***Canadian Tax Principles, 2022-2023* (Byrd/Chen)**

**Chapter 3 Income or Loss from an Office or Employment**

3.1 Online Exercises

1) Explain how a bonus arrangement can be used to defer the taxes paid by an employee.

Answer: The ability to use a bonus arrangement to defer tax on employment income is based on the fact that, while business income is accrual based, employment income is on a cash basis. This means that the business can deduct the bonus at the time a legal obligation to make the payment arises irrespective of the fact that the payment may be delayed. On the other hand the employee will only include the bonus in income when actually received. If the bonus is declared in one year and paid in the following year, this provides a one year deferral to the employee. Note, however, the bonus must be paid by the 179th day of the year end of the employer. If it is not paid by that date the employer will not be able to deduct the bonus until it is actually paid (ITA 78(4)).

Type: ES

Topic: Employment - bonus arrangements

2) List and briefly describe the major factors that will be considered in determining whether an individual is working as an employee or as an independent contractor.

Answer: As noted in your text, the first step in making this distinction is to determine the intent of both parties. Both the worker and the payer must be clear as to whether there is a contract of service (employment relationship) or alternatively, a contract for services (business relationship). In many cases, the intent may be clear. However, the worker and payer must ensure that their intent is reflected in the actual terms and conditions of their relationship. In making this determination, the following factors will be considered by the CRA and the courts:

**Control** — In an employer/employee relationship, the employer usually controls, directly or indirectly, the way the work is done and the work methods used. The employer assigns specific tasks that define the real framework within which the work is to be done.

**Ownership of Tools and Equipment** — In an employment relationship, the employer usually supplies the equipment and tools required by the employee. In addition, the employer covers the following costs related to their use: repairs, insurance, transport, rental, and operations (e.g., fuel).

In some trades, however, it is customary for employees to supply their own tools. This is generally the case for garage mechanics, painters, and carpenters. Similarly, employed computer scientists, architects, and surveyors sometimes supply their own software and instruments.

**Ability to Subcontract or Hire Assistants** — If the individual must personally perform the services, this weighs in favour of an employment relationship. Alternatively, if the individual can hire assistants, with the payer having no control over the identity of the assistants, this fact will weigh in favour of a contractual business relationship self-employed.

**Financial Risk** — In general, employees will not have any financial risks associated with their work. In contrast, in a business relationship the provider bears any risk and can incur losses. Responsibility for fixed monthly costs is another factor that weighs in favour of a business relationship.

**Responsibility for Investment and Management** — The absence of capital investment in the business and no presence in management points to an employment relationship. This factor is generally viewed by the courts as looking to answer the question of Who's business is it?"

**Opportunity For Profit** — In an employment relationship, the employer alone normally assumes the risk of loss. The employer also usually covers operating costs, which may include office expenses, employee wages and benefits, insurance premiums, and delivery and shipping costs. The employee does not assume any financial risk, and is entitled to their salary or wages regardless of the financial health of the business.

Correspondingly, an employee will have little or no opportunity for profit. While there may be productivity bonuses for exceptional work, such amounts are not profits of the worker's own business.

Type: ES

Topic: Employee vs. self-employed

3) The income tax consequences of being classified as an employee rather than as an independent contractor can be significant. As a result, it is not uncommon to find controversy and, in some cases, litigation resulting from the need to make this distinction. Explain the importance, from the point of view of an employee, of the distinction between being classified as an employee versus being classified as an independent contractor.

Answer: The importance of this distinction largely relates to the deductibility of expenses. The number and types of expenses which can be deducted against employment income are very limited. In contrast, if an individual is an independent contractor then they are carrying on their own business often as a sole proprietor where the amounts allowed as deductible expenses for income tax purposes are considerably much broader. In addition if the individual is considered to be an employee, then the employer will have to withhold income taxes, Canada Pension Plan contributions, and Employment Insurance premiums. This would not be the case if the individual is an independent contractor. An independent contractor is responsible for quarterly tax instalments, if necessary, and for both the employer's and employee's portions of CPP contributions. Such individuals may or may not have to make EI contributions, depending on whether they elect to participate in the EI program.

There are also GST/HST implications where the provider of the services is an independent contractor GST/HST may have to be charged and remitted. This would not be the case where the individual is in an employment relationship.

Type: ES

Topic: Employee vs. self-employed

4) Briefly described the advantages to an employer of hiring independent contractors, as opposed to hiring employees.

Answer: The major advantages include the following:

• Using independent contractors eliminates the need for payments for CPP, EI, and payroll taxes (where applicable).

• Independent contractors are not entitled to employee fringe benefits.

• Employers are not committed to retaining independent contractors for the long-term as in the case with employees.

• Employers are, in general, not legally responsible for the work of independent contractors.

Type: ES

Topic: Employee vs. self-employed

5) List two types of employee benefits that involve tax deferral and two types of benefits that involve tax avoidance.

Answer: Examples involving tax deferral include employee contributions to RPPs and bonus arrangements that are paid within 180 days of the employer's year end. Examples involving tax avoidance include insurance premium payments for private health care, non-cash gifts under $500 and employer contributions to RPPs.

Type: ES

Topic: Employment - taxable benefits (general concepts)

6) London Wholesalers employs over 50 full time salespeople, all of whom are provided with a company car. While the cars are used primarily for business purposes, all of the sales staff drive them at least 20,000 kilometers per year for personal purposes. As controller of the Company you are aware that there are income tax rules that could result in a substantial taxable benefits as a result of the use of a company car.

Indicate some of the ways in which the Company and the sales staff might legitimately reduce the amount of the taxable benefit associated with having the use of an employer provided car.

Answer: While there may be other possibilities, the tax planning suggestions that were included in the text are as follows:

**Require Return of Car** — During extended periods of time when an employee does not use an employer provided vehicle, the vehicle will be considered available for use unless the employer **REQUIRES** it to be returned to their premises. Given this, the employer should have a policy of requiring vehicles to be returned during periods of non-use by the employee. There should be justification for this policy such as for insurance purposes or where available cars are shared amongst employees.

**Record Keeping** — In the absence of detailed records, an employee can be charged with the full standby charge and 100% personal use. To avoid this result, it is essential that records be kept of both employment related and personal kilometers driven. Apps exist to assist in the process.

**Leasing Vs. Buying** — In many cases, a lower taxable benefit will result when the employer leases rather than purchasing a car. One adverse aspect of leasing arrangements should be noted. Lease payments are made up of a combination of both interest and principal payments on the car. As the taxable benefit is based on the total lease payment, the interest portion becomes, in effect, a part of the taxable benefit.

**Minimizing the Standby Charge** — This can be accomplished in a variety of ways including longer lease terms, lower trade-in values for old vehicles in purchase situations, larger deposits on leases, and the use of higher residual values in leasing arrangements. Note that refundable deposits in excess of $1,000 on leases can reduce the deductible lease costs.

**Cars costing more than $30,000** — With the taxable benefit to the employee based on the full cost of the car and any portion of the cost in excess of $30,000 not being deductible to the employer as depreciation (e.g. CCA), it is difficult to imagine situations in which it would make economic sense for a profit oriented employer to provide any employee with a luxury car. As the taxable benefit to the employee is based on the actual cost of the car, while the deductible amount is limited to $30,000, a situation is created in which the employee is paying taxes on the portion of a benefit attributable to a cost that is non-deductible to the employer for income tax purposes.

**Employee Owned Automobile** — The alternative to the employer provided automobile is to have the employer compensate the employee for using their own automobile. In many cases, this may be preferable to providing an automobile. For example, in those situations where employment related use is less than 50% providing an employee with an employer-provided vehicle will result in the maximum benefit which may exceed the cost of the personal use portion. These issues may be favourably resolved by providing employees with structured allowances for the use of their own vehicles.

Type: ES

Topic: Employment - automobile benefits (planning & general concepts)

7) Because of the formula used to calculate the taxable benefit when an employer owned vehicle is provided to an employee, the amount of the benefit can exceed the value of the vehicle. Explain this statement.

Answer: The formula requires a benefit of 2% of the cost of the vehicle per month of use. This benefit continues, without regard to the length of time the car is used by the employee. At this rate, after 50 months, the taxable benefit is equal to the value of the vehicle [(2%)(50) = 100%]. If the vehicle is used for more than 50 months, the amount of the benefit will exceed 100% of the cost of the vehicle.

Type: ES

Topic: Employment - automobile benefits (planning & general concepts)

8) What is the difference between an allowance and a reimbursement?

Answer: A reimbursement is an amount paid to an employee to compensate the employee for actual costs incurred on behalf of the employer in performing their employment duties. The amount paid will equal the costs incurred. In contrast, an allowance is a payment designed to cover, in a general way, the costs of some specified type of activity (e.g., a per diem allowance to cover food and lodging while traveling).

Type: ES

Topic: Employment - allowances and reimbursements

9) An employee may be paid a flat rate monthly amount for using their own automobile for employment purposes. Alternatively, employees may be paid a reasonable amount based on the actual number of kilometers driven for employment purposes. From the point of view of both the employer and the employee, explain the difference in the income tax treatment of these two alternatives.

Answer: From the point of view of the employer, the full amount of any monthly allowance will be deductible as an employment related expense. With respect to the use of a kilometre based allowance, there are prescribed limits on what they employer may deduct. (These are discussed in Chapter 6.)

From the point of view of the employee, the flat rate monthly allowance will have to be included in employment income for the year since the ITA deems any allowance not solely based on a per kilometre allowance to be unreasonable and therefore required to be included in income. Given this, the employee would then be in a position to deduct their actual costs of using their own vehicle (an appropriate percentage of interest, CCA, and operating costs).

Alternatively, if an employee receives a per kilometer based allowance, the allowance is only required to be included in employment income if the allowance is not reasonable which is a question of fact. If the allowance is included in income then once again the employee would be in a position to be able to deduct a portion of their expenses related to their employment use.

Type: ES

Topic: Employment - allowances and reimbursements

10) Briefly explain the tax consequences resulting from being a member of an employer sponsored group disability insurance plan.

Answer: Depending on the plan, the employer may pay all of the premiums, part of the premiums, or none of the premiums. As long as the plan provides periodic benefits that compensate for lost employment income, the premiums paid by the employer are not considered to be taxable benefits to the employee regardless of the amount paid by the employer. Employer paid premiums are fully deductible to the employer.

Amounts paid by the employee are not deductible to the employee when paid by may be deductible when disability receipts are received (see the next paragraph).

If the employer has made any contribution towards the plan premiums that does not create a taxable benefit, the full amount of any disability benefits received must be included in the income of the employee. This amount can be reduced to the extent of the cumulative amount of premiums paid by the employee prior to the receipt of the benefits, as well as those paid during the year the benefits are received.

Type: ES

Topic: Employment - disability insurance benefits

11) List the factors that will have to be considered in determining whether a particular low interest or interest free loan is an effective form of employee compensation.

Answer: The factors that would have to be considered are as follows:

• the employer's rate of return on alternative uses for the funds

• the employer's tax rate

• the employee's tax rate

• the prescribed rate

• the rate available to the employee on a similar arm's length loan

Type: ES

Topic: Employment - loans to employees

12) Briefly describe the calculation of the taxable benefit that is assessed on loans to employees that are not considered to be housing loans.

Answer: The taxable benefit on non-housing loans is calculated using the prescribed rate that is applicable to each calendar quarter. The amount of the benefit is reduced by any interest paid on the loan by the employee during the year or within 30 days of the end of the year.

Type: ES

Topic: Employment - loans to employees

13) Under what circumstances is an individual entitled to a stock option deduction equal to one-half of the stock option benefit that would be required to be included in employment income as the result of exercising rights under a stock option plan or selling stock option shares?

Answer: If the issuing corporation is a publicly traded Canadian company with gross revenues of $500 million or less, the deduction is only available when the option price is equal to or greater than the FMV of the shares at the time the options were issued. New rules, effective July 1, 2021 with respect to stock option issued as of that date, may restrict access to the stock option deduction for employees of large mature public corporations with gross revenues in excess of $500 million. Employees of such mature public companies are limited to the stock option deduction based upon a $200,000 annual vesting limit which depends on the FMV of the stock option shares at the time the option was granted and depending on when the options become exercisable. The employer may also designate the stock options as non-qualifying meaning that no stock option deduction could be claimed by a recipient employee of the stock option plan. The benefit of the designation treatment by the corporate employer is that the employer is permitted to claim the stock option benefit amount to the employee on non-qualifying stock option shares as a deduction.

If the issuing corporation is a CCPC, the deduction is available if the shares are held for two years, without regard to whether the option price was above or below the fair market value of the shares at the time the options were issued.

However, if the shares are not held for two years, the availability of the deduction is subject to the same condition that is applicable to non-CCPCs other than those affected by the new stock option deduction rules. That is, the option price must be equal to or greater than the fair market value of the shares at the time they were issued. The new stock option deduction rules are not intended to apply to CCPCs.

Type: ES

Topic: Employment - employee stock options

14) The number of deductions that can be made in computing employment income is fairly limited. Further, certain types of expenses must meet specified conditions in order to be eligible for deduction. Indicate the conditions that must be met in order for a salesperson to deduct expenses in computing employment income. In addition, Indicate the conditions that must be met in order for travel costs to be deducted in computing employment income.

Answer: ITA 8(1)(f) indicates that four conditions must be met before the deduction of expenses for salespersons will be allowed. These are as follows:

1. The salesperson must be required by the employer to pay their own expenses. This must be supported by form T2200 signed by the employer.

2. The salesperson must be ordinarily required to carry out their employment duties away from the employer's place of business.

3. The salesperson must not receive an expense allowance that is not required to be included in employment income.

4. The salesperson must receive at least part of their remuneration in the form of commissions.

ITA 8(1)(h) indicates that any employee can deduct travel expenses, with meals and entertainment subject to the 50% limit, provided three conditions are met. These are as follows:

1. The employee must be required by the employer to pay their own travel costs. This must be supported by Form T2200 signed by the employer.

2. The person must be ordinarily required to carry on their employment duties away from the employer's place of business.

3. The person must not receive an allowance for travel costs that is not required to be included in employment income.

Type: ES

Topic: Employment - employee salesperson expenses (ITA 8(1)(f))

15) Many employees maintain a work space in their home. Describe the kinds of home related expenses that can be deducted by an employee.

Answer: All employees who qualify to deduct work space in the home costs can deduct an appropriate portion of:

• Maintenance or operating costs such as water and electricity

• Minor repairs

In those cases where the employee has commission income, he can also deduct an appropriate portion of:

• Property taxes

• Insurance

Note that, under no circumstances, can an employee deduct CCA on the home, or any portion of interest on a mortgage on the home.

Type: ES

Topic: Employment - home office expenses (ITA 8(13))

16) Employment income is the salary, wages, and other remuneration, including gratuities, that are receivable by an individual during the year.

Answer: FALSE

Explanation: Employment income is the salary, wages, and other remuneration, including gratuities, that are received by an individual during the year.

Type: TF

Topic: Employment income (comprehensive)

17) If properly constructed, bonus arrangements can result in tax deferral for employees.

Answer: TRUE

Type: TF

Topic: Employment - bonus arrangements

18) One of the advantages of being an independent contractor (carrying on a business) rather than an employee is that you do not have to make CPP contributions.

Answer: FALSE

Explanation: Independent contractors have to make a double contribution to CPP.

Type: TF

Topic: Employee vs. self-employed

19) Employers generally prefer contracting out as it avoids the cost of CPP and EI contributions.

Answer: TRUE

Type: TF

Topic: Employee vs. self-employed

20) Payments by employers of premiums on life insurance for employees are not taxable benefits.

Answer: FALSE

Explanation: Such payments are a taxable benefit for employees.

Type: TF

Topic: Employment - taxable benefits

21) When an employee pays all of the premiums for disability insurance coverage, the payments are not deductible and the benefits received are tax free.

Answer: TRUE

Type: TF

Topic: Employment - disability insurance benefits

22) Payments of premiums by employers to private health care service (PHSP) plans are not taxable benefits and are therefore any benefits received under such plans are tax free.

Answer: TRUE

Type: TF

Topic: Employment - taxable benefits

The questions below relate to the following facts:

An employee is given a $10,000 interest free loan from an employer on January 1 to buy a car to be used for employment purposes. Due to a serious illness, the car is only used for nine months of the year. Assume that the prescribed rate is 2% for the entire year.

23) Her taxable benefit from the loan is $200 for the year.

Answer: TRUE

Explanation: Her taxable benefit from the loan is $200 for the year. Her use for only nine months is irrelevant.

Type: TF

Topic: Employment - loans to employees

24) She pays her employer $1,000 on September 30 to decrease the loan. Her taxable benefit from the loan is $180 for the year.

Answer: FALSE

Explanation: Her taxable benefit is $195 [(2%)(9/12)($10,000)] + [(2%)(3/12)($9,000)].

Type: TF

Topic: Employment - loans to employees

25) In calculating her minimum standby charge, the imputed interest from the loan is part of her operating costs.

Answer: FALSE

Explanation: There would be no minimum standby charge as the company does not own the car.

Type: TF

Topic: Employment - loans to employees

26) A corporate director is subject to the employment income rules such that any fees received are included in employment income.

Answer: TRUE

Explanation: The employment income rules apply to employment and those individuals who hold an "office". An individual holding an office includes directors of corporations. In addition directors fees are included in employment income at ITA 6(1)(c).

Type: TF

Topic: Employment - director fees

27) An employee worked overtime at the end of December 2022 earning an additional $2,500. The employer processed the payment which was deposited to the employee's bank account on January 4, 2023. The overtime will be included in the employee's income for the 2022 taxation year.

Answer: FALSE

Explanation: Employees are required to include remuneration in their income for the calendar year in which it was received which was only in 2023.

Type: TF

Topic: Employment - received basis

28) An employee worked overtime at the end of December 2022 earning an additional $2,500. The employer processed the payment which was mailed out on December 30, 2022. The employee only received the mail on January 4, 2023. The overtime will be included in the employee's income for the 2022 taxation year.

Answer: TRUE

Explanation: While employees are required to include remuneration in their income for the calendar year in which it was received ITA 248(7) establishes a rule that deems an employee to have received the amounts based on the date the payment was mailed which is the 2022 calendar year.

Type: TF

Topic: Employment - received basis

29) Which of the following considerations is **NOT** relevant in the determination of whether an individual performing work is an employee or an independent contractor?

A) Opportunity for profit.

B) Hours per week spent at work site.

C) Ability to subcontract to others.

D) Ownership of tools.

Answer: B

Explanation: B) How much work is performed at a particular site.

Type: MC

Topic: Employee vs. self-employed

30) Veronica mows lawns during the summer. In 2022 she was paid directly by homeowners for her work, in some case on the basis of the completed job, in other cases at an hourly rate. Her friend Jonathon does the same work. However, he is paid at an hourly rate by a lawn maintenance company. Which of the following statements is correct?

A) Veronica earns business income and Jonathon earns employment income. Veronica will be able to deduct more expenses than Jonathon.

B) Veronica and Jonathon both earn employment income.

C) Veronica earns business income and Jonathon earns employment income. Their deductible expenses will be the same.

D) Veronica and Jonathon both earn business income.

Answer: A

Explanation: A) Veronica earns business income and Jonathon earns employment income. Veronica will be able to deduct more expenses than Jonathon.

Type: MC

Topic: Employee vs. self-employed

31) Which of the following groups of factors are used by the courts in order to determine a taxpayer's status as an employee or a self-employed contractor?

A) Intent, control test, ownership of tools test, number of hours worked per week

B) Intent, ability to subcontract test, the type of work being undertaken, ownership of tools test

C) Intent, control test, ownership of tools test, opportunity for profit

D) Intent, ability to subcontract test, the location of the work site, opportunity for profit

Answer: C

Explanation: B) The nature of the work performed can weigh in favour of a contractual business relationship but it is not a separately established test.

C) intent, control test, ownership of tools test, opportunity for profit

Type: MC

Topic: Employee vs. self-employed

32) In 2022, Nellie Ward receives from her current employer:

• A $400 gift certificate for online retailer Amazon.

• A $600 reclining easy chair for outstanding customer service during the year.

• A set of 4 coffee mugs with the employer's logo etched on the side. These mugs cost the employer $20.

• An Easter basket of gourmet treats valued at $245.

• A cash award of $300 in recognition of 10 years of service with the employer.

What is the amount that will be included in Nellie's 2021 employment income with respect to these gifts?

A) $800.

B) $1,000.

C) $1,300.

D) $700.

Answer: C

Explanation: A) $800 ($400 + $600 - $500 + $300)

B) $1,000 ($400 + $600)

C) $1,300 ($400 + $600 + $300)

D) $700 ($400 + $300)

Type: MC

Topic: Employment - taxable benefits

33) Indicate which of the following benefits provided by an employer is **NOT** considered part of employment income.

A) Reimbursement of moving expenses as a result of an employer required move.

B) Travel expenses of the employee's spouse where the spouse's presence was not required.

C) Periodic payments from wage loss replacement plan designed to replace employment income.

D) Premiums paid by an employer on life insurance policies.

E) Individual premiums under provincial hospitalization plans.

Answer: A

Explanation: A) Reimbursement of moving expenses.

Type: MC

Topic: Employment - taxable benefits

34) Indicate which of the following benefits provided by an employer is considered part of employment income.

A) Subsidized meals provided in employer facilities where the employees pays an amount equal to or greater than the employer's cost.

B) Low rent housing in non-remote or non-special work sites.

C) Premiums under private health services plans.

D) Uniforms and special clothing required to protect employees from hazards.

Answer: B

Explanation: B) Low rent housing in non-remote or non-special work sites.

Type: MC

Topic: Employment - taxable benefits

35) Which of the following is **NOT** a taxable benefit?

A) A cash Christmas gift to an employee from the employer. All the employees received a cash bonus of $150.

B) Payment of the tuition for an employee completing a general interest degree on a part-time basis that has no benefits to the employer.

C) A 20% discount on employer merchandise, available to all employees. The employer's mark-up is 50%.

D) Low rent housing provided by the employer in non-remote or non-special work sites.

Answer: C

Explanation: C) A 20% discount on the employer's merchandise is not considered a taxable benefit unless the employee is permitted to purchase the item below the employer's cost.

Type: MC

Topic: Employment - taxable benefits

36) Which one of the following benefits received from an employer would **NOT** result in a taxable benefit or taxable allowance to the employee?

A) A reasonable allowance of $0.45 per kilometer for driving on employer business.

B) An interest free loan used to acquire shares of the employer.

C) Employer paid life insurance premiums for $20,000 of employee coverage.

D) Use of the employer's vehicle which is used 95% for employment purposes.

Answer: A

Explanation: A) The allowance is not taxable to the employee as long as it is reasonable.

Type: MC

Topic: Employment - taxable allowances and benefits

37) In which one of the following lists are **ALL** items relevant to the determination of employment income?

A) Employee RPP contributions; signing bonus on accepting employment; use of an employer-owned automobile.

B) Monthly automobile allowance; dental plan premiums paid for by the employer; promotional cost incurred in selling the employer's products.

C) Subsidized meals at an employer's remote work site; life insurance paid by the employer; legal fees incurred to collect unpaid salary.

D) Tips and gratuities; dental insurance premiums paid by the employer; exercise of options to purchase shares of the publicly traded employer.

Answer: A

Explanation: A) In B, dental plan premium payments are not a taxable benefit if the plan is a PHSP. In C, subsidized meals at an employer's remote work site do not create a taxable benefit. In D, dental insurance premiums is not a taxable benefit as long as the plan qualifies as a PHSP.

Type: MC

Topic: Employment - taxable allowances and benefits

38) An employee has been offered a choice of an increase in salary of $100,000 or a combination of salary and other benefits with a cost to the employer of $100,000. Assuming that the employee would purchase the listed benefits with their own funds if they were not provided in the benefits package, which of the following packages would be the most advantageous from an income tax perspective?

A) A dental plan plus a leased automobile that would be used only for personal purposes by the employee.

B) Life insurance plus a leased automobile that would be used only for personal purposes by the employee.

C) Salary plus life insurance.

D) Salary only.

Answer: A

Explanation: A) A dental plan plus a leased automobile that would be used only for personal travel by the employee. Dental premiums would not be taxable as long as the plan qualifies as a PHSP and the automobile benefit would only cost the employee the income tax on the addition to income.

Type: MC

Topic: Employment - taxable benefits

39) Which of the following is **NOT** a tax-free benefit for the employee when it is provided by an employer?

A) Premiums for private health services plans (PHSP).

B) A gift of a digital camera that cost $390 for an employee's wedding. No other gifts were received by the employee in the year.

C) Employer reimbursement for the cost of tools required by the employee to perform their employment duties.

D) Employer contributions to an RPP.

Answer: C

Explanation: C) Employer reimbursement for the cost of tools required to perform work.

Type: MC

Topic: Employment - taxable benefits

40) Which of the following is a taxable benefit?

A) Payment of the tuition for an employee taking a course that will benefit the employer.

B) A $350 VISA gift card given as a Christmas present to all employees.

C) A 15% discount on the employer's merchandise, available to all employees. The discounted amount is above the employer's cost.

D) Low priced meals in the company cafeteria where the prices are equal to the cost of the meals.

Answer: B

Explanation: B) The Christmas gift is a near-cash gift.

Type: MC

Topic: Employment - taxable benefits

41) With respect to employment related automobile costs and benefits, which of the following statements is correct?

A) When an employee is provided with an automobile that is purchased by the employer for $50,000, the taxable benefit to the employee will be based on the Class 10.1 prescribed limit of $30,000.

B) An employee who uses their own vehicle for employment purposes cannot deduct any financing costs related to the purchase of the car.

C) An employee who is provided with a vehicle owned by the employer can deduct CCA to the extent that the vehicle is used for employment purposes.

D) If an employee drives an employer provided vehicle for 20,004 kilometers or more for personal purposes during a year, there will be no reduction of the basic standby charge.

Answer: D

Explanation: C) Only the employer owner can claim CCA not the employee.

D) If an employee drives an employer provided vehicle for 20,004 kilometers or more for personal purposes during a year, there will be no reduction of the basic standby charge.

Type: MC

Topic: Employment - automobile benefits (planning & general concepts)

The questions below are based on the following information:

The cost of the automobile is $20,000 including HST. If the car is leased, the monthly lease payment is $500 including HST. The car is driven for a total of 26,000 km during 2022 and the operating costs for the year are $4,000.

42) Assume the car is purchased. It was used by an employee for the whole year. The employee drives it for personal purposes for a total of 9,000 kms. The minimum taxable benefit is:

A) $1,150.

B) $1,650.

C) $1,800.

D) $1,964.

E) $2,160.

F) $2,250.

G) $2,520.

H) $3,240.

J) $3,300.

K) $3,959.

L) $4,752.

M) $4,800.

Answer: H

Explanation: H) Standby charge = [(12)(2%)($20,000)(9,000/20,004)] = $2,160

Operating costs - Lesser of:

• [(9,000)($0.29)] = $2,610

• [(1/2)($2,160)] = $1,080

Total of $2,160 and $1,080 = $3,240

|  |  |
| --- | --- |
| Standby Charge | $2,160 |
| Operating Costs Benefit | 1,080 |
| H - right Total Benefit | $3,240 |

|  |
| --- |
| E - wrong, no operating cost benefit = $2,160 |

M - wrong, no reduction = $4,800

Type: MC

Topic: Employment - taxable benefits - employer owned automobile

43) Assume the car is leased. It is used by the employee for 11 months of the year. In the other month, he was required to return the automobile to his employer's premises in accordance with company policy. He drives it for personal purposes for a total of 6,000 km. The minimum taxable benefit is:

A) $1,150.

B) $1,650.

C) $1,800.

D) $1,964.

E) $2,160.

F) $2,250.

G) $2,455.

H) $3,240.

J) $3,300.

K) $3,959.

L) $4,752.

M) $4,800.

Answer: C

Explanation: C) Standby charge = [(2/3)(11)($500)(6,000/18,337)] = $1,200

Operating costs - Lesser of:

• [(6,000)($0.29)] = $1,740

• [(1/2)($1,200)] = $600

Total of $1,200 and $600 = $1,800

|  |  |
| --- | --- |
| Standby Charge | $1,200 |
| Operating Costs Benefit | 600 |
| C - right Total Benefit | $1,800 |

B - wrong - 20,004 km as denominator in standby reduction = $1,650

D - wrong - 2 months usage = $1,964

Type: MC

Topic: Employment - taxable benefits - employer leased automobile

44) Assume the car is purchased. It is used by the employee for 10 months of the year. In the other months, he was required to return the car to his employer's premises per company policy. He drives it for personal purposes for a total of 11,000 km. The minimum taxable benefit is:

A) $1,150.

B) $1,650.

C) $1,800.

D) $1,964.

E) $2,160.

F) $2,250.

G) $2,455.

H) $3,240.

J) $3,300.

K) $3,959.

L) $4,752.

M) $4,800.

Answer: K

Explanation: K) Standby charge = [(10)(2%)($20,000)(11,000/16,670)] = $2,639

Operating costs - Lesser of:

• [(11,000)($0.29)] = $3,190

• [(1/2)($2,639]) = $1,320

Total of $2,639 and $1,320 = $3,959

|  |  |
| --- | --- |
| Standby Charge | $2,639 |
| Operating Costs Benefit | 1,320 |
| K - right- Total Benefit | $3,959 |

J - wrong - 20,004 km as denominator in standby reduction = $3,300

L - wrong - 12 months usage = $4,752

Type: MC

Topic: Employment - taxable benefits - employer owned automobile

45) Assume the car is leased. It is used by the employee for 11 months of the year. In the other month, he was required to return the car to his employer's premises in accordance with company policy. He drives it for personal purposes for a total of 7,500 km and reimburses the employer $1,100 ($100 per month) for the use of the car. The minimum taxable benefit is:

A) $1,150.

B) $1,650.

C) $1,800.

D) $1,964.

E) $2,160.

F) $2,250.

G) $2,455.

H) $3,240.

J) $3,300.

K) $3,959.

L) $4,752.

M) $4,800.

Answer: A

Explanation: A) Standby charge = [(2/3)(11)($500)(7,500/18,337)] = $1,500

Operating costs - Lesser of:

• [(7,500)($0.29)] = $2,175

• [(1/2)($1,500)] = $750

Total of $1,500 and $750, less $1,100 = $1,150

Standby Charge $1,500

Operating Costs Benefit 750

Repayment (1,100)

$1,150 A - right - Total Benefit

F - wrong - Ignore repayment = $2,250

G - wrong - 12 months usage = $2,455

Type: MC

Topic: Employment - taxable benefits - employer leased automobile

46) Mr. Brown's employer provides him with an automobile for his personal use, and pays all operating costs for that vehicle. The vehicle, used by Mr. Brown throughout 2022, cost his employer $31,500, including GST of $1,500 (no provincial sales tax was charged on the vehicle purchase). Mr. Brown drove the vehicle 45,000 km during the year, of which 9,000 km were for personal purposes and 36,000 for employment purposes. His employer paid $7,750 in operating costs for the year. Mr. Brown paid nothing to his employer for the use of the vehicle. Which one of the following amounts represents the minimum taxable benefit that Mr. Brown must include in his employment income for the use of this vehicle in 2022?

A) $2,268.

B) $4,859.

C) $5,102.

D) $5,831.

Answer: C

Explanation: C) The minimum taxable benefit that Mr. Brown must include in his employment income for the use of this vehicle in 2022 is $3,401 [(2%)(12)($31,500)(9,000/20,004)], plus

$1,701 [(1/2)($3,401)], a total of $5,102.

Standby Charge (2%)(12)($31,500)(9,000/20,004) $3,401

Operating Costs Benefit (1/2)(3401) 1,701

C - Total Benefit $5,102

Errors

A. 45,000 km as denominator in reduction formula = $2,268

B. Used $30,000 as cost of vehicle = $4,859

D. Used $3401 [(2%)(12)($31,500)(9,000/20,004)] + $ (0.27)(9,000)

as operating cost benefit = $5,831

Type: MC

Topic: Employment - taxable benefits - employer owned automobile

47) The following facts relate to an employer provided automobile.

Original cost of automobile, including HST $40,000

Replacement value of car at time of providing it to employee $30,000

CCA claimed by employer $ 3,000

Personal use kilometers driven by employee during the year 2,000 km

Total kilometers driven by employee during the year 30,000 km

Number of months automobile was used by employee 12

Which one of the following amounts represents the employee's minimum standby charge in 2022?

A) $720.

B) $960.

C) $640.

D) $9,600.

Answer: B

Explanation: B) $960 [(2%)(12)($40,000)(2,000/20,004)].

A. $30,000 as cost of vehicle = $720

C. 30,000 as denominator = $640

D. No reduction = $9,600

Type: MC

Topic: Employment - taxable benefits - employer owned automobile

48) Omar is employed by Sansauto Corp. and uses his own car for employment purposes. Which of the following may **NOT** be claimed as an employment expense?

A) Gas (employment related portion)

B) Auto insurance (employment related portion)

C) Standby charge (employment related portion)

D) Oil change (employment related portion)

Answer: C

Explanation: C) Standby charge (employment related portion). Standby charge only applies when an employee uses the employer's automobile for personal use. It is an employment income inclusion (not an expense).

Type: MC

Topic: Employment - employee provided vehicle

49) Which of the following employee reimbursements would result in an increase in employment income?

A) Housing loss reimbursement of $20,000

B) Moving costs reimbursement of $20,000 for employer required move.

C) Travel expense reimbursement of $20,000 for employer related travel.

D) Employment related tuition reimbursement of $20,000

Answer: A

Explanation: A) Housing loss reimbursement of $20,000. $2,500 of the housing loss reimbursement would be a taxable benefit [$20,000 — 15,000) × 50%]

Type: MC

Topic: Employment - allowances and reimbursements

50) With respect to the determination of employment income, which of the following statements is correct?

A) If an allowance is included on an employee's T4, any expenses related to the allowance cannot be deducted for tax purposes.

B) One-half of reimbursed meals are required to be included in employment income.

C) Reasonable vehicle allowances are not included in income.

D) All allowances are included in income, all reimbursements are not included in income.

Answer: C

Explanation: C) Reasonable vehicle allowances are not included in income.

Type: MC

Topic: Employment - allowances and reimbursements

51) With respect to loans to employees, which of the following statements is correct?

A) If the rate on the loan is less than the market rate for similar types of debt, the employee will have a taxable benefit equal to the difference.

B) If the proceeds from the loan are used to purchase investments the imputed interest benefit on the loan will be deductible in determining the employee's income from those investments.

C) When the loan is to assist an employee with a home purchase, the taxable benefit must always be calculated using each quarterly value for the prescribed rate.

D) The taxable benefit on an employee loan will not be altered by the amount of interest payments the employee makes to the employer.

Answer: B

Explanation: B) If the proceeds from the loan are used to purchase investments the imputed interest benefit on the loan will be deductible invested in income producing assets, the interest benefit on the loan will be deductible in determining the employee's income from those investments.

Type: MC

Topic: Employment - loans to employees

52) T. Adams commenced employment at Moana Sales Ltd. on February 1, 2022. He had lived in an apartment until May 2022, at which time he purchased a new house. Under the terms of his employment, he received a housing loan on May 1, 2022 of $80,000 at a rate of 2%. He pays the interest on the loan on a monthly basis. Assume the 2022 prescribed interest rates applicable to employee loans are as follows:

First quarter 5%

Second quarter 4%

Third quarter 3%

Fourth quarter 3%

What is T. Adams' taxable benefit on the above loan for 2022 using number of days?

A) Nil.

B) $267.40.

C) $670.68.

D) $1,073.97.

E) $2,147.95.

Answer: C

Explanation: C) $670.68 {[$80,000][(61/365)(4% - 2%) + (184/365)(3% - 2%)]}.

Type: MC

Topic: Employment - loans to employees (home purchase loan)

53) Sam borrowed $50,000 from her employer at an annual rate of 1% interest last year for personal purposes. Assume that at the time the loan was made, the prescribed rate of interest was 3% and this rate has not changed. Sam is subject to a combined federal/provincial income tax rate of 30%. What is the after tax cost of the loan to Sam for the current year?

A) $300

B) $500

C) $800

D) $1,500

Answer: C

Explanation: C) $800 Tax cost of benefit of $300 [($50,000)(3% - 1%)(30%)] + interest paid of $500 [($50,000)(1%)] = $800

A. $300 ($1,000 × 30%)

B. $500 ($50,000 × 1%)

D. $1,500 ($500 + $1,000)

Type: MC

Topic: Employment - loans to employees

54) Which of the following statements with respect to stock options is correct?

A) If the stock option price for shares is less than the FMV at the date the option is granted then simply granting the options will automatically create a taxable benefit to the employee.

B) If shares in a CCPC are acquired through the exercise of stock options, there will be a deduction equal to one-half of the employment income inclusion, provided the shares were held for at least two years.

C) When options to acquire the shares of a Canadian public corporation are exercised, there are no immediate income tax consequences for the employee.

D) When shares in a CCPC that have been acquired through the exercise of options are sold, any loss on the sale can be used to offset any stock option employment benefit that results from the exercise of the options.

Answer: B

Explanation: B) If shares in a Canadian controlled private corporation are acquired through the exercise of stock options, there will be a deduction equal to one-half of the employment income inclusion, provided the shares were held for at least two years.

Type: MC

Topic: Employment - employee stock options

55) Ms. Joan Hanson is an employee of a CCPC. In 2021, she is granted options to purchase 500 shares of her employer's common stock at a price of $22 per share. At this time, the FMV of the shares are estimated to be $20.50. In 2022, she exercises all of the options purchasing 500 shares. At this time, the estimated FMV of the shares are $31.50 per share. On December 1, 2022, she sells the shares for $38.75 per share. The net effect of the transactions on her 2022 taxable income would be:

A) an increase of $1,812.50.

B) an increase of $2,375.00.

C) an increase of $4,187.50.

D) an increase of $4,750.00.

E) an increase of $6,562.50.

Answer: C

Explanation: C) An increase of $4,187.50. This would be calculated as follows:

Employment Income [($31.50 - $22.00)(500)] $4,750.00

Deduction under ITA 110(1)(d) ( 2,375.00)

Taxable Capital Gain [($38.75 - $31.50)(500)(1/2)] 1,812.50

Net increase in 2022 taxable income $4,187.50

Type: MC

Topic: Employment - employee stock options

56) An employee of a public Canadian corporation is granted an option to purchase 1,000 of the employer's common shares at $20 per share in June, 2021. At this time, the FMV of the stares are $19 per share. In March, 2022, when the FMV is $26 per share, she exercises the option and immediately sells the shares. What is the net increase to her 2022 taxable income?

A) $1,000.

B) $3,000.

C) $3,500.

D) $6,000.

Answer: B

Explanation: B) The increase in taxable income is $3,000 [ITA 7(1) (1,000)($26 - $20) - ITA 110(1)(d) (1/2)(1,000)($26 - $20)].

Type: MC

Topic: Employment - employee stock options

The questions below are based on the following information:

Scott Bicycle Manufacturing Ltd. (SBM) is a CCPC. Brian Mills, one of SBM's employees, was granted stock options on January 15, 2019 for 10,000 shares at $3 per share. The FMV on January 15, 2019 was $4 per share.

Brian exercised the stock options on September 30, 2019, when the FMV was $6 per share. In June, 2022, Brian purchased a new home and sold the shares for $7 each.

57) What is the effect of these facts on Brian's Taxable Income?

A) An increase of $15,000 in 2019

B) An increase of $15,000 in 2022.

C) An increase of $30,000 in 2019.

D) An increase of $20,000 in 2022.

E) None of the above.

Answer: D

Explanation: D) Employment Income [(10,000)($6 - $3)] $30,000

Deduction under ITA 110(1)(d.1) (15,000)

Taxable capital gain [(10,000)($7 - $6)(1/2)] 5,000

Net increase in 2021 taxable income $20,000

Since the Company is a CCPC, the stock option benefit is only included in employment income when the stock option shares are disposed of. The stock option deduction is available as long as the shares were owned for at least two years even though the FMV of the shares was greater than the option price at the time of issue,

Type: MC

Topic: Employment - employee stock options

58) What is the adjusted cost base (ACB) to Brian of the SBM shares at the time of sale in June, 2022?

A) $30,000.

B) $45,000.

C) $60,000.

D) $70,000.

E) None of the above.

Answer: C

Explanation: C) The ACB of the shares is $60,000 ($6 per share). This equals the $30,000 paid for the shares plus an ACB addition under ITA 53(1)(j) to take the employee stock option benefit of $30,000 into account.

Type: MC

Topic: Employment - employee stock options

The questions below are based on the following information:

Mr. Morra commenced employment with Peoples Bank Ltd., a public corporation, on January 1, 2020. On December 31, 2020, he was granted options to purchase 500 shares of Peoples Bank Ltd. stock for $15 per share. The FMV of these shares on December 31, 2020 was $16 per share.

Mr. Morra exercised all of the stock options on May 31, 2021, purchasing 500 shares for $15 per share when the FMV was $17 per share. On September 1, 2022, Mr. Morra sold the shares for $24 each.

59) What is the effect of the above transactions on Mr. Morra's 2021 taxable income?

A) Nil.

B) An increase of $250.

C) An increase of $500.

D) An increase of $1,000.

Answer: D

Explanation: D) An increase in employment income of $1,000 [($17 - $15)(500)]. No stock option deduction is available as the FMV of the shares was greater than the option price when the options were granted.

Type: MC

Topic: Employment - employee stock options

60) What is the effect of the above transactions on Mr. Morra's 2022 taxable income?

A) Nil.

B) An increase of $1,750.

C) An increase of $2,750.

D) An increase of $3,500.

Answer: B

Explanation: B) A taxable capital gain of $1,750 [($24 - $17)(500)(1/2)].

Type: MC

Topic: Employment - employee stock options

The questions below are based on the following information:

Parminder is an employee of a public Canadian corporation. On April 1, 2021 she was granted stock options to purchase 5,000 shares of her employer's common shares at a price of $75 per share. She exercised her options and purchased 5,000 shares on November 1, 2021. She sold all of her shares on February 1, 2022. The market price of her employer's common shares was $74 per share on April 1, 2021; $79 per share on November 1, 2021 and $85 per share on February 1, 2022.

61) The effect on her 2021 net and taxable income is:

A) increase in net iand taxable income of $12,500.

B) increase in net income of $25,000 and an increase in taxable income of $12,500.

C) increase in nat and taxable income of $10,000.

D) increase in net income of $20,000 and an increase in taxable income of $10,000.

Answer: D

Explanation: D) Increase in net income of $20,000 and an increase in taxable income of $10,000. The exercise of options results in an increase in employment income of $20,000 [5,000 shares × ($79 - $75)], less the stock option deduction of $10,000 ($20,000 × 50%).

A & B. [ 5,000 shares × ($79 - $74) ] = $25,000 × 50% = $12,500

Type: MC

Topic: Employment - employee stock options

62) The effect on her 2022 net and taxable income is:

A) increase in net and taxable income of $15,000.

B) increase in net income of $30,000 and an increase in taxable income of $15,000.

C) increase in net and taxable income of $25,000.

D) increase in net income of $50,000 and an increase in taxable income of $25,000.

Answer: A

Explanation: A) Increase in net and taxable income of $15,000. [ 5,000 shares × ($85 - $79) ] = $30,000 × 50% = $15,000 taxable capital gain

C & D [ 5,000 shares × ($85 - $75) ] = $50,000 × 50% = $25,000

Type: MC

Topic: Employment - employee stock options

63) Gail works for a Canadian public corporation. Three years ago she was granted an option to purchase 100 shares at $30 per share from her employer. The FMV on the day the option was granted was $33 per share. Gail exercised her option by purchasing 100 shares in the current year at a time the FMV was $42 per share. She has not yet sold the shares. What is the effect on Gail's current year net income?

A) $1,200 increase

B) $900 increase

C) $600 increase

D) No effect.

Answer: A

Explanation: A) 100 × ($42 - $30) = $1,200 increase

B = 100 × ($42 - $33) = $900

C = 100 × ($42 - $30)(1/2) = $600

Type: MC

Topic: Employment - employee stock options

64) Which of the following statements about expense deductions for employees is **NOT** correct?

A) In order for an employee to deduct work space in the home costs it must be the place where that individual principally carries on their employment duties.

B) If an employee uses their own automobile to carry out his employment duties, they can deduct a pro rata share of the interest paid on a loan to finance the automobile.

C) In order to deduct travel costs, an employee must ordinarily be required to carry on their employment duties away from the employer's place of business.

D) If an employed salesperson who earns commission income acquires a cell phone, he cannot claim CCA on the phone.

Answer: A

Explanation: A) In order for an employee to deduct work space in the home costs it must be the place where that individual principally carries on their employment duties.

Type: MC

Topic: Employment - employee expenses (General)

65) Roger is employed by an Internet based corporation as a technical support representative and is paid a salary of $40,000 per year. He is required to work from home and estimates that the work space use represents 200 square feet of his 1,000 square foot apartment exclusively for this purpose. Total expenses for 2022 were as follows:

Apartment rent $18,000

Tenant's insurance 500

Apartment utilities 850

Office Supplies 100

Roger's maximum employment expense deduction for 2021 is:

A) $3,890.

B) $3,970.

C) $3,870.

D) $3,790.

Answer: C

Explanation: A) ($18,000 + 500 + 850 + 100) × 20% = $3,890

B) [($18,000 + 500 + 850) × 20%] + 100 = $3,970

C) $3,870 [($18,000 + $850) × 20%] + 100 = $3,870

D) ($18,000 + 850 + 100) × 20% = $3,790

Type: MC

Topic: Employment - home office expenses (ITA 8(13))

66) Nancy is employed by a large corporation as a sales representative. She is paid a salary of $70,000 in 2022. She is required to have a home office and she estimates that her work related use at 375 square feet of her 1,500 square foot house. Total costs for 2022 were as follows:

Mortgage payments (40% principal, 60% interest) $24,000

Home owner's insurance 900

Utilities 1,500

Roof repair 800

Property tax 5,000

As Nancy's compensation does not include any commissions, she is unable to claim some of these expenses as an employment expense. If instead, her compensation of $70,000 was in the form of commissions, she would be able to claim extra employment expenses of:

A) $1,675.

B) $3,600.

C) $5,075.

D) $1,475.

Answer: D

Explanation: A) [($800 + 900 + 5,000) × 25%] = $1,675

B) ($24,000 × 60% × 25%) = $3,600

C) ($24,000 × 60% × 25%) + [($900 + 5,000) × 25%] = $5,075

D) $1,475 [($900 + 5,000) × 25%]

Type: MC

Topic: Employment - home office expenses (ITA 8(13))

67) John secured employment as a commissioned salesman in July, 2022. In 2022, he received a base salary of $60,000, and $5,000 of commissions. A further $6,000 of commissions earned in December 2022 was paid to him in January, 2023. John worked away from the office negotiating sales contracts, and he is required to pay his own vehicle and promotional expenses. His employer has signed a Form T2200 certifying that requirement, and certifying that no reimbursements are paid for any expenses John incurs to earn commissions. John incurred the following costs from July through December 2022:

Meals and entertainment for potential customers $14,000

Driving costs (90% of driving was for employment purposes):

Fuel 4,000

Insurance 750

Repairs 2,250

Leasing costs ($500 per month) 3,000

What is the maximum deduction John may claim for employment expenses in 2022?

A) $5,000.

B) $9,000.

C) $11,000.

D) $16,000.

Answer: B

Explanation: B) If John claims under ITA 8(1)(f) as a commission salesperson, the total eligible expenses would be $16,000 (one-half of the client meals and entertainment of $14,000, plus 90% of the driving costs of $10,000). However, under this provision he would be limited to his $5,000 in commission income. The alternative that would maximize his deduction would be to use ITA 8(1)(h.1). While he could not deduct the client meals and entertainment costs under this provision, his deduction would not be limited to his commission income. This would allow a deduction of $9,000 (90% of the driving costs of $10,000).

Type: MC

Topic: Employment - employee salesperson expenses (ITA 8(1)(f))

68) Which of the following criteria is **NOT** necessary in order for a salesperson to deduct home office costs?

A) Must pay own expenses.

B) Must carry on employment duties away from the employer's place of business.

C) Must not receive an allowance that is not required to be included in income.

D) Must receive all remuneration as commissions.

Answer: D

Explanation: D) Must receive all remuneration in commissions.

Type: MC

Topic: Employment - employee salesperson expenses (ITA 8(1)(f))

69) Connely Ltd. has an August 31 year end. On August 31, 2022, the company declares a bonus of $250,000 payable to Ms. Sara Connely, the founder of the Company. The bonus is payable on April 1, 2023. Describe the income tax consequences of this bonus to both Connely Ltd. and Ms. Sara Connely.

Answer: The bonus will be included in Ms. Connely's 2023 employment income when received. With respect to Connely Ltd., the bonus is not payable by the 179th day after its taxation year ending August 31, 2022. As a consequence, Connely Ltd. will not be able to deduct the bonus in the year ending August 31, 2022. It will only be deducted in the year ending August 31, 2023 when it is actually paid.

Type: ES

Topic: Employment - bonus arrangements

70) Brock Inc. has a taxation year that ends on September 30. On July 1, 2022 the company declared a bonus of $100,000 payable to Stan Gable. The bonus will be paid on February 1, 2023. Describe the income tax consequences of the declaration of the bonus and payment on both Stan Gable and Brock Inc.

Answer: The bonus will be included in the 2023 employment income of Mr. Gable's based on the calendar year of receipt. The declaration of the bonus for its 2022 taxation year would normally entitle the employer to an expense for the bonus whether paid immediately or not. ITA 78(4) however requires that the employer can only deduct the bonus in the year incurred (2022) if the bonus is actually paid by the 179th day following its 2022 taxation year end. As it is paid by the 179th day the Company will be able to deduct the bonus in its 2022 taxation year ending September 30, 2022.

Type: ES

Topic: Employment - bonus arrangements

71) Mr. John Lamarche, as the result of an outstanding sales achievement within his organization, is awarded two airline tickets to Vancouver. His employer pays a travel agent $5,275, plus $264 in GST for the tickets. What is the amount of Mr. Lamarche's taxable benefit?

Answer: Mr. Lamarche's taxable benefit would be $5,539, the $5,275 cost of the tickets, plus the additional $264 in GST. The benefit would not be reduced by $500 for the CRA concessions since the gift was based on performance and is considered equivalent to salary and other remuneration.

Type: ES

Topic: Employment - GST on taxable benefits

72) In 2022 Ms. Robin Nestor is provided with an automobile that is owned by her employer. The employer purchased the car in 2021 for $54,000, plus $7,020 in HST. During 2022, she drives the car a total of 72,000 kilometers, of which 67,000 kilometers were for employment purposes and 5,000 for personal use. The automobile was available to Ms. Nestor for 268 days during 2022. Calculate Ms. Nestor's minimum taxable automobile benefit.

Answer: Rounded to the nearest whole number, 268 days results in 9 months of availability. Further, Ms. Nestor's employment use is over 50% and the monthly average personal use is well below 1,667, entitling her to a reduction in the full standby charge. Although she can use the alternative one -half of the standby charge calculation of the operating cost benefit, she would not do so as it results in a higher benefit. Given these factors, the taxable benefit would be calculated as follows:

Standby Charge [(2%)(9)($54,000 + $7,020)(5,000/15,003\*)] $3,660

Operating Cost Benefit - Lesser of:

• [($0.29)(5,000)] = $1,450

• [(1/2)($3,660)] = $1,830 1,450

Total Automobile Benefit $5,110

\*[(9)(1,667)]

Type: ES

Topic: Employment - taxable benefits - employer owned automobile

73) Mr. Robert Rhodes is provided with an automobile that is owned by his employer. The car was acquired by the employer in 2020 for $63,000, plus $3,150 in GST. In 2022, it was available to Mr. Rhodes for 8 months. The car was driven 53,000 kilometers in 2022, of which 22,000 were for employment purposes and 31,000 for personal use. Calculate Mr. Rhodes' minimum taxable automobile benefit.

Answer: As Mr. Rhodes' employment related use is less than 50% of total kilometers driven the reduced standby charge is not available. In addition, he cannot use the alternative one -half of the standby charge calculation of the operating cost benefit. Given this, the taxable benefit would be calculated as follows:

Standby Charge [(2%)(8)($63,000 + $3,150)] $10,584

Operating Cost Benefit [($0.29)(31,000)] 8,990

Total Automobile Benefit $19,574

Type: ES

Topic: Employment - taxable benefits - employer owned automobile

74) In 2022, Mr. Sam Warren is provided with an automobile that is leased by his employer. The monthly lease payment is $791 per month which includes $91 in HST. During the year, the car was available to Mr. Warren for a total of 310 days. During this period, he drives the car a total of 40,000 kilometers, 22,000 of which are for employment purposes and 18,000 for personal use. Calculate Mr. Warren's minimum taxable automobile benefit.

Answer: Rounded to the nearest whole number, 310 days results in 10 months of availability. As Mr. Warren's employment related use is more than 50%, he is eligible for a reduction in the full standby charge. The reduction however will not reduce the benefit since the average monthly personal use of 1,800 kilometers ($18,000/10) exceeds 1,667 monthly average required of the formula. He is also eligible for the alternative one-half of the standby charge calculation of the operating cost benefit. Given these factors, the taxable automobile benefit would be calculated as follows:

Standby Charge [(2/3)($791)(10)(16,670\*/16,670\*)] $5,273

Operating Cost Benefit - Lesser of:

• [($0.29)(18,000)] = $5,220

• [(1/2)($5,273)] = $2,637 2,637

Total Benefit $7,910

\*[(10)(1,667)] - the numerator cannot exceed the denominator

Type: ES

Topic: Employment - taxable benefits - employer leased automobile

75) Ms. Sarah Wexler is provided with a car by her employer. It is leased by the employer for $728 per month, including $78 of HST. The lease payment also includes a payment of $50 per month to cover insuring the vehicle. In 2022, the car is available to Ms. Wexler for 10 months. She drives the car 76,000 kilometers of which 53,000 kilometers are for employment purposes and 23,000 for personal use. Calculate Ms. Wexler's minimum automobile benefit.

Answer: As Ms. Wexler's employment use is more than 50 %, she is eligible for a reduction in the basic standby charge. However since her average monthly personal kilometer use exceeds the formula maximum of 1,667 kilometers she will not benefit from a reduction of the standby charge. She is also eligible for the alternative one -half of the standby charge calculation of the operating cost benefit. Given these factors, the taxable automobile benefit would be calculated as follows:

Standby Charge

[(2/3)($728 - $50)(10)(16,670\*/16,670\*)] $4,520

Operating Cost Benefit - Lesser of:

• [($0.29)(23,000)] = $6,670

• [(1/2)($4,520)] = $2,260 2,260

Total Automobile Benefit $6,780

\*[(10)(1,667)] - the numerator cannot exceed the denominator

Type: ES

Topic: Employment - taxable benefits - employer leased automobile

76) Mr. Rudy Jackson is required by his employer to use his own automobile in the course of carrying oon his employment duties. To compensate him for that use, he is paid an annual flat rate allowance of $350 per month or $4,200 for the year. In 2022, he drove his automobile a total of 26,720 kilometers, of which 8,150 were for employment purposes and 18,570 for personal use. His total automobile costs for the year, including lease costs, are $8,623. What amounts will Mr. Jackson include and deduct from his 2021 employment income related to the use of his automobile?

Answer: As the car allowance is not based solely on kilometers the allowance is deemed to be unreasonable resulting in a requirement to include the allowance in employment income (ITA 6(1)(b)). He can also deduct the employment related portion of his actual automobile expenses since the allowance was required to be included in employment income. The expense would be $2,630 [($8,623)(8,150 ÷ 26,720)]. The net increase in employment income would be $1,570 ($4,200 - $2,630).

Type: ES

Topic: Employment - employee provided vehicle

77) Ms. Rhonda Jewel's employer provides her with a flat rate annual allowance of $6,500 to compensate her for the fact that she uses her own automobile for employment purposes. In 2022, she has total automobile related costs, including her monthly lease payments, of $12,472. In 2021 she drove 42,000 kilometers, of which 18,000 kilometers were for employment purposes and 24,000 for personal use. Indicate how the allowance and the use of her own automobile affect for 2022 employment income?

Answer: As the $6,500 allowance is not based solely on kilometers driven the allowance is deemed to be unreasonable requiring that it be included in employment income. As the allowance is included in employment income, she can deduct a proportionate share of her automobile expenses. The deductible amount is $5,345 [($12,472)(18,000 ÷ 42,000)]. Her net effect on her employment income is an increase of $1,155 ($6,500 - $5,345).

Type: ES

Topic: Employment - employee provided vehicle

78) Ms. Jessica Tremblay is a member of a group disability plan sponsored by her employer. Contributions are made by both the employees and the employer. The plan provides periodic benefits that compensate for lost employment income. In 2021, Ms. Tremblay was required to pay $324 in premiums. In 2022, Ms. Tremblay received benefits under the plan of $6,940. Ms. Tremblay's contributions to the plan for 2022 totalled $250. In 2022, her employer's share of the annual premium was $2,175. What amount will Ms. Tremblay include in her 2022 employment income?

Answer: As her employer contributes to the plan, and the contributions do not create a taxable benefit, the $6,940 in benefits received during the year will be included in her employment income when received. This will be reduced by the $574 ($324 + $250) in contributions that she made in 2021 and 2022, leaving a net inclusion of $6,366 ($6,940 - $574).

Type: ES

Topic: Employment - disability insurance benefits

79) John Tertiak's employer sponsors a group disability plan for its employees. The plan provides periodic benefits that compensate for lost employment income. The annual premium on this plan is $3,200, with this cost being shared equally by the employer and the employee. Because John became disabled in January, 2022, he did not make any contribution in that year. In the years prior to 2022, John had total contributions of $16,000. In 2022, because of his disability, John receives benefit under the plan totaling $24,000. What amount will John include in his 2022 employment income as a result of the disability receipts?

Answer: Because his employer contributes to the group disability plan, and the employer contributions do not create a taxable benefit, the $24,000 in benefits that he receives in 2022 will be included in his employment income. However, this amount received will be reduced by the $16,000 of contributions that he made in previous years, leaving a net employment inclusion of $8,000 ($24,000 - $16,000).

Type: ES

Topic: Employment - disability insurance benefits

80) On January 1, 2022, Mr. Packard receives a $135,000 loan from his employer to assist him in purchasing a home. The loan requires annual interest at a rate of 3.1%, which he pays on December 31, 2022. Assume that the relevant prescribed rate is 5% during the first quarter of 2022, 6% during the second quarter, and 4%. What is the amount that Mr. Packard's is required to add to his 2022 employment income as a result of the employee loan?

Answer: The ITA 80.4(1) benefit is calculated as follows:

The Lesser of:

• [($135,000)(5%)(1/4) + ($135,000)(6%)(1/4)

+ ($135,000)(4%)(2/4)] = $6,413

• [($135,000)(5%)] = $6,750 $6,413

Less Interest Payment [($135,000)(3.1%)] ( 4,185)

Employment Benefit $2,228

As this is a home purchase loan, the annual benefit cannot exceed the benefit that would result from applying the 5% rate that was in effect when the loan was made. Note that the 5% rate is not compared to the prescribed rate on a quarter-by- quarter basis, but on an annual basis. The lower figure of $6,413 would then be reduced by the $4,185 in interest paid.

Type: ES

Topic: Employment - loans to employees (home purchase loan)

81) On May 1, 2022, Ms. Ponti receives a $210,000 interest free loan from her employer in order to assist her in purchasing a new home. The loan must be repaid in annual instalments of $30,000 on December 31 in each of the years 2023 through 2029. Assume that the relevant prescribed rate is 4% during the first two quarters of 2022, but is reduced to 3% in the third quarter, and to 2% in the fourth quarter. What is the amount that is required to be included in Ms. Ponti's 2022 employment income as a result of the employee loan?

Answer: The ITA 80.4(1) benefit is calculated as follows:

The Lesser of:

• [($210,000)(4%)(2/12) + ($210,000)(3%)(1/4)

+ ($210,000)(2%)(1/4)] = $4,025

• [($210,000)(4%)(8/12)] = $5,600 $4,025

Interest Payments Nil

Employment Benefit $4,025

Type: ES

Topic: Employment - loans to employees (home purchase loan)

82) A senior executive asks her employer for a $240,000 interest free housing loan. At this time, the employer has investment opportunities involving a rate of return of 8.2% before income taxes. Assume the relevant prescribed rate for the period is 3%, while the going market rate for home mortgages is 5%. The employee is subject to a marginal income tax rate of 44%, while the employer pays corporate income taxes at a marginal rate of 28%. Should the employer grant the loan or, alternatively, provide sufficient salary to carry an equivalent loan from a commercial lender? Explain your conclusion.

Answer: In the absence of the interest free loan, the employee would borrow $240,000 at 5%, requiring an annual interest payment of $12,000. The after tax cash outflow associated with the employer providing sufficient additional salary to carry this loan would be calculated as follows:

Required Salary [$12,000 ÷ (1 - 0.44)] $21,429

Corporate income tax savings from deducting the salary

[($21,429)(28%)] ( 6,000)

Employer's after tax cash flow - Additional Salary $15,429

Alternatively, if the loan is provided, the employee will have a taxable benefit of $7,200 [(3%)($240,000)], resulting in taxes payable of $3,168 [(44%)($7,200)]. To make this situation comparable to the straight salary alternative, the employer will have to provide the employee with both the loan amount and sufficient additional salary to pay the income taxes on the imputed interest benefit. The amount of this additional salary would be $5,657 [$3,168 ÷ (1 - 0.44)]. The employer's after tax cash flow associated with providing the additional salary and the loan amount would be calculated as follows:

Required Salary [$3,168 ÷ (1 - 0.44)] $ 5,657

Corporate income tax savings from deducting the salary

[($5,657)(28%)] (1,584)

After Tax Cost of Salary $ 4,073

Employer's lost earnings [(8.2%)(1 - 0.28)($240,000)] 14,170

Employer's after tax cash flow - Loan $18,243

Given these results, providing the additional salary appears to be the better alternative.

Type: ES

Topic: Employment - loan benefits (tax planning)

83) John Baxter is a highly valued employee of Stern Inc. His marginal income tax rate is 46% and he would like to acquire a vacation property. To assist with this purchase, he has asked the management of Stern for a $350,000 interest free loan. At this time the mortgage rate for vacation properties is 4.5% and the prescribed rate is 2%. Stern is subject to a marginal income tax rate of 26% and has alternative investment opportunities that earn 7% before income taxes. Should Stern Inc. grant the loan or, alternatively, provide sufficient salary to carry an equivalent loan from a commercial lender? Explain your conclusion.

Answer: In the absence of the interest free loan, John would have to borrow $350,000 at 4.5 %, resulting in an annual interest cost of $15,750 [(4.5%)($350,000)]. In order to pay this after tax amount, John would need additional salary of $29,167 [($15,750 ÷ (1 - 0.46)]. The after tax cash outflow of providing this salary is calculated as follows:

Additional salary [($15,750 ÷ (1 - 0.46)] $29,167

Corporate income tax savings [($29,167)(26%)] (7,583)

Employer's after tax cash flow - Additional Salary $21,584

If the loan is provided, John will have a taxable benefit of $7,000 [($350,000)(2%)], resulting in income tax of $3,220 [($7,000)(46%)]. In order to pay the additional income tax John will need additional salary of $5,963 [$3,220 ÷ (1 - 0.46)]. For Stern, the after tax cash outflows associated with this additional salary and the loan would be calculated as follows:

Additional salary [$3,220 ÷ (1 - 0.46)] $ 5,963

Corporate income tax savings [($5,963)(26%)] (1,550)

After tax cost of salary $ 4,413

Employer's lost earnings [(7%)(1 - 0.26)($350,000)] 18,130

Employer's after tax cash flow - Loan $22,543

Based on these results, the payment of additional salary appears to be the better alternative.

Type: ES

Topic: Employment - loan benefits (tax planning)

84) Ms. Mary Mason is employed by a large public company. In 2020, she was granted stock options to acquire 1,000 shares of her employer's common stock at a price of $23 per share. At the time the options were granted, the shares were trading at $20 per share. In May, 2022, when the shares are trading at $45 per share, she exercises her options and acquires 1,000 shares. What is the effect of the exercise of the options on Ms. Mason's 2022 employment income?

Answer: The employment income inclusion is $22,000 [(1,000)($45 - $23)]. There would also be a taxable income stock option deduction under ITA 110(1)(d) equal to $11,000.

Type: ES

Topic: Employment - employee stock options

85) Ms. Mary Mason is employed by a CCPC. In 2020, she was granted options to acquire 1,000 shares of her employer's common shares at a price of $23 per share. At the time the options were granted, the shares had a FMV of $20 per share. In May, 2022, when the shares had a FMV of $45 per share, she exercises her options and acquires 1,000 shares. What is the effect of the exercise of the stock options on Ms. Mason's 2022 employment income?

Answer: Stock options issued by a CCPC are not required to be included in employment income when the options are exercised but are instead deferred until such time as the shares are actually sold. As a result, the exercise of the stock options does not affect her 2022 employment income.

Type: ES

Topic: Employment - employee stock options

86) Mr. John Savage has been employed for many years by a Canadian public company. Several years ago, Mr. Savage was granted options to acquire 4,000 shares of his employer for $54 per share. At this time, the FMV of the shares was $50 per share. On July 15, 2021, Mr. Savage exercises all of these options. At this time, the FMV of the shares is $82 per share. In February, 2022, he sells all of the shares for $97 per share. Calculate the effect of these transactions that took place during 2021 and 2022 on Mr. Savage's net income and taxable income. Where relevant, identify the effects separately.

Answer: The increase in 2021 net income and taxable income resulting from the exercise of the options would be calculated as follows:

FMV at exercise [(4,000)($82)] $328,000

Cost of shares [(4,000)($54)] ( 216,000)

Employment income =

**Increase in 2021 net income $112,000**

Stock option deduction ITA 110(1)(d) [(1/2)($112,000)] (56,000)

**Increase in 2021 taxable income $ 56,000**

When the shares are sold in 2022, the results will be as follows:

POD [(4,000)($97)] $388,000

ACB [(4,000)($82)] (328,000)

Capital Gain $ 60,000

Inclusion Rate 1/2

Taxable Capital Gain $ 30,000

This $30,000 taxable capital gain will be both the increase in 2022 net and taxable income.

Type: ES

Topic: Employment - employee stock options

87) Mr. John Savage has been employed for many years by a CCPC. Several years ago, Mr. Savage was granted options to acquire 4,000 shares of his employer for $54 per share. At that time, the FMV of the shares was $50 per share. On July 15, 2021, Mr. Savage exercises all of these options. At this time, the FMV of the shares is $82 per share. In February, 2022, he sells all of the shares for $97 per share. Calculate the effect of the transactions that took place during 2021 and 2022 on Mr. Savage's employment income, net income and taxable income. Where relevant, identify these effects separately.

Answer: As Mr. Savage's employer is a CCPC, the exercise of the options has no effect on his Taxable Income in 2021.

When the shares are sold in 2022, the total increase in net income and taxable income is calculated as follows:

FMV at exercise [(4,000)($82)] $328,000

Cost of Shares [(4,000)($54)] (216,000)

Employment income $112,000

POD [(4,000)($97)] $388,000

ACB [(4,000)($82)] (328,000)

Capital Gain $ 60,000

Inclusion Rate 1/2 30,000

**Increase in net income** **$142,000**

Stock option deduction ITA 110(1)(d) [(1/2)($112,000)] (56,000)

Stock option deduction ITA 110(1)(d.1) N/A

**Increase in taxable income**  **$ 86,000**

As the option price was greater than the FMV of the shares at the time of issue, he is allowed the deduction under ITA 110(1)(d). If this had not been the case, although Mr. Savage's employer is a CCPC, he would not have been able to make this deduction under ITA 110(1)(d.1) as he did not own the shares for at least two years.

Type: ES

Topic: Employment - employee stock options

88) Several years ago, Mr. Kerry Johnson's corporate employer granted him options to purchase 1,000 shares of the employer at a price of $13.25 per share. At that time, the shares were trading at $13.25 per share. The employer is a publicly traded company. In June of 2022, Mr. Johnson exercises the options. At this time, the shares are trading at $18.50 per share. Prior to the end of the year, Mr. Johnson sells the shares for $19.75 per share. Determine the effect of these transactions on Mr. Johnson's net and taxable income. Where relevant, identify these effects separately.

Answer: The effect of these transactions would be calculated as follows:

Employment income [(1,000)($18.50 - $13.25)] $5,250

Taxable Capital Gain [(1/2)(1,000)($19.75 - $18.50)] 625

**Increase in net income $5,875**

Stock option deduction Under ITA 110(1)(d) [(1/2)($5,250)] (2,625)

**Increase in taxable income $3,250**

Type: ES

Topic: Employment - employee stock options

89) Joan Smithers has been employed by a Canadian public company for several years. In 2020, she was granted options to acquire 2,200 of her employer's shares at $10.50 per share. At that time, the shares were trading at $10.00 per share. In 2021, when the shares are trading at $15 per share, she exercises all of these options. In 2022 she sells 1,000 of the shares for $13 per share. Indicate the income tax consequences of each of the stock option events in 2020, 2021, and 2022 on Ms. Smithers' net and taxable income. Where relevant, identify these effects separately.

Answer: The granting of the options in 2020 does not affect either net or taxable income.

As a public company is involved, the exercise of the options in 2021 will have the following income tax consequences:

FMV at exercise [(2,200)($15)] $33,000

Cost of Shares [(2,200)($10.50)] (23,100)

Employment income

(Increase in **net income**) $ 9,900

Stock option deduction Under ITA 110(1)(d) [(1/2)($9,900)] (4,950)

Increase in **taxable income**  $ 4,950

When the shares are sold in 2022, the income tax consequences are as follows:

POD [(1,000)($13)] $13,000

ACB [(1,000)($15)] (15,000)

Capital Loss ($2,000)

Inclusion Rate 1/2

Allowable Capital Loss ($1,000)

This loss can only be deducted in the determination of net income to the extent that Ms. Smithers has net taxable capital gains in 2022.

**Note to Instructor -** Depending on what has been covered in your course, students may or may not be expected to comment on the ability to carry the capital loss back or forward as follows:

If she has taxable capital gains in the previous 3 years or any year in the future, the loss could be carried back or carried forward and deducted in the determination of Taxable Income. It is important that the students realize that the allowable capital loss can not be offset against the employment income from the stock options in 2021.

Type: ES

Topic: Employment - employee stock options

90) Jerry Farrow is employed by a CCPC. In 2020, he was granted options to acquire 625 of his employer's shares at $92 per share. At that time, it was estimated that the FMV of the shares was $90. In 2021, when the estimated FMV of the shares is $95 per share, he exercises all of these options. In 2022, he sells 125 of the shares for $85 per share. Indicate the income tax consequences of the events in 2020, 2021, and 2022 on Mr. Farrow's employment income. net income and taxable income. Where relevant, identify these effects separately.

Answer: The granting of the options in 2020 does not affect employment income, net income or taxable income.

As a CCPC is involved, the exercise of the options does not affect employment income, net income or taxable income. However, the employment income inclusion for all 625 shares is measured in 2021 (see 2022 results).

When 125 of the 625 shares are sold in 2022, the income tax consequences are as follows:

Deferred Employment Income:

FMV at exercise [(125)($95)] $11,875

Cost of shares [(125)($92)] ( 11,500)

Employment Income

(Increase in **net income**) $375

Stock option deduction Under ITA 110(1)(d) [(1/2)($375)] (188)

Increase in **taxable income** $187

There is also an allowable capital loss, calculated as follows:

POD [(125)($85)] $10,625

ACB [(125)($95)] (11,875)

Capital Loss ($1,250)

Inclusion Rate 1/2

Allowable Capital Loss ($625)

This loss can only be deducted in the determination of net income to the extent that Mr. Fallow has net taxable capital gains in 2022.

**Note to Instructor -** Depending on what has been covered in your course, students may or may not be expected to comment on the ability to carry the capital loss back or forward as follows:

If she has taxable capital gains in the previous 3 years or any year in the future, the loss could be carried back or carried forward and deducted in the determination of Taxable Income. It is important that the students realize that the allowable capital loss can not be offset against the employment income from the stock options in 2021.

Type: ES

Topic: Employment - employee stock options

91) Mrs. Joan Conway is a commission salesperson. During the current year, her gross salary was $46,700. In addition, she earned $9,200 in commissions. Her employment related costs during the year were advertising costs of $6,150, client entertainment costs of $8,850, and travel costs of $9,325. She is required to pay her own expenses and does not receive any allowance from her employer. What is Mrs. Conway's maximum employment expense for the current year? Show your calculations.

Answer: Her potential deduction is $19,900 [$6,150 + (1/2)($8,850) + $9,325]. However, this total exceeds her commission income and cannot be deducted under ITA 8(1)(f). If she claims a deduction under ITA 8(1)(h) there is generally no limit to the amount that can be claimed. The problem here is that she cannot deduct the advertising or entertainment costs under this Paragraph. Further, she cannot claim a deduction under ITA 8(1)(h) if she claims a deduction under ITA 8(1)(f).

As the travel costs that are deductible under ITA 8(1)(h) exceed the ITA 8(1)(f) ceiling of $9,200 in commission income, her maximum deduction is the $9,325 in travel costs under ITA 8(1)(h).

Type: ES

Topic: Employment - employee salesperson expenses (ITA 8(1)(f))

92) Barton Ho is a commission salesperson. During the current year, in addition to his salary of $92,500, he earns and receives $14,700 in commissions. His costs for advertising were $12,200 and, in addition, he spent $6,400 on client entertainment. Because of the extensive travel required for his employment, his travel costs totaled $16,100. He is required to pay his own expenses and does not receive any allowance from his employer. What is Mr. Ho's maximum employment expense for the current year? Show your calculations.

Answer: Mr. Ho's total potential deductions are $31,500 [$12,200 + (1/2)($6,400) + $16,100]. However, this total exceeds his commission income and cannot be deducted under ITA 8(1)(f). While he cannot deduct the advertising or entertainment under ITA 8(1)(h), the travel costs can be deducted without limit. As these costs exceed Mr. Ho's commission income, his maximum deduction is the $16,100 in travel costs that can be deducted under ITA 8(1)(h).

Type: ES

Topic: Employment - employee salesperson expenses (ITA 8(1)(f))

93) Doug Evans works for a company that sells video equipment. His records for the current year contain the following information:

Salary Received $61,250

Commissions Received 6,250

Total Employment Income $67,500

Advertising and Promotion $ 1,250

Traveling expenses 7,500

CCA on Van\* 1,875

Interest on Van financing\* 625

Total Employment Expenses $11,250

\*The van is used exclusively for employment purposes.

Mr. Evans meets the conditions for deducting employment expenses. Given the preceding information, determine Mr. Evans' minimum employment income for the current year. Explain your conclusions.

Answer: As Doug Evans receives a portion of his income in the form of commissions, all of the $11,250 in listed expenses are potentially deductible under ITA 8(1)(f) (advertising and travel) and 8(1)(j) (CCA and interest on van). However, if he makes the deduction under ITA 8(1)(f), his expenses other than CCA and interest on the car, are limited to $6,250, the amount of his commission income. As a result, he can deduct $8,750 ($6,250 + $1,875 + $625).

Alternatively, he can deduct all of the expenses except the advertising and promotion costs under ITA 8(1)(h), (h.1) and (j). As these deductions are not limited by commissions or total employment income, he will be able to deduct a total of $10,000 ($7,500 + $1,875 + $625). Note that, if he claims a deduction under ITA 8(1)(h) and ITA 8(1)(h.1), he cannot claim a deduction under ITA 8(1)(f). Therefore, his maximum deduction is $10,000 and his minimum employment income is $57,500 ($67,500 - $10,000).

Type: ES

Topic: Employment - employee salesperson expenses (ITA 8(1)(f))

94) Deborah Ekert is employed as a salesperson and receives some of her compensation in the form of commissions. During the current year, her salary totaled $85,000 and her commissions totaled $8,400. Her employment related expenses during this period were as follows:

CCA On Car\* $ 2,850

Interest on Car Loan\* 1,075

Traveling expenses 10,300

Promotion and Advertising 5,600

Client Entertainment [(1/2)(Actual Costs Of $5,200)] 2,600

Total Available Expenses $22,425

\*The car is used exclusively for employment purposes.

Ms. Ekert meets the conditions for deducting employment expenses. Given the preceding information, determine Ms. Ekart's minimum employment income for the current year. Explain your conclusions.

Answer: As Ms. Ekart receives some of her employment income in the form of commissions, all of the $22,425 in listed expenses is potentially deductible under ITA 8(1)(f) (travel, promotion, and entertainment) and 8(1)(j) (CCA and interest on car). However, under ITA 8(1)(f), all of the expenses other than the CCA and interest on the car are limited to her commission income of $8,400. This would result in a maximum deduction under ITA 8(1)(f) and 8(1)(j) of $12,325 ($8,400 + $2,850 + $1,075).

Alternatively, under ITA 8(1)(h) and ITA 8(1)(h.1), she can deduct the traveling expenses, of $10,300 but not the promotion, advertising and entertainment. However, when the traveling expenses are added to the car costs that are deductible under ITA 8(1)(j), her total deduction would be $14,225 ($10,300 + $2,850 + $1,075). Using this would produce a minimum employment income calculated as follows:

Salary $85,000

Commissions 8,400

Deductible Expenses ($10,300 + $2,850 + $1,075) (14,225)

Employment income $79,175

Type: ES

Topic: Employment - employee salesperson expenses (ITA 8(1)(f))

95) Each of the following independent Cases involves a Canadian public company paying a bonus to a key executive named Christine Lane.

**Case A** — The company's year end is August 31. The bonus is declared on August 31, 2022 and paid on December 31, 2022.

**Case B** — The company's year end is July 31. The bonus is declared on March 2, 2022 and paid on January 1, 2023.

**Case C** — The company's year end is December 31. The bonus is declared on December 1, 2022 and paid on July 1, 2023.

**Case D** — The company's year end is September 30. The bonus is declared on October 31, 2022 and paid October 31, 2026.

Required: For each of these Cases, indicate the taxation year in which the Company can deduct the bonus, as well as the taxation year in which Ms. Lane will include it in her employment income.

Answer:

***Case A***

The company will deduct the bonus in the year ending August 31, 2022 since the bonus is paid by the 179th day following August 31, 2022. Christine will include it in income in the calendar year ending December 31, 2022 since it was received in that year.

***Case B***

In this case, the bonus is paid by the 179th day measured from July 31, 2022 therefore the bonus is deductible to the company for its 2022 taxation year ending July 31. However, Christine will include the bonus in the calendar year in which it was received which is 2023.

***Case C***

In this case, the bonus is not paid by the 179th day of June 28, 2023 and as a result the company is only entitled to an expense in the taxation year in which the bonus is actually paid which is its 2023 taxation year ending December 31. Christine will include the bonus in income in the year in which it is received which is also 2023.

***Case D***

As the bonus is not paid within three years of the end of the year in which the services were rendered, the bonus is considered a salary deferral arrangement. The company will deduct the bonus in its 2023 taxation year ending September 30, 2023. However, as it was earned in 2022, Christine will have to include the bonus in her employment income for 2022.

Type: ES

Topic: Employment - bonus arrangements

96) Jerry Field was hired by Larson Wholesalers at the end of 2021 to fill an executive position in the company. He is scheduled to begin work on January 2, 2022. Larson Wholesalers plans to transfer him to their Hong Kong office after two years.

As part of his compensation package, Jerry has considered having the Company provide him with a car for his personal use. He does not require the vehicle for his employment duties and, as a consequence, it will be used for personal use only.

Jerry anticipates that he will drive the car about 80,000 kilometers in each of 2022 and 2023. He is considering two different cars and has collected the following information on them:

**Lexus ES Lexus LS**

Purchase Price $45,000 $100,000

Estimated Operating Costs per Kilometer $0.30 $0.40

Estimated Trade In at the end of 2 Years $20,000 $40,000

The Company has agreed to provide an additional $100,000 in compensation and they offer Jerry the following alternatives.

**Option 1** — They will purchase either car and allow Jerry to use it for the calendar years 2022 and 2023. If Jerry prefers the Lexus ES, the Company will provide a signing bonus of $55,000, the difference in the cost of the two cars. The bonus will be paid when the car is delivered on January 2, 2022.

**Option 2** — They will provide Jerry with an $100,000 signing bonus. This bonus will be paid on January 2, 2022. He will use the funds to purchase one of the cars personally.

If the Company buys either car, Jerry will pay his own operating costs and the Company will take possession of the car after the 2 years.

Jerry's combined federal/provincial marginal income tax rate is expected to be 48% in both 2022 and 2023.

Assume that the prescribed operating cost benefit will be $0.27 per kilometer for both 2022 and 2023.

**Required:** Advise Jerry as to which option he should choose if decides that he wants:

A. the Lexus ES.

B. the Lexus LS.

In both parts of this question your advice should be based on non-discounted cash outflows. Ignore GST and HST considerations in your solution.

Answer:

***Part A - Jerry Chooses The Lexus ES***

If Jerry chooses the Lexus ES and selects Option 1, the employment benefit will be calculated as follows:

Standby Charge [(2%)(12)($45,000)] $10,800

Operating Cost Benefit (Jerry pays his own costs) Nil

Total Taxable Benefit $10,800

Number of Years 2

Total Taxable employment benefit - Option 1 $21,600

Given this, the after tax cash flow associated with Option 1 would be calculated as follows:

Signing Bonus $55,000

Income Tax Consequences:

Signing Bonus ($55,000)

Taxable Benefit (21,600)

Increase in Taxable Income ($76,600)

Jerry' Marginal Income Tax Rate 48% (36,768)

Net Cash Inflow (Outflow) $18,232

Alternatively, the after tax cash flow associated with Option 2 would be as follows:

Signing Bonus $100,000

Purchase Price of the car (45,000)

Tax Consequences:

Signing Bonus ($100,000)

Jerry' Marginal Tax Rate 48% (48,000)

Trade in proceeds 20,000

Net Cash Inflow (Outflow) $27,000

With respect to the Lexus ES alternative, selecting Option 2, is the better alternative. Note that, as Jerry pays his own operating expenses in both Option 1 and Option 2, this factor can be ignored in our calculations.

***Part B - Jerry Chooses the Lexus LS***

If Jerry chooses the Lexus LS and selects Option 1, the taxable benefit will be calculated as follows:

Standby Charge [(2%)(12)($100,000)] $24,000

Operating Cost Benefit (Jerry Pays His Own Costs) Nil

Total Taxable Benefit $24,000

Number of years 2

Total Taxable Employment Benefit - Option 1 $48,000

Given this, the after tax cash flow associated with Option 1 would be calculated as follows:

Signing Bonus Nil

Income Tax Consequences:

Taxable Benefit ($48,000)

Signing Bonus Nil

Increase in Taxable Income (48,000)

Jerry' Marginal Income Tax Rate 48% ($23,040)

Net Cash Inflow (Outflow) ($23,040)

Alternatively, the after tax cash flow associated with Option 2 would be as follows:

Signing Bonus $100,000

Purchase Price of the car (100,000)

Tax Consequences:

Signing Bonus ($100,000)

Jerry' Marginal Income Tax Rate 48% (48,000)

Trade In Proceeds 40,000

Net Cash Inflow (Outflow) $ 8,000

Once again, operating costs are ignored in that Jerry pays his own operating costs in both Option 1 and Option 2. As was the case with the Lexus ES, Option 2 is the preferred alternative. The economic basis for this result is the fact that in Option 2, Jerry benefits from the trade in value of the car, while in Option 1, this benefit goes to the Company.

Although the requirements of the problem ask that only the cash flows be considered, we would note that the alternative of purchasing the car carries more uncertainty. Both the resale value and the actual operating costs are estimates. If there was a large variation from the estimate for either or both of these amounts, it could substantially affect the total cash outflow of the purchase alternative.

Type: ES

Topic: Employment - employer owned vs. employee owned vehicle

97) Ms. Sharon Herzog is employed with a large, publicly traded company. Her employment duties require her to travel and the employer provides her with an automobile.

Sharon is allowed to use the automobile for personal use. However, there are some periods during the year when she does not need the car for employment purposes and during these periods she is required to return the car to her employer's premises where it can be used by other employees.

The car that she will use was purchased by her employer in 2020 for $45,200, including $5,200 in HST. During the years 2020 and 2021, the company claimed maximum CCA.

In 2022, Sharon drove the car a total of 37,000 kilometers. The company pays all of her operating costs which, in 2022 totaled $11,340.

**Required:** Indicate the minimum automobile benefit in each of the following independent Cases:

**Case 1** — The car is available for 9 months of the year. Personal use during the year totals 6,000 kilometers with 31,000 kilometers for employment purposes.

**Case 2** — The car is available for 11 months of the year. Personal use during the year totals 28,000 kilometers with 9,000 kilometers for employment purposes.

**Case 3** — The car is available for 7 months of the year. Employment use during the year totals 18,600 kilometers and personal use 18,400 kilometers.

Answer:

***Case 1***

In this Case, the automobile benefit would be calculated as follows:

Standby Charge [(2%)($45,200)(9)(6,000/15,003\*)] $3,254

Operating Cost Benefit - Lesser of:

• [(6,000)($0.29)] = $1,740

• [(1/2)($3,254)] = $1,627 1,627

Total Automobile Benefit $4,881

\*[(9)(1,667)]

As Sharon's usage is more than 50% employment related, she can use the reduced standby charge calculation. In addition, she can use one-half the standby charge as her operating cost benefit, but it is not advantageous for her to do so.

***Case 2***

In this Case, the automobile benefit would be calculated as follows:

Standby Charge [(2%)($45,200)(11)] $ 9,944

Operating Cost Benefit [(28,000)($0.29)] 8,120

Total Automobile Benefit $18,064

As Sharon's employment use was less than 50%, there is no reduction in the basic standby charge. This also means that Sharon cannot elect to use the alterative calculation of the operating costs benefit as one-half of the standby charge.

***Case 3***

In this Case, the automobile benefit would be calculated as follows:

Standby Charge [(2%)($45,200)(7)(11,669/11,669\*)] $6,328

Operating Cost Benefit - Lesser of:

• [(18,400)($0.29)] = $5,336

• [(1/2)($6,328)] = $3,164 3,164

Total Automobile Benefit $9,492

\*[(7)(1,667)] - the numerator cannot exceed the denominator

As Sharon's usage is more than 50% employment use, she can use the reduced standby charge calculation. In addition, she can use one-half the standby charge as her operating cost benefit.

Type: ES

Topic: Employment - taxable automobile benefits employer owned vehicle (Multiple Cases)

98) Klaxton Inc. provides an automobile to Ms. Roxanne Smith for her to use in carrying out her employment duties. Ms. Smith is given full possession of the car and is allowed to use it for personal purposes. However, when she is not using it for employment or personal use, it must be returned to Klaxton's premises so that it can be used by other employees.

The automobile was purchased in 2020 for $42,000 and, during the years 2020, 2021, and 2022, the Company claimed maximum CCA.

In 2022, Ms. Smith drove the car 48,000 kilometers, with the Company paying for all of the operating costs. These costs totaled $9,850 during the year.

**Required:** Ignore all GST/PST & HST implications. Indicate the minimum automobile benefit in each of the following Cases:

**Case A** — The car was available for 11 months of the year. Personal use during the year totals 4,000 kilometers and employment use 44,000 kilometers.

**Case B** — The car was available for 10 months of the year. Personal use during the year totals 23,000 kilometers with 25,000 kilometers of employment use.

**Case C** — The car was available for 8 months of the year. Employment use during the year totals 4,000 kilometers with 44,000 kilometers of personal use.

Answer:

***Case A***

In this Case, the automobile benefit would be calculated as follows:

Standby Charge [(2%)($42,000)(11)(4,000/18,337\*)] $2,016

Operating Cost Benefit - Lesser of:

• [(4,000)($0.29)] = $1,160

• [(1/2)($2,016)] = $1,008 1,008

Total Automobile Benefit $3,024

\*[(11)(1,667)]

As Ms. Smith's employment use is more than 50%, she can use the reduced standby charge calculation. In addition, she can use one-half the standby charge as her operating cost benefit.

***Case B***

In this Case, the automobile benefit would be calculated as follows:

Standby Charge [(2%)($42,000)(10)(16,670\*/16,670\*)] $ 8,400

Operating Cost Benefit - Lesser of:

• [(23,000)($0.29)] = $6,670

• [(1/2)($8,400)] = $4,200 4,200

Total Automobile Benefit $12,600

\*[(10)(1,667)]

As Ms. Smith's employment use is more than 50% she can use the reduced standby charge calculation. In addition, she can use one-half the standby charge as her operating cost benefit.

***Case C***

In this Case, the automobile benefit would be calculated as follows:

Standby Charge [(2%)($42,000)(8)] $ 6,720

Operating Cost Benefit [(44,000)($0.29)] 12,760

Total Automobile Benefit $19,480

As Ms. Smith's employment usage was less than 50%, there is no available reduction in the basic standby charge. This also means that Ms. Smith cannot elect to use the alterative calculation of the operating costs benefit as one-half of the standby charge.

Type: ES

Topic: Employment - taxable automobile benefits employer owned vehicle (Multiple Cases)

99) Fred Ethridge is a valued employee of a large Canadian company. He is in the process of negotiating a new compensation package for the coming year. As he is looking to purchase a new residence, one of the alternatives that is being considered is an interest free loan that would be used to purchase this property.

Fred needs $350,000 to comfortably finance this purchase. As he has an excellent credit rating, a commercial bank is prepared to extend the $350,000 on a 5 year, closed mortgage at a rate of 4.75%. The company has indicated that they will extend a $350,000, 5 year, interest free loan in lieu of a raise.

The Company's accounting department will calculate the after tax cost of providing the loan and his employer will offer Fred the alternative of additional salary that has the same after tax cost to the Company.

The Company is subject to income tax at a combined federal/provincial rate of 29%. When funds are available, the Company has alternative investment opportunities that earn a pre-tax rate of 10%. Because of Fred's current high salary, any additional compensation will be taxed at a combined federal/provincial income tax rate of 49%.

Assume that the prescribed interest rate on loans for the current year is 2%.

**Required:**

A. Determine the income tax consequences to Fred and the cost to the Company, in terms of lost after-tax earnings, of providing Fred with a $350,000 interest free loan for the first year of the loan.

B. Determine the amount of additional salary that could be provided to Fred for the same after tax cost to the Company that you calculated in Part A.

C. Which alternative would you recommend that Fred accept? Explain your conclusion.

Answer:

***Part A***

The first year income tax consequences for Fred would be that he would be assessed a taxable benefit on the loan of $7,000 [(2%)($350,000)] for the current year. This would result in an increase in his income tax of $3,430 [(49%)($7,000)].

The cost of the loan to the company for the first year would be calculated as follows:

Lost Earnings on Funds Loaned [(10%)($350,000)] $35,000

Corporate Taxes on Imputed Earnings (at 29%) (10,150)

Net Cost to Company - Loan $24,850

This will result in Fred having the use of $350,000 at a tax cost to himself of $3,430 and an annual cost of $24,850 to the Company.

***Part B***

If instead of giving Fred the $350,000, the Company pays him the potentially lost annual earnings of $35,000, the after tax cost to the Company will be the same, as shown in the following calculation:

Additional Salary $35,000

Savings in Corporate Taxes (at 29%) (10,150)

Net Cost to Company - Additional Salary $24,850

***Part C***

Fred can borrow on a loan at a rate of interest of 4.75%. This means that the annual interest payments on $350,000 would amount to $16,625 [(4.75%)($350,000)].

If he receives the additional salary, his after tax income would be as follows:

Additional Salary $35,000

Income Tax (at 49%) (17,150)

Net Increase in Cash $17,850

Fred should accept the additional salary of $35,000 per year as it results in an annual cash inflow of $1,225 ($35,000 - $17,150 - $16,625) after paying the income tax and the mortgage interest. This compares to a cash outflow of $3,430 if the company lends the money to Fred.

Type: ES

Topic: Employment - loan benefits (tax planning)

100) Albert Lee is an employee of a large Canadian company. As he has performed exceptionally well in recent years and has become sought after by competitors, the Company is planning to increase his compensation in an effort to retain him.

Mr. Lee has developed a growing interest in investing in options and, in order to finance this activity, he is looking to borrow $500,000. His bank has indicated that they would be prepared to loan this amount to him at a rate of 6%. This is attractive in that he anticipates that his activity in the options market will generate a pre-tax return of at least 15%.

Given this situation,Mr. Lee has indicated to his employer that, instead of additional remuneration in the form of salary, he would be prepared to accept a $500,000 interest free loan for 3 years. He would fully invest this in options.

The Company is subject to income tax at a combined federal/provincial income tax rate of 27%. When funds are available, the Company has alternative investment opportunities that earn a pre-tax rate of 9%. Any additional compensation for Mr. Lee will be taxed at a combined federal/provincial income tax rate of 46%.

Assume that the prescribed interest rate for employee loans for the current year is 2%.

**Required:**

A. Determine the income tax consequences to Mr. Lee and the cost to the Company, in terms of lost after-tax earnings, of providing Mr. Lee with a $500,000 interest free loan for the first year of the loan.

B. Determine the amount of additional salary that could be provided to Mr. Lee for the same after tax cost to the Company that you calculated in Part A.

C. Which alternative would you recommend that Mr. Lee accept? Explain your conclusion.

Answer:

***Part A***

Mr. Lee would include an interest benefit on the loan of $10,000 [(2%)($500,000)] for the current year. However, under ITA 80.5, this would be deemed interest paid where the funds are used for investment purposes. This means that the interest benefit will be added to employment income and he would be entitled to an interest expense when calculating his investment income or loss.

The cost of the loan to the company for the first year would be calculated as follows:

Lost Earnings on Funds Loaned [(9%)($500,000)] $45,000

Corporate Income Tax on Imputed Earnings (at 27%) (12,150)

Net Cost to Company - Loan $32,850

This will result in Mr. Lee having the use of $500,000 at no tax cost to himself and an annual cost of $32,850 to the Company.

***Part B***

If instead of giving Mr. Lee the $500,000, the Company pays him the potentially lost annual earnings of $45,000, the after tax cost to the Company will be the same, as shown in the following calculation:

Additional Salary $45,000

Savings Ii Corporate Taxes (at 27%) (12,150)

Net Cost to Company - Additional Salary $32,850

***Part C***

Mr. Lee can borrow on a loan at a rate of interest of 6%. This means that the annual interest payments on $500,000 would amount to $30,000 and would be deductible in determining his investment income or loss.

If he receives the additional salary, his after tax income would be as follows:

Additional Salary $45,000

Deductible Interest on Investment Loan (30,000)

Increase in net income $15,000

Income Tax (at 46%) (6,900)

Net Increase in Cash $ 8,100

Mr. Lee should accept the additional salary of $45,000 per year as it results in an annual cash increase of $8,100.

Type: ES

Topic: Employment - loan benefits (tax planning)

101) Opting Inc. has a very generous stock option plan that allows all of their long term employees to participate. Sandra has worked for the Company for over 10 years and has participated in this plan on a regular basis. With regards to the last options granted to her, the following information is relevant:

• On January 1, 2020, Sandra was granted options to acquire 275 of the Company's shares at a price of $15.00 per share.

• At a later point in time, when Sandra exercises these options, the Company's shares have a FMV of $17.50 per share.

• On December 1, 2022, all of the shares acquired with the options are sold.

Required: Indicate the income tax consequences to Sandra of the transactions that took place during 2020, 2021, and 2022 under each of the following independent Cases. Your answer should include the effect on employment income, net income and taxable income. Where relevant, identify these effects separately.

**Case A** — Opting is a CCPC. At the time the options were granted, the FMV of the Company's shares was $16.00 per share. The options are exercised on February 28, 2020. When the shares are sold, the proceeds of disposition are $20.25 per share.

**Case B** — Opting is a Canadian public company. At the time the options were granted, the Company's shares were trading at $16.00 per share. The options are exercised on February 28, 2020. When the shares are sold, the proceeds of disposition are $16.00 per share.

**Case C** — Opting is a Canadian public company. At the time the options were granted, the Company's shares were trading at $14.00 per share. The options are exercised on July 1, 2021. When the shares are sold, the proceeds of disposition are $19.75 per share.

**Case D** — Opting is a CCPC. At the time the options were granted, the Company's shares had a FMV of $14.00 per share. The options are exercised on July 1, 2021. When the shares are sold, the proceeds of disposition are $21.50 per share.

Answer:

***Case A***

The required information under the assumption that Opting Inc. is a CCPC is as follows:

• Year of granting and year of exercise - No income tax consequences.

• Year of sale - As the option price was less than the FMV of the shares at the time the options were granted, no stock option deduction is available under ITA 110(1)(d). However, Sandra owned the shares for more than two years and, as a consequence, she can claim a stock option deduction under ITA 110(1)(d.1). The income tax consequences would be as follows:

FMV of acquired Shares [($17.50)(275)] $4,812.50

Cost of acquired Shares [($15.00)(275)] (4,125.00)

Employment Income $ 687.50

Taxable Capital Gain [(275)($20.25 - $17.50)(1/2)] 378.13

Increase in **Net Income**  $1,065.63

Stock Option Deduction ITA 110(1)(d) Nil

Stock Option Deduction ITA 110(1)(d.1) [(1/2)($687.50)] (343.75)

Increase in **Taxable Income**  $ 721.88

***Case B***

The required information under the assumption that Opting Inc. is a Canadian public company is as follows:

• Year of granting - No income tax consequences.

• Year of exercise - As the option price was less than the FMV of the shares at the time the options were granted, the ITA 110(1)(d) stock option deduction is not available. As Opting is a public company, no stock option deduction is available under ITA 110(1)(d.1). The income tax consequences would be as follows:

FMV of acquired Shares [($17.50)(275)] $4,812.50

Cost of acquired Shares [($15.00)(275)] (4,125.00)

Employment Income and

Increase in Net Income $ 687.50

Stock Option Deduction ITA 110(1)(d) Nil

Increase In net income and taxable income $ 687.50

• Year of sale - There would an allowable capital loss calculated as follows:

POD [(275)($16.00)] $4,400.00

ACB [(275)($17.50)] (4,812.50)

Capital Loss ($ 412.50)

Inclusion Rate 1/2

Allowable Capital Loss ($ 206.25)

The effect on both net income and taxable income would be nil.

**Note to Instructor:** Depending on what has been covered in your course, students may or may not be expected to comment on the ability to carry the capital loss back or forward as follows:

If she has taxable capital gains in the previous 3 years or any year in the future, the loss could be carried back or carried forward and deducted in the determination of taxable income. It is important that students realize that the capital loss cannot be used to offset employment income from stock option benefits.

**Case C**

The required information under the assumption that Opting Inc. is a Canadian public company is as follows:

• Year of granting - No income tax consequences.

• Year of exercise - The results for this year would be as follows:

FMV of acquired Shares [($17.50)(275)] $4,812.50

Cost of acquired Shares [($15.00)(275)] (4,125.00)

Employment Income and

Increase in **Net Income**  $ 687.50

Stock Option Deduction ITA 110(1)(d) [(1/2)($687.50)] (343.75)

Increase in **Taxable Income**  $ 343.75

As the option price was greater than the FMV of the shares at the time the options were granted, the ITA 110(1)(d) stock option deduction is available.

• Year of sale - There would a taxable capital gain calculated as follows:

POD [(275)($19.75)] $5,431.25

ACB [(275)($17.50)] (4,812.50)

Capital Gain $ 618.75

Inclusion Rate 1/2

Taxable Capital Gain $ 309.38

This would be both the increase in **Net Income** and the increase in **Taxable Income** for the year.

**Case D**

The required information under the assumption that Opting Inc. is a CCPC is as follows:

• Year of granting - No income tax consequences.

• Year of exercise - No income tax consequences.

• Year of sale - The tax effects would be as follows:

FMV of acquired Shares [($17.50)(275)] $4,812.50

Cost of acquired Shares [($15.00)(275)] (4,125.00)

Employment Income $ 687.50

Taxable Capital Gain [(275)($21.50 - $17.50)(1/2)] 550.00

Increase in **Net Income**  $1,237.50

Stock Option Deduction ITA 110(1)(d) [(1/2)($687.50)] (343.75)

Increase in **Taxable Income** $ 893.75

As the option price was greater than the FMV of the shares at the time the options were granted, the ITA 110(1)(d) stock option deduction is available.

Type: ES

Topic: Employment - employee stock options (multiple cases)

102) During January, 2020, Lastech Inc. issued options to their employee, Ms. Marianne Black. The options allowed Ms. Black to acquire 1,500 of the Company's common shares at an option price of $23 per share.

At the point in time when the options were exercised, the FMV of the shares was $25 per share. All of the shares that are acquired through the options are sold on December 31, 2022 at a price of $28 per share.

**Required:** Indicate the income tax consequences on Ms. Black of the transactions that took place during 2020, 2021, and 2022 under each of the following independent Cases. Your answer should include the effect on both net income and taxable income. Where relevant, identify these effects separately.

**Case A** — Lastech Inc. is a Canadian public company. At the time the options were granted, the shares were trading at $22 per share. The options were exercised on July 1, 2021.

**Case B** — Lastech Inc. is a Canadian public company. At the time the options were granted, the shares were trading at $24 per share. The options were exercised on July 1, 2021.

**Case C** — Lastech Inc. is a CCPC. At the time the options were granted, the Company's shares had a FMV of $23 per share. The options were exercised on July 1, 2021.

**Case D** — Lastech Inc. is a CCPC. At the time the options were granted, the Company's shares had a FMV of $24 per share. The options were exercised on July 1, 2020.

Answer:

***Case A***

The required information under the assumption that Lastech Inc. is a Canadian public company is as follows:

• Year of granting - No income tax consequences.

• Year of exercise - The results for this year would be as follows:

FMV of acquired Shares [($25)(1,500)] $37,500

Cost of acquired Shares [($23)(1,500)] (34,500)

Employment Income and

Increase in **Net Income**  $3,000

Stock Option Deduction ITA 110(1)(d) [(1/2)($3,000)] (1,500)

Increase in **Taxable Income** $1,500

As the option price was greater than the FMV of the shares at the time the options were issued, the ITA 110(1)(d) stock option deduction is available.

• Year of sale - The income tax consequences would be as follows:

POD [(1,500)($28)] $42,000

ACB [(1,500)($25)] (37,500)

Capital Gain $ 4,500

Inclusion Rate 1/2

Taxable Capital Gain $ 2,250

This $2,250 would be both the increase in **Net Income** and the increase in **Taxable Income** for the 2022 year.

***Case B***

The required information under the assumption that Lastech Inc. is a Canadian public company is as follows:

• Year of granting - No income tax consequences.

• Year of exercise - As the option price was less than the FMV of the shares at the time the options were issued, the ITA 110(1)(d) stock option deduction is not available. The income tax consequences would be as follows:

FMV of acquired Shares [($25)(1,500)] $37,500

Cost of acquired Shares [($23)(1,500)] (34,500)

Employment Income and

Increase in **Net Income**  $ 3,000

Stock Option Deduction ITA 110(1)(d) Nil

Increase in Net Income and **Taxable Income**  $ 3,000

• Year of sale - The income tax consequences would be as follows:

POD [(1,500)($28)] $42,000

ACB [(1,500)($25)] (37,500)

Capital Gain $ 4,500

Inclusion Rate 1/2

Taxable Capital Gain $ 2,250

This $2,250 would be both the increase in **Net Income** and the increase in **Taxable Income** for the 2021 year.

***Case C***

The required information under the assumption that Lastech Inc. is a CCPC is as follows:

• Year of granting - No income tax consequences.

• Year of exercise - No income tax consequences.

• Year of sale - The income tax consequences would be as follows:

FMV of acquired Shares [($25)(1,500)] $37,500

Cost of acquired Shares [($23)(1,500)] (34,500)

Employment Income $ 3,000

Taxable Capital Gain [(1,500)($28 - $25)(1/2)] 2,250

Increase in **Net Income**  $ 5,250

Stock Option Deduction ITA 110(1)(d) [(1/2)($3,000)] (1,500)

Increase in **Taxable Income**  $ 3,750

***Case D***

The required information under the assumption that Lastech Inc. is a CCPC is as follows:

• Year of granting and exercise - No income tax consequences.

• Year of sale - As the option price was less than the FMV of the shares at the time the options were granted, no stock option deduction is available under ITA 110(1)(d). However, Ms. Black owned the shares for more than two years and, as a consequence, she can claim a stock option deduction under ITA 110(1)(d.1). The income tax consequences would be as follows:

FMV of acquired Shares [($25)(1,500)] $37,500

Cost of acquired Shares [($23)(1,500)] (34,500)

Employment Income $ 3,000

Taxable Capital Gain [(1,500)($28 - $25)(1/2)] 2,250

Increase in **Net Income**  $5,250

Stock Option Deduction ITA 110(1)(d) Nil

Stock Option Deduction ITA 110(1)(d.1) [(1/2)($3,000)] (1,500)

Increase in **Taxable Income**  $3,750

Type: ES

Topic: Employment - employee stock options (multiple cases)

103) Alicia Arden has established herself as a very effective sales representative for products related to health care services. While she has worked independently for a number of years, she has received two very attractive offers of employment. Both of these offers would require that she begin work on January 2, 2022

**Offer One**

This offer would provide her with a fixed salary of $225,000 per year with no commissions on her sales. The employer would provide an allowance of $30,000 per year to cover hotel, meals, and airline costs. The employer believes that the CRA will consider this allowance to be reasonable in the circumstances. With respect to advertising and promotion expenses, no allowance or reimbursement would be provided.

This employer would provide her with an automobile which would be leased at a cost of $850 per month, including a $75 per month payment for insurance. The employer will pay all of the operating costs of the automobile.

This employer would provide her with a $200,000 interest free loan that she will use to purchase investments. The loan will have to be repaid after five years.

**Offer Two**

This offer would provide her with a fixed salary of $175,000 per year, plus a commission on all of her sales. Ms. Arden estimates that for 2022, commissions will total $85,000. The employer would reimburse her hotel, meal, and airline costs. With respect to advertising and promotion expenses, no allowance or reimbursement would be provided.

The employer will not provide her with an automobile but will provide her with an allowance for using her own automobile of $1,500 per month. Ms. Arden estimates that for 2022 the total costs associated with driving her own automobile will be as follows:

Operating Costs $10,600

CCA 4,500

Financing Costs 1,800

Total $16,900

**Other Information**

The following information is applicable to either of the alternative offers.

1. She estimates that her employment related expenses during 2022 would be as follows:

Travel Costs (Hotel and Airline Costs) $18,000

Travel Costs (Meals) 8,500

Advertising and Promotion 23,000

2. Whether it is the employer's automobile or her own automobile, she would use the car throughout 2022. She expects to drive this vehicle a total of 53,000 kilometers during 2022, with 37,000 of these kilometers for employment purposes and 16,000 kilometers for personal use.

3. Both offers include a group disability insurance plan for which the company will pay all of the premiums. The plan provides periodic benefits that compensate for lost employment income. This will cost the employer $4,500 per year.

4. Both offers include a $1,000,000 face value life insurance policy. All of the premiums, which will total $3,800 per year, will be paid by the employer.

5. Assume that the prescribed interest rate on employee loans is 2% throughout 2022.

**Required:**

A. Based on the estimates made by Ms. Arden, calculate Ms. Arden's minimum 2022 employment income for each of the two offers. Ignore PST and GST/HST considerations.

B. Discuss the factors that Ms. Arden should consider in deciding between the two alternatives.

Answer:

***Part A***

The calculations for employment income would be as follows:

**Offer One Offer Two**

Salary $225,000 $175,000

Commissions Nil 85,000

Hotel, Meal, and Airline Allowance (Note One) Nil N/A

Hotel, Meal, and Airline Reimbursement (Note Two) N/A N/A

Automobile Benefit (Note Three) 7,439 N/A

Automobile Allowance [(12)($1,500)] N/A 18,000

Automobile Costs [(37,000/53,000)($16,900)] N/A (11,798)

Loan Benefit [(2%)($200,000)] 4,000 N/A

Disability Insurance Benefit (Note Four) Nil Nil

Life Insurance Benefits (Note Four) 3,800 3,800

Advertising Expense (Note Five) Nil (23,000)

Employment Income $240,239 $247,002

Note One — The $30,000 per year allowance is considered reasonable and, as a consequence, it does not have to be included in employment income.

**Note Two** — Reimbursements have no effect on employment income. They are neither deducted nor included in the determination of employment income.

**Note Three** — The taxable benefit associated with the automobile provided under Offer One would be calculated as follows:

Standby Charge [(2/3)($850 - $75)(12)(16,000 ÷ 20,004\*)] $4,959

Operating Cost Benefit - Lesser of:

• [(16,000)($0.29)] = $4,640

• [(1/2)($4,959)] = $2,480 2,480

Total Automobile Benefit $7,439

\* [(12)(1,667)]

Note Four — The payment of disability insurance premiums by an employer does not create a taxable benefit for employees if the plan provides periodic benefits that compensate for lost employment income. However, the payment of life insurance premiums does create a taxable benefit.

**Note Five** — As Ms. Arden does not receive any commissions under Offer One, she cannot deduct her advertising costs. She can deduct the full amount under Offer Two as the $23,000 total is less than her commissions of $85,000.

***Part B***

The actual amount of annual cash to be received from the employer under the two offers would be calculated as follows:

**Offer One Offer Two**

Salary $225,000 $175,000

Commissions - Estimated Nil 85,000

Hotel, Meal, and Airline Allowance 30,000 N/A

Reimbursements N/A 26,500

Automobile Allowance N/A 18,000

Total Cash $255,000 $304,500

The fact that Offer Two has significantly higher cash flows and a higher employment income suggests that Offer Two is preferable. A major factor in this result is that the absence of commissions in Offer One results in the $23,000 in advertising and promotion expenses not being deductible. This could easily be fixed at no cost to the employer by having an appropriate amount of the $30,000 allowance treated as a reimbursement of advertising and promotion expenses. This would leave the unreimbursed hotel, meal, and airline costs which could be deducted by Ms. Arden without a requirement to have commission income.

In addition, other factors that have not been considered in this simple analysis include:

• Offer One includes the provision of an automobile while Offer Two does not. This means that, under Offer One, Ms. Arden could get rid of her personal automobile, resulting in a significant annual savings.

• Offer Two requires using estimates of costs for her personal automobile. There is uncertainty with respect to the amount of these costs. They could be higher or lower than estimated.

• Offer One includes a $30,000 travel allowance that would not require receipts. Offer Two will reimburse all travel costs which would require all receipts. The additional paperwork would make Offer Two less attractive. However, Offer Two would be more attractive if her actual travel costs total more than $30,000. If they total less, than Offer One would allow her to keep the difference.

• Offer One includes an interest free loan that will be invested. The fact that these funds will be invested means that there will be an interest expense available to offset any investment income. In addition, Ms. Arden’s cash flows are likely to be improved by some amount of return on the investment of the $200,000 in loan proceeds.

• Offer Two contains an estimate of commissions. Unlike the fixed salary provided in Offer One, there is uncertainty with respect to the amount of these commissions. They could be higher or lower than estimated. There could also be uncertainty related to the timing of the payment of the commissions.

Given these latter considerations, it is difficult to come to a firm conclusion on the two offers. If the invested funds earn a substantial return, she may be better off with Offer One. Correspondingly, it is difficult to quantify the cash flows associated with not owning a personal automobile. In addition, there could be a disadvantage with Offer Two if commission income did not reach the predicted level of $85,000.

Type: ES

Topic: Employment - evaluating alternative employment offers (comprehensive)

104) On January 2, 2022, Ms. Shirley Kantor moves from London, Ontario, to Thunder Bay, Ontario, in order to begin employment with Northern Enterprises Ltd. (NEL). Her salary for the year was $142,000. NEL withheld the following amounts from her earnings:

Federal and Provincial Income Tax $32,500

Registered Pension Plan (RPP) Contributions

(NEL Makes a matching contribution) 3,200

EI Premiums 953

CPP Contributions 3,500

United Way Donations 450

Professional Association Dues 1,250

**Other Information:**

1. Shirley's moving expenses total $6,800. NEL reimbursed Shirley for 100% of these costs.

2. For the year ending December 31, 2022, Shirley was awarded a bonus of $32,000. Of this total, $25,000 was paid during 2022, with the remainder of $7,000 paid in January, 2023.

3. NEL provided Shirley with a car to be used for employment purposes and paid the operating costs for the year that totalled $8,100. The cost of the car was $39,550, including HST of $4,550. The car was available to Shirley throughout 2022. She drove a total of 63,000 kilometers. This included 8,000 kilometers of personal use and 55,000 for employment purposes.

4. In negotiating her new position with NEL, Shirley had asked for a $50,000 interest free loan as one of her benefits. NEL's human resources department indicated that the CEO would not approve any employee loans. However, they agreed to advance $50,000 of her 2023 salary as of November 1, 2022.

5. In her employment related travels, Shirley has accumulated over 100,000 Aeroplan points. In 2022, she and her partner Diane used 50,000 of these points for a weekend flight to New York City. If she had purchased them, the tickets would have cost a total of $940. The accumulation of the points is not considered an alternative means of remuneration.

6. NEL provided Shirley with the following additional benefits:

Allowance for acquiring clothing $4,800

Squash Club membership (No Employment Related Use) 2,800

Financial Advisor Fees 1,200

7. Shirley's previous employer was a CCPC. In 2021, she was granted options to buy 500 of the company's shares at $20 per share. This option price was higher than the estimated FMV of the company's shares at the time the options were granted. On January 2, 2022, Shirley exercised these options. At this time the FMV of the shares was $28 per share. Shirley immediately sells the shares for $28 per share.

8. Shirley was required by her employer to acquire a laptop computer to be used for employment purposes. At the beginning of 2022, she purchased a computer at a cost of $1,356, including HST of $256. In 2022, her expenditures for computer related supplies totalled $150.

**Required:** Determine Shirley's 2022 employment income.

Answer: Ms. Shirley Kantor's 2022 employment income would be calculated as follows:

Salary $142,000

Federal and Provincial Income Tax Nil

RPP Contributions (3,200)

EI Premiums N/A

CPP Contributions N/A

United Way Donations N/A

Professional Dues (1,250)

Bonus - Item 2 25,000

Car Benefit - Item 3 5,694

Salary Advance - Item 4 50,000

Allowance for Acquiring Clothing - Item 6 4,800

Squash Club Membership - Item 6 2,800

Financial Advisor Fees - Item 6 1,200

Stock Option Benefit - Item 7 4,000

Computer Related Supplies - Item 8 (150)

2022 Employment Income $230,894

**Item 1** — The reimbursement of moving expenses is not a taxable benefit. However, as the costs were reimbursed, Shirley cannot claim a moving expense deduction.

**Item 2** — As employment income is determined on a cash basis, only the portion of the bonus that was received in 2022 will be included in employment income.

**Item 3** — The taxable benefit on the car would be calculated as follows:

Standby Charge [(2%)($39,550)(12)(8,000/20,004\*)] $3,796

Operating Cost Benefit - Lesser of:

[($0.29)(8,000)] = $2,320

[(1/2)($3,796)] = $1,898 1,898

Total Automobile Benefit $5,694

\*[(12)(1,667)]

**Item 4** — Even though the $50,000 advance is earned in 2023, it is paid in 2022 and, because employment income is on a cash basis, it must be included in income in the year received.

**Item 5** — The use of Aeroplan points earned on employment related travel does not create a taxable benefit.

**Item 6** — While employer provided specialized clothing is not a taxable benefit, regular clothing would not fit this description, resulting in the inclusion of this allowance in employment income. As the squash club membership is not used at all for employment related purposes, it would be considered a taxable benefit. While mental or physical health counseling is not considered a taxable benefit, this is not the case with financial counseling.

**Item 7** — While there is no employment income resulting from the exercise of the CCPC stock options, the benefit is required to be included in employment income when the stock option shares are sold. The result is an increase in employment income of $4,000 [(500)($28 - $20)]. A stock option deduction of $2,000 [(1/2)($4,000)] would be available but this does not affect employment income.

**Item 8** — While Shirley cannot deduct CCA on the computer, she can deduct the cost of the supplies.

Type: ES

Topic: Employment income (comprehensive)

105) Ms. Martha Gobel is a linguist, specializing in Asian languages. As the daughter of a Canadian diplomat, she has become familiar with the many customs and practices found throughout Asia. In 2021, a headhunting firm in B.C. connected her with Golden Mountain Experiences (GME), a public company, which had begun operations in Whistler, B.C. GME had need of a representative to promote their Canadian services to Asian tour operators and executives.

When her mother was diagnosed with a terminal illness, Martha moved into her house in Ottawa to help care for her. Her mother died in early 2020, leaving Martha her considerable estate, including her house. When GME offered her a position in November, 2021 with a start date of January 1, 2022, she immediately accepted.

The final income tax return of her mother stated the FMV of her house was $525,000 on March 3, 2021. When Martha put the house on the market on November 15, 2021, the listing price was only $450,000 because of a nearby landfill.

At the urging of the listing agent she accepted an offer for $390,000 in April, 2022, resulting in a $135,000 loss on the property.

**Other Information:**

Other information relevant to 2022 is as follows:

1. GME owned a suite hotel and offered her the use of a unit there at a rate of $2,000 per month. The regular monthly rate for the unit was $5,000 per month. She moved in on January 1, 2022. Through contacts, she finds a large townhouse in Whistler that she purchases on May 15, 2022 for $1,600,000. After doing extensive renovations, she moves out of the hotel and into her townhouse on July 1, 2022.

2. As an incentive to accept the position, GME agreed to compensate her for one-half of any loss on the sale of her Ottawa home. The $67,500 [(1/2)($135,000)] payment was made on May 30, 2022.

3. In order to help Martha with the purchase of her new townhouse, GME provided her with a $100,000 interest free housing loan. The funds are provided to Martha on May 1, 2022. Assume that the prescribed interest rate for employee loans for all of 2022 is 2%.

4. In 2022, Martha earned a salary of $175,000. This included several large bonuses due to her exceptional sales ability. The Company withheld the following amounts from her salary:

Income Taxes $53,000

CPP 3,500

EI 953

RPP Contributions 2,500

Payment for personal use of automobile 1,200

5. GME contributed $2,500 on Martha’s behalf to the Company’s RPP.

6. GME provides group medical coverage to all of its employees. The PHSP premiums paid by GME on Martha’s behalf cost $1,115 for the year.

7. During the year, Martha received two non-cash gifts from GME, a season ski pass worth $1,000 and a Christmas gift certificate redeemable at many restaurants in Whistler Village for $100.

8. Her favourite uncle visited her and went skiing with a day pass that Martha provided. He died after falling and hitting his head on a boulder while skiing out of bounds. GME provided Martha with grief counseling services worth $665.

9. Up until her uncle's death, Martha purchased many day passes at Whistler for friends and families using GME's 15% corporate discount. A statement from GME stated that Martha had saved a total of $1,050 using the discount in 2022.

10. Martha was granted options to buy 100 of the company's shares at $100 per share when she joined the staff of GME. At that time, the shares were trading at $94 per share. On May 10, 2022, the shares are trading at $123 per share. She acquires 50 shares for cash of $5,000 on that date. She still owns the shares on December 31, 2022.

11. GME provided Martha with a membership in the exclusive Blackcomb Ski Club And Spa. The cost of the annual membership was $5,000. Martha took her clients there for meals and drinks. GME paid all the charges on her account as they were related to potential clients of GME. In 2022, this amounted to $22,200.

12. GME provides Martha with a luxury vehicle that she uses to drive her clients on tours and to and from the airport. It was purchased in late 2021 for $120,000, including GST and PST. The vehicle was used by Martha throughout 2022. During the year, she drove the vehicle a total of 102,000 kilometers, of which 90,000 were for employment purposes and 12,000 for personal use. GME pays all operating and maintenance costs, a total of $23,000 during the year. GME withheld $1,200 from her December salary to pay for her personal use of the vehicle for 2022.

13. Martha’s demanding job requires her to meet with clients at all hours of the day and night because many of them are on international flights. GME will provide her with a signed form T2200 stating that she is required to pay for certain employment expenses without reimbursement and use a portion of her home for employment purposes.

Martha has renovated in order to have a separate area in her townhouse to be used exclusively to entertain her clients, in addition to signing the contracts. She has no receipts for the renovations she did. She was unable to find a contractor who would invoice and accept cheques. Since she needed the work finished quickly, Martha reluctantly paid cash. She used this work space between July 1 and December 31, 2022. This work space occupied 600 square feet of the 2,222 square feet available in her townhouse.

Work space related expenditures are as follows:

Monthly Maintenance Fee (For 6 Months) $5,400

Hydro (For 6 Months) 450

Property Insurance (6 Months) 575

Property Tax (6 months) 2,600

Big screen TV used solely for the entertainment of clients

(promotional videos, ski races, etc.) 2,600

Office Furniture 5,600

Furniture for client's entertainment area 12,400

14. Martha received an allowance of $400 per month for 6 months to cover the costs of maintaining a workspace in her home.

**Required:** Determine Martha’s net employment income for 2022.

Answer: Martha Gobel's net employment income would be calculated as follows:

Item 1 - Lodging Benefit (Note 1) $ 18,000

Item 2 - Housing Loss Reimbursement (Note 2) 26,250

Item 3 - Imputed Interest On Housing Loan (Note 3) 1,333

Item 4 - Salary Received (Note 4) 175,000

Item 4 - RPP Contributions (2,500)

Item 5 - Employer's RPP Contribution (Note 5) Nil

Item 6 - Group Medical Coverage (Note 6) Nil

Item 7 - Excess Gift From Employer (Note 7) 600

Item 8 - Grief Counseling (Note 8) Nil

Item 9 - Employer Discount (Note 9) Nil

Item 10 - Stock Option Benefit (Note 10) 1,150

Item 11 - Club Dues (Note 11) Nil

Item 12 - Automobile Benefit (Note 12) 19,557

Item 13 - Workspace in Home Costs (Note 13) (1,580)

Item 14 - Workspace in Home Allowance (Note 14) 2,400

2022 Employment Income $240,210

**Note 1** — If an employer provides an employee with subsidized lodging, the benefit is the FMV reduced by any amounts paid by the employee. In Martha's case, the benefit is $18,000 [($5,000 - $2,000)(6)].

**Note 2** — Employer-reimbursed housing losses fall into two categories – regular housing losses and eligible housing losses. Eligible housing losses occur when there is an eligible relocation which generally means a relocation or move the expenses of which would qualify for a moving expense deduction had they been paid by the employee. In this case the move is an eligible relocation meaning that the reimbursement qualifies as an eligible housing loss. The employer reimbursed $67,500. The taxable portion of the loss reimbursement is $26,250 [(1/2)($67,500 - $15,000)]. The remaining tax free amount of $41,250 can be calculated as ($67,500 - $26,250) or [$15,000 + (1/2)($67,500 - $15,000)].

**Note 3** — The imputed interest on this loan could be calculated as $1,342 [($100,000)(2%)(245 ÷ 365)]. An acceptable alternative calculation would be $1,333 [($100,000)(2%)(8 ÷ 12)]. Since it is lower, we will use the alternative calculation.

**Note 4** — While the withholdings generate a tax credit against income tax payable, CPP and EI payments are not deductible. In addition, income tax payments are not deductible. The CPP tax credit would be $3,039 and there would be an expense of $461 which reduces net income but is not an employment expense.

**Note 5** — An employer's contributions to an employee's RPP is not a taxable benefit.

**Note 6** — Employer's contributions to group health services plans are not a taxable benefit for the employee.

**Note 7** — Non-cash gifts of up to $500 can be received by an employee on a tax free basis. Amounts in excess of $500 are taxable. The excess $600 ($1,100 - $500) will be included in Martha’s employment income.

**Note 8** — Under ITA 6(1)(1)(iv), mental health counselling services are excluded from employment income. Grief counselling would be included in this category of services.

**Note 9** — Employee discounts do not generally result in taxable benefits.

**Note 10** — At time of exercise, Martha will have an employee benefit of $1,150 [($123 - $100)(50 Shares)]. As the option price exceeded the FMV when the options were granted Martha will be able to claim a stock option deduction of $575 [(1/2)($1,150)] in the determination of taxable income, but this deduction will not affect employment income.

**Note 11** — While club dues cannot be deducted by an employer, they do not create a taxable benefit for an employee, provided the membership is primarily of benefit to the employer. Since GME paid the charges on her account, they would be no income tax consequences for her.

**Note 12** — The automobile benefit would be calculated as follows:

Standby Charge [(2%)(12)($120,000)(12,000 ÷ 20,004\*)] $17,277

Operating Cost Benefit - Lesser Of:

• [($0.29)(12,000)] = $3,480

• [(1/2)($17,277) = $8,639 3,480

Total Benefit $20,757

Reimbursement To Employer (1,200)

Total Automobile Benefit $19,557

\*[(12)(1,667)]

**Note 13** — Based on floor space, the workspace in the home office occupies 27% of the apartment (600 ÷ 2,222). The work space in the home expenses that may be claimed for the period July 1 to December 31 are the following:

Monthly Maintenance Fee (For 6 Months) $5,400

Hydro (For 6 Months) 450

Total Eligible Expenses $5,850

Home Office Use 27%

Deductible Expense $1,580

As employees cannot take CCA on furniture or electronics (the TV), there is no deduction for the cost of these capital expenditures. Employees cannot deduct the cost of property insurance or property tax on a home office.

**Note 14** — Allowances received are included in employment income unless the allowance is specifically excluded by ITA 6(1)(b). There is no exclusion for this allowance. The amount is $2,400 [(6)($400)].

Type: ES

Topic: Employment income (comprehensive)

106) Ms. Matilda Bracken is a Certified Financial Planner (CFP) with many years of successful experience. In 2020, she decided that she was not adequately appreciated in her current position with a large financial institution in Windsor, Ontario. Given this, she resigned on November 1, 2021.

After several months of investigation, she accepted employment with Retirement Planners Ltd. (RPL), a CCPC located in London, Ontario. She commenced working for RPL on May 1, 2022.

She owned a home in Windsor which she had acquired several years ago for $375,000. Because of the depressed real estate market in this area, she was eventually forced to sell the property for $275,000 in October, 2021, resulting in a $100,000 loss on this property.

Because of the uncertainty surrounding the sale of her Windsor property, she moved into an apartment when she arrived in London on May 1, 2022. The apartment was rented on a monthly basis until November 30, 2022. After she accepts an offer to purchase her Windsor house, she finds a home in London that she purchases on November 1, 2022 for $420,000. She moves into this new home on December 1, 2022.

**Other Information:**

Other information relevant to 2022 is as follows:

1. Because of her strong professional reputation, RPL paid her a signing bonus of $12,000. The signing bonus was paid on June 1, 2022.

2. During the period May 1, 2022 through December 31, 2022, Matilda earned salary of $124,000. Of these earnings, $120,125 was paid in 2022 with the remainder of $3,875 paid in 2023. The Company withheld the following amounts from her salary:

Income Taxes $18,650

CPP 3,500

EI 953

RPP Contributions 3,700

Payment For Personal use of automobile 880

3. RPL contributed $3,500 on Matilda's behalf to the Company's RPP.

4. RPL provides group medical coverage to all of its employees. The PHSP premiums paid by RPL on Matilda's behalf cost $562 for the year.

5. On December 12, 2022, a bonus of $10,600 was accrued for Matilda. Matilda received $5,300 of this bonus on December 29, 2022, with the remainder being paid on January 17, 2023.

6. During the year, Matilda received two non-cash gifts, a birthday gift worth $350 and a Christmas gift worth $300.

7. Because of the need to invest some of her additional income, RPL provided Matilda with financial counseling services. The value of these services was $1,200.

8. In order to assist her move, RPL agreed to compensate her for one-half of the $100,000 loss on the sale of her Windsor home. The $50,000 payment was made on December 1, 2022.

9. In order to help Matilda with financing her new London residence, RPL provided her with a $220,000 interest free housing loan. The funds are provided to Matilda on November 1, 2022. Assume that the prescribed interest rate on employee loans for all of 2022 is 2%.

10. RPL has a stock option plan for its employees. Under this plan, employees are permitted to acquire a limited number of option shares at 10% below their FMV on December 1 of each year. The company hires valuators to determine the FMV at each of those dates. Matilda acquires 200 shares on December 1, 2022 for cash of $7,200. On December 15, she sells 100 of these shares for $4,100.

11. Matilda paid $1,600 in CFP dues in 2020. RPL’s policy is to reimburse 50% of such professional dues. RPL reimbursed her $800 in December, 2022.

12. RPL provides its professional employees with a membership in the London Curling Club. They believe this is a useful venue for entertaining clients of the Company. The cost of this annual membership was $1,300.

13. RPL provides Matilda with a vehicle that was purchased in 2022 for $45,200, including HST. The vehicle was available to Matilda for all months during the period May 1, 2022 through December 31, 2022. During this period, she drove the vehicle a total of 52,000 kilometers, of which 40,000 were for employment purposes and 12,000 for personal use. RPL pays all operating and maintenance costs, a total of $8,900 for the same period that Matilda used the car. RPL withheld $110 per month from her salary to pay for her personal use of the vehicle.

14. Matilda’s new job requires her to meet with clients outside of regular office hours throughout the week. RPL will sign form T2200 stating that she is required to pay for certain employment expenses without reimbursement and use a portion of her home for employment purposes.

Matilda has set aside a separate room in her apartment to be used exclusively to meet with clients. She used this office space between May 1 and November 30, 2022. This home office occupied 150 square feet of the 1,250 square feet available in her apartment. The home office in the residence she moved into on December 1, 2021 will not be available for use until 2023. RPL has agreed to let Matilda use head office space as needed during December 2022.

Home office related costs are as follows:

Monthly Rent $2,200

Office Furniture 3,400

Computer Purchase 896

Stationery and Office Supplies Purchased 147

Monthly Phone Line Charge (for 7 Months) 210

Employment Related Long Distance Calls (for 7 Months) 110

Electricity Charge (For 7 Months) 350

Paint for Apartment 165

Property Insurance (7 Months) 175

15. Matilda received an allowance of $325 per month for 7 months to cover the costs of maintaining a workspace in her home.

**Required:** Determine Matilda’s 2022 employment income.

Answer: Matilda Bracken's net employment income would be calculated as follows:

Item 1 - Signing Bonus (Note 1) $ 12,000

Item 2 - Salary Received (Note 2) 120,125

Item 2 - RPP Contributions (3,700)

Item 3 - Employer's RPP Contribution (Note 3) Nil

Item 4 - Group Medical Coverage (Note 4) Nil

Item 5 - Bonus Received (Note 5) 5,300

Item 6 - Excess Gift (Note 6) 150

Item 7 - Financial Counseling (Note 7) 1,200

Item 8 - Housing Loss Reimbursement (Note 8) 17,500

Item 9 - Imputed Interest on Housing Loan (Note 9) 735

Item 10 - Stock Option Benefit (Note 10) 400

Item 11 - CFP Dues (Note 11) ( 800)

Item 12 - Club Dues (Note 12) Nil

Item 13 - Automobile Benefit (Note 13) 8,881

Item 14 - Stationery and Supplies (Note 14) (147)

Item 14 - Long Distance Calls (Note 14) (110)

Item 14 - Workspace in the Home Costs (Note 14) (1,910)

Item 15 - Home Office Allowance (Note 15) 2,275

Employment Income $161,899

**Note 1** — Amounts received prior to, during or after employment are required to be included in employment income when received.

**Note 2** — Salary and other forms of remuneration such as bonuses are included in income when received regardless of when earned. While the withholdings generate a credit against income tax payable, $461 of CPP contributions are eligible for a deduction in determining net income that does not affect employment income. The remaining CPP and all of the EI premiums are eligible for an income tax credit that affects income tax payable.

**Note 3** — An employer's contributions to an employee's RPP is not a taxable benefit.

**Note 4** — Employer's contributions to group private health services plan is not a taxable benefit for the employee.

**Note 5** — Only the amount of the bonus that was received during 2021 will be included in Matilda's 2022 employment income.

**Note 6** — Non-cash gifts of up to $500 can be received by an employee on a tax free basis. Amounts in excess of $500 are required to be included in employment income. The excess $150 ($650 - $500).

**Note 7** — The provision by an employer of financial counseling services is considered to be a taxable benefit.

**Note 8** — Employer-reimbursed housing losses fall into two categories – regular housing losses and eligible housing losses. Eligible housing losses occur when there is an eligible relocation which generally means a relocation or move the expenses of which would qualify for a moving expense deduction had they been paid by the employee. In this case the move is an eligible relocation meaning that the reimbursement qualifies as an eligible housing loss. The employer reimbursed $50,000 [(50%)($100,000)]. The taxable portion of the loss reimbursement is $17,500 [(1/2)($50,000 - $15,000)]. The remaining tax free amount of $32,500 can be calculated as ($50,000 - $17,500) or [$15,000 + (1/2)($50,000 - $15,000)].

**Note 9** — The imputed interest on this loan would be $735 [($220,000)(2%)(61 ÷ 365)]. An acceptable alternative calculation would be $733 [($220,000)(2%)(2 ÷ 12)].

**Note 10** — Despite the fact that the option price was 10% below FMV, the granting of the stock options does not create a benefit. However, when she exercises the option by purchasing shares, there is a benefit as follows:

FMV at Exercise Date ($7,200 ÷ 90%) $8,000

Option Price (7,200)

Stock option benefit (200 Shares) $ 800

Per Share Benefit ($800 ÷ 200) $4 Per Share

Since RPL is a CCPC, this benefit can be deferred until the shares are sold. As 100 shares are sold in 2022, $400 [(100)($4 benefit per share)] of this benefit will be included in Ms. Bracken's 2022 employment income.

In addition to this benefit, there is also a taxable capital gain of $50 {[1/2][$4,100 - (1/2)($8,000)]}. However, such gains are not employment income.

**Note 11** — Professional dues are generally deductible to the extent they have not been reimbursed

**Note 12** — While club dues cannot be deducted by an employer, they do not create a taxable benefit for an employee, provided the membership is primarily a benefit to the employer.

**Note 13** — The automobile benefit would be calculated as follows:

Standby Charge [(2%)(8)($45,200)(12,000 ÷ 13,336\*)] $6,507

Operating Cost Benefit - Lesser of:

• [($0.29)(12,000)] = $3,480

• [(1/2)($6,507) = $3,254 3,254

Total Benefit $9,761

Reimbursement To Employer [(8)($110)] (880)

Total Automobile Benefit $8,881

\*[(8)(1,667)]

**Note 14** — Based on floor space, the home office occupies 12% of the apartment (150 ÷ 1,250). The work space in the home expenses that may be claimed for the period June 1 to November 30 are the following:

Rent Paid [(7)($2,200)] $15,400

Electricity Paid 350

Paint 165

Total Eligible Expenses $15,915

Home Office Use 12%

Deductible Expense $ 1,910

The stationary and supplies, as well as the business related long distance calls are deductible. As employees cannot take CCA on office furniture or computers, there is no deduction for the cost of these capital expenditures. Unless a phone is used only for employee related purposes, the monthly cost for its use is not deductible. Finally, employees cannot deduct the cost of property insurance on a home office.

**Note 15** — Allowances received are included in employment income unless the allowance is specifically excluded by ITA 6(1)(b). There is no exclusion for this allowance. The amount is $2,275 [(7)($325)].

Type: ES

Topic: Employment income (comprehensive)

107) Olin Packett has been employed for over 10 years by a large Canadian public corporation. He works in their Victoria office.

For the 2022 year, his gross salary is $75,000. While he does not receive commissions, he was awarded a bonus of $15,000 in 2022 based on his sales performance. One-half of the bonus is paid in December, 2022, and the other half paid in February, 2023.

In 2022, Olin's employer withheld the following amounts from his gross wages:

Federal Income Tax $14,350

EI Premiums 953

CPP Contributions 3,500

RPP Contributions 3,100

Donations to the United Way 750

Union Dues 275

Payments for personal use of company car 1,500

Premiums for Group Life Insurance Policy 200

**Other Information**

1. Olin is provided with a car that the company leases at a rate of $723 per month, including both GST and PST. The company pays for all of the operating costs of the car and these amounted to $4,200 during 2022. Olin drove the car a total of 33,000 kilometers during 2022, 27,500 kilometers of which were carefully documented for employment purposes and 5,500 for personal use. The car was available to him for 10 months of the year.

2. Olin was granted options to acquire 500 shares of his employer's common stock at a price of $31.00 per share 2 years ago. On the date the options were granted, the shares were trading at $29.50 per share. These options were exercised by Olin on February 16, 2022, when the shares were trading at $34.75 per share. Olin does not plan to sell the shares for at least 2 years.

3. In order to assist Olin in acquiring a new residence in Victoria, his employer granted him a three year, interest free loan of $175,000. The loan was granted and received on July 1, 2022 and, at this point in time, the interest rate on open five year mortgages was 4.5%. Assume the relevant prescribed interest rate on employee loans was 2% on this date. Olin purchases a house for $327,000 on October 2, 2022.

4. On his birthday, Olin received several gifts including a hoverboard and drone. In his enthusiasm for his new toys, he flew the drone over his neighbour's swimming pool while maneuvering the hoverboard on the sidewalk in front of the two homes to watch it. The result was a concussion, a broken leg, a shattered wrist and a drowned drone. He was unable to work for a period of two months. As his employer provides disability insurance coverage, he received benefits during this period totaling $8,500. All of the premiums for this insurance plan are paid for by the employer and totaled $560 for 2022. The plan provides periodic benefits that compensate for lost employment income.

5. Other disbursements made by Olin include the following:

Tuition Fee for Operations Management Course $1,300

Tuition Fee for Medieval History Course 950

Fees Paid to Employer recommended Financial Planner 450

Olin's employer reimbursed for the tuition fees for both the operations management course and the medieval history course, as well as the fees paid to the financial planner.

6. Olin's employer made a payment to the group life insurance policy on his behalf. The premiums for 2022 totalled $200.

**Required:** Calculate Olin's 2022 employment income.

Answer: Mr. Packett's employment income would be calculated as follows:

Gross Salary $75,000

Additions:

Bonus (Amount received) $7,500

Personal Benefit on Car (Note 1) 885

Stock Option Benefit

[($34.75 - $31.00)(500)] (Note 2) 1,875

Home Purchase Loan Benefit (Note 3) 1,750

Disability Insurance Receipts (Note 4) 8,500

Tuition Fee for Medieval History Course (Note 5) 950

Fees paid to Financial Planner (Note 6) 450

Premiums on Life Insurance (Note 7) 200 22,110

$97,110

Deductions:

RPP Contributions ($3,100)

Union Dues (275) (3,375)

2022 Employment Income $93,735

**Note 1** — The employee benefit on the company car would be as follows:

Standby Charge [(2/3)(10)($723)(5,500/16,670)\*] $1,590

Operating Cost Benefit - Lesser of:

• [(5,500)($0.29)] = $1,595

• [(1/2)($1,590)] = $795 795

Less: Payments Withheld By Employer (1,500)

Total Automobile Benefit $ 885

\*[(10)(1,667)]

**Note 2** — Although Olin would qualify for the stock option deduction under ITA 110(1)(d), it would not affect the calculation of employment income.

**Note 3** — The taxable benefit associated with the home purchase loan would be calculated as follows:

[($175,000)(2% - Nil)(6/12)] = $1,750

**Note 4** — As all of the premiums were paid by the employer and were not considered to be a taxable benefit, benefits received under this coverage must be included in employment income.

**Note 5** — As it is reasonable to assume that the operations management course would primarily benefit his employer the amount reimbursed would not be considered an employee benefit. However, a course in medieval history does not appear to be business related and, as a consequence, there would be a taxable benefit for the tuition paid by the employer.

**Note 6** — While fees paid for some types of counseling do not create a taxable benefit, counseling related to an employee's finances is not on the list. As a result, the reimbursement of the fees is a taxable benefit.

**Note 7** — The cost of providing life insurance to employees is a taxable benefit as specified in ITA 6(4). Although premiums paid by Olin have no tax effect as they are not deductible, the employer's payment on his behalf is added to employment income.

Type: ES

Topic: Employment income (comprehensive)