee's T4:	
Tax-included lease cost	978
x number of months vehicle used	12
x standby charge on leases	2/3
Total T4 taxable benefit	7,824
Employer's HST liability:	
Total T4 taxable benefit	7,824
x deemed HST rate	14/114
Employer HST liability	961

Example 5: Standard operating cost benefit in Ontario

Personal use kilometres driven	15,000
Operating cost rate per kilometre	0.28
Total T4 taxable benefit	4,200
Deemed HST included in operating cost benefit	9%
Employer HST liability	378

Note: GST/HST liability cannot be reduced by any employee reimbursements.

Example 6: Optional operating cost benefit in Ontario
(Employee can elect where vehicle used >50% for business purposes.)

(i) Personal use kilometres = 25,000 per year
(Employee does not qualify for reduced standby charge as personal kilometres greater than 1,667 per month.)

Full employee standby charge (from Example 3)	8,136
Operating cost benefit rate	50%
T4 operating cost benefit	4,068
Deemed HST included in operating cost benefit	9%
Employer HST liability	366

(ii) Personal use kilometres = 15,000 per year
(Employee qualifies for reduced standby charge as personal kilometres less than 1,667 per month.)

Reduced employee standby charge (from Example 3)	6,101
Operating cost benefit rate	50%
T4 operating cost benefit	3,051
Deemed HST included in operating cost benefit	9%
Employer HST liability	275

Conclusion

To minimize audit exposure with respect to GST/HST and QST on taxable benefits, employers must carefully review the rules, including current rates and factors, and then diligently apply that information in making their calculations. Failing to do so could substantially increase the cost of a taxable benefit as a future assessment will quite likely attract interest (and penalties for QST).

For more information on the application of GST/HST or QST to taxable benefits, please contact the Ryan *TaxDirect®* Line.

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[1] This Ryan article is updated annually to assist our clients in completing and reporting annual employee taxable benefit calculations.
[2] CRA Guide T4130, "Employers' Guide – Taxable Benefits and Allowances," released in November 2020 shows this factor as 11/111.5 for 2020. However, Ryan believes this factor is incorrect and in a conversation with a member of the CRA GST/HST Interpretations Division, it was verbally agreed that this factor should be 11.5/111.5 for 2020.

About Ryan

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