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# CURRENT DEVELOPMENTS

## Bessner Gallay Kreisman



Comptables Agréés • Chartered Accountants

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### TAXABLE BENEFITS

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During the next two months, employers will be required to prepare and file the T4/Relevé 1 slips and summaries.

The T4/Relevé 1 slips must report as employment income, not only the cash remuneration paid, but also non-cash benefits provided (i.e. taxable benefits).

The following will provide a brief discussion of the most common taxable benefits included in employment income.

#### AUTOMOBILES

When an employer provides or makes available an automobile to an employee, a taxable benefit results.

The taxable benefit is determined according to the "reasonable standby charge" rules in the Income Tax Act, of which there are two components. The standby charge is quantified for those automobiles that are either purchased or leased by the employer. The first component may be quantified as follows:

##### **Purchased by Employer:**

2% per month x number of months made available x original cost (including GST and QST or other provincial taxes).

##### **Leased by Employer**

$\frac{2}{3}$  x number of months made available x monthly lease cost (including GST and QST or other provincial taxes).

The standby charge may be reduced for **Federal** purposes only, when the personal use of the automobile is less than 12,000 km per year. The proration is available only if the following two conditions are met:

- i) at least 90% of the use of the automobile is for business purposes and;

- ii) the automobile is required to be used in carrying out his/her duties as an employee.

Should this be the case, the standby charge as calculated above, may be reduced to an amount determined by multiplying the standby charge by:

##### **The lesser of:**

- i)  $\text{personal use KM} \div 1,000 \times \text{number of months automobile made available}$ .
- or
- ii)  $1,000 \times \text{number of months automobile made available} \div 1,000 \times \text{number of months automobile made available}$ .

The second component of the standby charge is the operating cost benefit. Where an employer pays all or part of the automobile operating costs, a taxable benefit must be determined for the personal use portion.

The personal use portion is generally calculated at 16¢ per personal km for 2002 (17¢ per km for 2003).

The employee is required to establish the personal km for purposes of determining the taxable benefit and reduced standby charge (90% test). The taxation authorities suggest and expect the employee to maintain a detailed km log of the personal and business use to substantiate the claim. A sample km log may be as follows:

## AUTOMOBILE LOG

Employee \_\_\_\_\_  
 Week/month \_\_\_\_\_  
 Report date \_\_\_\_\_

Date	Destination/Purpose	Odometer Reading		Kilometres	
		Start	Finish	Business	Personal
<b>Totals</b>					

The taxable benefits are subject to Quebec Pension Plan (QPP) contributions and Health Service Fund (HSF) wage levies, however they are not considered insurable earnings for purposes of employment income (EI) premiums.

Employers are reminded that the taxable benefit is subject to GST and QST remittances as follows:

	GST %	QST %
Standby charge	5.66	6.98
Operating benefit	5.00	5.70

### Interest-Free and Low-Interest Loans

Employees and shareholders who receive interest free or low interest loans also receive a benefit in the form of a reduced obligation to pay interest on these loans. A taxable benefit results for the difference between the amount of interest that the individual would have

paid on the loan for the year at the prescribed interest rate (determined quarterly by the government) minus the amount of interest on the loan that was actually paid by the employee or shareholder in the year or within 30 days after year end. (i.e. January 30). This benefit is also subject to QPP and HSF but not EI.

### Premiums Under a Private Health Services Plan

For federal tax purposes, premiums paid by employers on behalf of employees to an employer sponsored group medical or dental plan will not result in a taxable benefit to the employee, whereas for Quebec income tax purposes, this **does** result in a taxable benefit to the employee.

Also, premiums paid by employers on behalf of employees to an employer sponsored group term life insurance policy will constitute a taxable benefit to the employee for Federal and Quebec tax purposes.

Again, these benefits are subject to QPP and HSF but not EI.

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 215 avenue Redfern, Suite 300, Westmount, Québec H3Z 3L5  
 Tel: 514-908-3600 Fax: 514-908-3630 Email: admin@bgk.ca