IT-522R - Vehicle, Travel and Sales Expenses of Employees

INTERPRETATION BULLETIN

SUBJECT: INCOME TAX ACT **Vehicle, Travel and Sales Expenses of Employees**

DATE: March 29, 1996

NO: **IT-522R**

REFERENCE:
Paragraphs 8(1)(f), 8(1)(h), 8(1)(h.1) and 8(1)(j) (also sections 67.1, 67.2, 67.3 and 67.4, subsections 6(6), 8(4), 8(9), 8(10), 13(2), 13(7), 13(11), 20(16), 20(16.1), 70(5), 70(6), 81(3.1) and the definitions of "passenger vehicle," "automobile" and "motor vehicle" in subsection 248(1), and paragraphs 6(1)(b), and 85(1)(e.4) of the *Income Tax Act*; and section 7307, subsections 1100(2), 1100(2.5) and 1101(1af), subparagraph 1100(1)(a)(x.1) and Class 10.1 of Schedule II of the *Income Tax Regulations*).

The topics are discussed under the following headings:

Contents

Application

This bulletin replaces and cancels Interpretation Bulletin IT-522 dated August 25, 1989.

Summary

An employee may only deduct those reasonable outlays and expenses related to employment income which are specifically permitted under section 8 in determining employment income.

The bulletin describes:

- the rules concerning the deduction of sales, motor vehicle and travel expenses incurred in earning income from an office or employment;
- the limitations on expenses for passenger vehicles whether leased or owned by the employee;
- the definitions of "passenger vehicle," "automobile" and "motor vehicle";
- the inclusion in, and exclusions from, income of allowances received by an employee in connection with sales, motor vehicle and travel expenses.

Employment Expenses, a supplementary income tax guide, contains a discussion and examples that may be helpful in determining the expenses that may be deducted by employees earning commission income as well as employees earning a salary.

Discussion and Interpretation

Meaning of the Terms "Passenger Vehicle," "Automobile" and "Motor Vehicle"

1. The terms "passenger vehicle," "automobile" and "motor vehicle" used throughout this bulletin have particular significance. They are defined in subsection 248(1) and can be described as follows:

(a) a "passenger vehicle" is an automobile (see b below) acquired after June 17, 1987 or leased under a lease entered into, extended or renewed after that date;

(b) an "automobile" is

(i) a motor vehicle (see c below) that is designed or adapted primarily to carry individuals on highways and streets and that has a seating capacity for not more than the driver and eight passengers,

but does not include

(ii) an ambulance,

(iii) a motor vehicle acquired primarily for use as a taxi, a bus used in a business of transporting passengers or a hearse used in the course of a business of arranging or managing funerals,

(iv) except for the purpose of section 6, a motor vehicle acquired to be sold, rented or leased in the course of carrying on a business of selling, renting or leasing motor vehicles or a motor vehicle used for the purpose of transporting passengers in the course of carrying on a business of arranging or managing funerals, and

(v) a motor vehicle of a type commonly called a van or pick-up truck or a similar vehicle

- that has a seating capacity for not more than the driver and 2 passengers and that, in the taxation year in which it is acquired, is used primarily for the transportation of goods or equipment in the course of gaining or producing income, or
- the use of which, in the taxation year in which it is acquired, is all or substantially all for the transportation of goods, equipment or passengers in the course of gaining or producing income;

and

(c) a "motor vehicle" is an automotive vehicle designed or adapted to be used on highways and streets but does not include

(i) a trolley bus, or

(ii) a vehicle designed or adapted to be operated exclusively on rails.

Whether or not a vehicle is "acquired primarily" for the stated use will be decided based on the facts of the particular case. Generally, the Department considers that the "used primarily" test will be met where more than 50% of the distance travelled by the vehicle is for the stated purpose.

2. The comments in this bulletin are directed to an employee who

(a) owns or leases a "motor vehicle" or aircraft (that is, not to one who has the use of a "motor vehicle" or aircraft provided by the employer), and

(b) is entitled to deduct "motor vehicle" or aircraft expenses under paragraph 8(1)(f), (h) or (h.1) (and thus entitled to deduct applicable interest and capital cost allowance under paragraph 8(1)(j)) in computing income from an office or employment. (35 below describes who is entitled to deduct expenses under paragraph 8(1)(f) while 31 below describes who is entitled to make deductions under paragraphs 8(1)(h) and (h.1).)

"Motor Vehicle" Expenses

3. Where a "motor vehicle" is used by an employee in a taxation year partly to earn income from an office or employment and partly for personal purposes, the deductible amount is normally that proportion of the aggregate of the

(a) total operating expenses (see 5 below) of the vehicle incurred by the employee in the year,

(b) capital cost allowance (see 15 to 19 below), and

(c) interest (see 28 below)

that the distance travelled by the vehicle to earn the employment income is of the total distance travelled by the vehicle for the year, less the total of all rebates, allowances or reimbursements (other than reimbursements deducted in computing the "eligible" leasing cost referred to in 5 and 9 below) received by the employee in the year concerning the above aggregate and not required to be included in the employee's income.

For example, where

- the aggregate of (a), (b) and (c) as described above for a year is $8,000 and the employee receives no reimbursement for such expenses, and
- the total distance travelled for the year is 32,000 kilometres of which 24,000 represents employment use, the deductible amount is $6,000 determined as follows:

$$\frac{24{,}000}{32{,}000} \times \$8{,}000 = \$6{,}000$$

If the employee has been reimbursed $2,000 and no portion of that reimbursement was deducted in computing the "eligible" leasing cost, the deductible amount would be $4,000 (that is, $6,000 – $2,000).

4. Should an employee own or lease two or more "motor vehicles" used partly for earning income from an office or employment and partly for personal purposes, the calculation in 3 above may be applied separately for each vehicle or, for convenience, the calculation may be applied for all the vehicles taken together. That is, the operating expenses, capital cost allowance and interest (see 5, 15 to 19 and 28 below) for each "motor vehicle" may be combined and the deductible amount determined on the basis of the ratio of combined distance travelled to earn income from an office or employment to combined total distance travelled, provided the result so determined is reasonable and not materially different from that where the determination is made for each vehicle.

5. The term "operating expenses" referred to in 3(a) above includes the cost of fuel, maintenance (for example, car washes, oil, grease and servicing charges), repairs (other than accident repairs – see 7 below), licences, insurance and, except as noted in 6 below, the "eligible" leasing cost (see 8 and 9 below).

6. Where an employee, who leases a "motor vehicle" on a long-term basis but is not entitled to claim capital cost allowance (see 15 – 19 below) on it, makes frequent use of the vehicle during the normal work hours in the course of earning income from an office or employment, but the distance travelled for that purpose is comparatively low, the "eligible" leasing cost for

that vehicle may be excluded from the operating expenses if the employee so requests and the circumstances warrant it. The "eligible" leasing cost is then apportioned on the basis of a reasonable combination of distance travelled and time the "motor vehicle" was used in the course of earning income from the office or employment. For example, if a "motor vehicle" were used in the course of earning income from an office or employment five days out of seven in a normal work week, it might indicate that (allowing for personal use in the evening, usual holidays, time off for sickness, etc.) it was used 65% of the time for employment purposes. If, on a distance-travelled basis, the vehicle were used only 25% for employment purposes, combining the two factors might suggest that 45% of the "eligible" leasing cost should be attributed to employment use. However, where a "motor vehicle" is used infrequently in the course of earning income from an office or employment, the apportionment must be on the distance-travelled basis alone, even though the vehicle is available at all times for employment purposes.

7. Accident repair expenses, whether incurred to repair damages resulting from the accident to a "motor vehicle" driven by the employee or to the property of others, are deductible in full if the vehicle was being used to earn income from an office or employment at the time of the accident. Any amount deductible is net after recoveries through insurance or damage claims. No portion of such expenses is deductible if the vehicle was being used for personal purposes at the time of the accident.

8. Other than as discussed in 9 below for a "passenger vehicle," the "eligible" leasing cost referred to in 5 above of a "motor vehicle" for a taxation year is the amount paid in the year by the employee for leasing the vehicle.

9. Section 67.3 provides that the "eligible" leasing cost, referred to in 8 above, of a "passenger vehicle" for a taxation year shall not exceed the lesser of

(a) the amount determined by the formula

$$\frac{(A \times B)}{30} - C - D - E$$

and

(b) the amount determined by the formula

$$\frac{(A \times B)}{.85\ C} - D - E$$

where in the formula in (a) above

- **A** is $600 or such other amount as is prescribed,
- **B** is the number of days in the period commencing at the beginning of the term of the lease and ending at the earlier of the end of the year and the end of the lease,
- **C** is the total of all amounts deducted in computing the employee's income for preceding taxation years for the actual lease charges for the vehicle,
- **D** is the amount of interest that would be earned on the part of the total of all refundable amounts for the lease that exceeds $1,000, if interest were

(i) payable on the refundable amounts at the prescribed rate, and

(ii) computed for the period before the end of the year during which the refundable amounts were outstanding, and

E is the total of all reimbursements that became receivable before the end of the year by the employee in connection with the lease, and

where in the formula in (b) above

A is the total of the actual lease charges for the lease paid in the year,

B is $20,000 or such other amount as is prescribed,

C is the greater of $23,529 (or such other amount as is prescribed) and the manufacturer's list price for the vehicle,

D is the amount of interest, that would be earned on that part of the total of all refundable amounts paid on the lease that exceeds $1,000 if interest were

(i) payable on the refundable amounts at the prescribed rate, and

(ii) computed for the period in the year during which the refundable amounts are outstanding, and

E is the total of all reimbursements that became receivable during the year by the employee in connection with the lease.

Subsection 7307(3) of the Regulations prescribed the amount for **A** in the formula (a) above as $650 for the period after August 1989 and before 1991, and after 1990 the prescribed amount is equal to the total of $650 and the greatest amount of the Goods and Services Tax (GST) and Provincial Sales Tax (PST) that would have been payable on a monthly payment under the lease in the taxation year of the lessee, if the lease had required monthly payments, before those taxes, of $650.

Subsection 7307(1) of the Regulations prescribes the amount for **B** in the formula (b) above as $24,000 for an automobile acquired or leased under an agreement entered into after August 1989 and before 1991, and where the automobile is acquired or leased, under an agreement entered into after 1990, the prescribed amount is $24,000 plus GST and PST payable had the automobile been acquired for $24,000.

Pursuant to subsection 7307(4) of the Regulations, **C** in the formula (b) is the amount prescribed for an automobile leased under a lease entered into after August 1989 that is the amount equal to 100/85 of the amount determined for **B** in this formula.

The prescribed rate of interest for the relevant period is described in section 4301 of the Regulations. The rate is determined quarterly and can be obtained from any Revenue Canada Tax Services Office.

For the purposes of **D** in the above formulas, a "refundable amount" includes any amount that the employee is entitled to receive from the lessor at some time with respect to the lease. It would include an amount loaned to the lessor by the employee to effect a reduction of the lease payments.

Where the total amount paid in a particular year on a lease is greater than the amount as

determined under the above formulas, the employee may be permitted to claim all or part of that greater amount subject to the following limitation. The employee will be permitted to claim the amount paid in the year to the extent that the aggregate of that amount and all other amounts deducted in preceding years on the lease does not exceed the aggregate of all amounts on the lease that would be deductible over the term of the lease if such amounts were required to be paid in equal monthly payments. For example, assume that an employee leases a passenger vehicle for three years commencing on January 1, 1993 and makes a payment of $3,000 on that date and makes 36 equal monthly payments of $400 thereafter. If we further assume that no refundable amounts in excess of $1,000 or reimbursements receivable are involved, the total amount payable under the lease ($17,400) would be deductible if paid by way of 36 equal payments of $483.33, because the application of the above formulas in such a case would not reduce the amount deductible. Thus, the employee would be allowed to deduct in 1993 the $7,800 paid in that year. In 1994 and 1995, the employee would deduct the $4,800 paid in each of those years.

The amount determined by the above formulas for a particular taxation year for a "passenger vehicle" may generally be described as the lesser of

(c) the amount by which $600 (or such other amount as is prescribed) times the number of "months" the vehicle was leased since the beginning of the lease, less any amounts deducted in prior years for the lease, exceeds the deemed interest and receivable reimbursements referred to in **D** and **E**, respectively, of the above formulas, and

(d) the proportion (not exceeding one) of actual lease payments made during the year that $20,000 (or such other amount as is prescribed) is of 85% of the amount described for **C** of the formula in (b) above, less the deemed interest and receivable reimbursements referred to in **D** and **E**, respectively, of the above formulas. (This computation is designed to provide a restriction for a leased "passenger vehicle" similar to the capital cost allowance restriction discussed in 16 below for a purchased "passenger vehicle.")

Example – Computation of "Eligible" Leasing Cost

10. The following is an example of a computation of the "eligible" leasing cost for a lease entered into after 1990 for a "passenger vehicle" using the formulas in 9 above.

Assume the following set of facts:

(a) Lease charges paid in the year for the vehicle ($750 per month)	$9,000	
(b) Days in the year that the vehicle was leased under the particular lease	365	
(c) Days in the previous year that the vehicle was leased under the particular lease	184	
(d) Amount claimed in the previous year for the vehicle based on the application of the formulas in 9 above for that year	$3,109	
(e) Manufacturer’s list price for the vehicle	$36,000	
(f) Refundable amount	$12,000	(1)
(g) Prescribed rate under section 4301 of the Regulations	10%	(2)
(h) Reimbursements receivable for the year on the lease of the vehicle	$800	

(i) Reimbursements receivable for the year and for previous years on the lease of the vehicle $1,200

Based on the above, **D** of the formula in 9(a) above is $1,655; that is, 549/365 × [($12,000 – $1,000) × .10], and **D** of the formula in 9(b) above is $1,100; that is, ($12,000 – $1,000) × .10.

Computation

The "eligible" leasing cost is the lesser of

$$\text{(i)}\ \frac{\$748_{(3)} \times 549}{30} - \$3{,}109 - 1{,}655 - 1{,}200 = \$7{,}724$$

and

$$\text{(ii)}\ \frac{\$9{,}000 \times \$27{,}600_{(4)}}{.85 \times \$36{,}000} - \$1{,}100 - 800 = \$6{,}218$$

or $6,218

(1) The refundable amount of $12,000 represents an interest free loan made to the lessor by the employee at the beginning of the lease and that is to be paid back to the employee at the end of the lease.

(2) Although the prescribed rate is subject to adjustment for each quarter in a particular year, to simplify the example, the rate for the full 18 months is assumed to be 10%.

(3) $650 plus GST and PST.

(4) $24,000 plus GST and PST.

Aircraft Expenses

11. Subject to the comments in 12 and 30 below, where an aircraft is used by an employee partly to earn income from an office or employment and partly for personal purposes, the deductible amount is normally that proportion of the total operating expenses of the aircraft incurred by the employee in the year (plus capital cost allowance and interest where applicable) that the hours flown to earn income from an office or employment are of the total flying hours for the year. Thus, the portion of the operating expenses of an aircraft that is deductible from income from an office or employment is calculated as follows:

$$\frac{\text{hours flown to earn income from an office or employment}}{\text{total flying hours}} \times \text{operating expenses} = \text{deductible portion of operating expenses}$$

12. The comments in 4, 6 and 7 above discuss variations under which the deductible portion of a "motor vehicle's" operating expenses may be calculated. Those comments have equal

application to a situation where an aircraft is used to earn income from an office or employment and, in this respect, a reference to distance travelled should be read as a reference to hours flown.

Records to be Kept

13. To be deductible, "motor vehicle" or aircraft expenses must be reasonable in the circumstances and supportable by vouchers. (The vouchers need not be filed with the employee's income tax return; however, they must be retained for examination on request.) A claim by an employee for "motor vehicle" expenses calculated on a cents-per-kilometre (mile) basis or for aircraft expenses calculated on a dollars-per-flying hour basis is not acceptable. To support a claim where a "motor vehicle" is used in part to earn income from an office or employment and in part for personal purposes, a record should be kept of total distance travelled and distance travelled in the year to earn the income. Similarly, where an aircraft is used in part to earn income from an office or employment and in part for personal purposes, a record should be kept of the total flying hours and hours flown in the course of earning the income. The record of distance travelled or hours flown to earn the income should contain at least the date, destination and distance travelled or hours flown for each trip.

14. Travelling between the employee's home and the place of employment is personal travel and the portion of the expenses relating to this travel is not deductible.

Capital Cost Allowance – "Motor Vehicle" and Aircraft

15. Where an employee, who is entitled to deduct expenses under either paragraph 8(1)(f) or (h.1) and satisfies the requirements of subsection 8(10) (see 58 below), owns a "motor vehicle" used in the performance of the duties of the office or employment, capital cost allowance on it may be deducted by virtue of paragraph 8(1)(j).

16. Where an "automobile" owned by an employee is a "passenger vehicle," paragraphs 13(7)(g) and (h), respectively, provide that the capital cost of the vehicle to the employee is to be determined as follows:

(a) where the cost of the "passenger vehicle" exceeds $20,000 or such other amount as is prescribed, the capital cost thereof shall be deemed to be $20,000 or that other prescribed amount, as the case may be; and

(b) notwithstanding (a), where the "passenger vehicle" is acquired by the employee at any time from a person with whom the employee does not deal at arm's length, the capital cost of the vehicle at that time shall be deemed to be the least of

(i) the fair market value of the vehicle at that time,

(ii) the amount that immediately before that time was the "cost amount" (as defined in subsection 248(1)) to that person of the vehicle, and

(iii) $20,000 or such other amount as is prescribed.

Subsection 7307(1) of the Regulations, described in 9 above, prescribes the amounts for the purposes of paragraphs 13(7)(g) and (h).

17. Under subparagraph 1100(1)(a)(x.1) of the Regulations each "passenger vehicle" having a cost of more than $20,000 (or such other amount as may be prescribed for the purposes of subsection 13(2)) owned by an employee and used to earn income from an office or employment will be included in class 10.1 depreciable at the rate of 30% on a declining balance basis. Subsection 1101(1af) of the Regulations prescribes a separate class for each such vehicle. The capital cost of the vehicle in each separate class will be determined in the manner set out in 16 above. "Passenger vehicles" costing less than $20,000 (or such other amount as may be prescribed) are placed in Class 10 and the balance in the class is depreciable at a rate of 30% on a declining balance basis. Subsection 7307(1) of the Regulations, described in 9 above, prescribes the amounts for subsection 13(2).

18. By virtue of subsection 13(2), there will not be included in an employee's income from an office or employment any recaptured capital cost allowance on a class 10.1 "passenger vehicle." Any amount not included in income by virtue of subsection 13(2) is deemed to be included in the employee's income for the purpose of B of the definition "undepreciated capital cost" in subsection 13(21), thus ensuring that the result of the computation under the definition "undepreciated capital cost" in subsection 13(21) of the particular class will be nil.

19. Where an "automobile" owned by an employee is a "passenger vehicle" having a cost to the employee of more than $20,000, or such other amount as may be prescribed, and the employee disposes of the vehicle to a non-arm's length taxable Canadian corporation pursuant to the provisions of subsection 85(1), paragraph 85(1)(e.4) provides that the amount the employee and the corporation have agreed on in their election shall be deemed to be an amount equal to the undepreciated capital cost of the vehicle to the employee immediately before the disposition. This ensures that the cost amount referred to in 16 above will be maintained in non-arm's length transfers that are subject to subsection 85(1). If the corporation subsequently makes the automobile available to any employee or a person related to any employee, pursuant to paragraph 85(1)(e.4), the cost of the automobile, for the purpose of determining the standby charge under subsection 6(2), is its fair market value immediately before the disposition to the corporation. See the current version of IT-419, *Meaning of Arm's Length* for comments on whether an employee is at non-arm's length with a corporation. Subsection 7307(1) of the Regulations, described in 9 above, prescribes the amounts for paragraph 85(1)(e.4).

20. By virtue of paragraph 8(1)(j), an employee who meets the conditions of either paragraph 8(1)(f) or (h) and satisfies the requirement of subsection 8(10) (see 58 below) may deduct capital cost allowance on the cost of an aircraft that is required for use in the performance of the employee's duties of an office or employment. To be "required for use," an aircraft must be necessary for the satisfactory performance of the employee's duties. However, this does not necessarily imply that the employer must order the employee to use this means of transportation. Furthermore, subsection 8(9) (see 30 below) will limit the amount deductible, including capital cost allowance, to an amount that is reasonable having regard to the relative cost and availability of other modes of transportation.

21. An aircraft (including furniture, fittings, equipment and small parts) that was acquired after May 25, 1976 or that has not been used continuously since that date to earn income from an office or employment is a Class 9 asset (depreciable at the rate of 25% on a declining balance basis).

22. "Aircraft" means any machine used or designed for travelling in the air but does not include a machine designed to derive support in the atmosphere from reactions against the earth's surface of air expelled from the machine (for example, a hovercraft).

23. Where an employee is entitled to claim capital cost allowance in computing total "motor

vehicle" or aircraft expenses, the capital cost allowance claim may be calculated by either of the following methods:

(a) by entering the full amount of interest and operating expenses (before reduction by the portion relating to personal use) on Form T777, *Statement of Employment Expenses*, which is provided with the *Employment Expenses* booklet (a supplementary income tax guide), and then including the full capital cost allowance in the total amount to be apportioned on the basis discussed in 3 and 11 above. Alternatively, where there is frequent use of the "motor vehicle" or aircraft during normal work hours to earn income from an office or employment but the distances travelled or hours flown for that purpose are comparatively low, the capital cost allowance may be excluded from the total amount to be apportioned on the basis discussed in 3 and 11 above and be apportioned on the basis discussed in 6 and referred to in 12 above; that is, on the basis of a reasonable combination of distance travelled or hours flown and time the vehicle or aircraft was used in the course of earning income from the office or employment; or

(b) subject to (i) and (ii) below, by calculating capital cost allowance on that proportion of the capital cost of the "motor vehicle" (see 16 above concerning the capital cost limitation) or aircraft that the employment use is of the total use and claiming the allowance separate from other expenses. This alternative method is acceptable only if

(i) the proportion of the capital cost on which the allowance is calculated is approximately equal to what the proportion for employment use would be on the distance-travelled or hours-flown basis, or on the combined distance-travelled (or hours-flown) and time-used basis discussed in (a) above, and

(ii) an appropriate adjustment under paragraph 13(7)(d) is made concerning any change in the use regularly made of the vehicle or aircraft for employment and personal purposes.

24. If an employee is still using a "motor vehicle" or aircraft at the end of the year to earn income from an office or employment, generally, the capital cost allowance for the full year is deductible even though the employment commenced part-way through the year. Subsection 1100(2) of the Regulations limits the capital cost allowance to one-half the normal amount in the year a "motor vehicle" or aircraft is acquired or became available for use. However, subsection 1100(2.5) of the Regulations permits an employee to claim, in the year of disposition of a "passenger vehicle" that was included in class 10.1 and that was owned by the employee at the end of the preceding year, one-half the amount that the employee would have been permitted to claim as capital cost allowance had the vehicle not been disposed of. Where an amount remains in class 10.1 after the disposition of the passenger vehicle that was owned by an employee, the employee is not entitled to deduct a terminal loss under subsection 20(16). Where an amount remains in class 10 after the disposition of a "motor vehicle" that was owned by an employee and there is no property in the class at the end of the year, the employee is not entitled to deduct a terminal loss under subsection 20(16). Pursuant to paragraph 8(1)(j) an employee may deduct such part of the capital cost of a motor vehicle that is used in the performance of the duties of the office or employment as is allowed by regulation. A terminal loss is not allowed by regulation.

25. Subsection 70(5) or 70(6), as the case may be, provides that all depreciable property of a prescribed class is deemed to have been disposed of immediately before death.

26. Where, before the end of a particular year, an employee

(a) disposes of an aircraft or "motor vehicle" previously used to perform the duties of an office

or employment and does not replace it with a similar property,

(b) is deemed under subsection 13(7) to have disposed of an aircraft or "motor vehicle" as a result of ceasing to use it to perform the duties of an office or employment, or

(c) is deemed to have disposed of an aircraft or "motor vehicle" immediately before death as discussed in 25 above,

and a balance remains in the particular class at the end of the year, capital cost allowance (except as noted in 24 above) is not deductible in that year. However, subsection 13(11) provides the authority for recapturing the capital cost allowance previously allowed on an employee's aircraft or "motor vehicle" except where subsection 13(2) provides an exemption for the vehicle (see 18 above). For the purpose of (b) above, an employee is not considered to have ceased to use an aircraft or vehicle to perform the duties of employment if such cessation is only temporary, provided the nature of the employment has not changed in such a manner that the use of the aircraft or vehicle is no longer required in the performance of those duties.

Interest on Borrowed Money Used to Acquire a "Motor Vehicle" or Aircraft

27. Where an employee who is entitled to deduct expenses under paragraph 8(1)(f), (h) or (h.1) incurs debt to acquire an aircraft or "motor vehicle" used in the performance of the duties of an office or employment, paragraph 8(1)(j) provides for a deduction of a portion of the interest paid in the year on the debt. The deductible portion of the interest may be determined on the basis discussed in 3 and 11 above or, where there is frequent use of the aircraft or vehicle during the normal work hours in the course of earning income from an office or employment but the hours flown or distance travelled for that purpose is comparatively low, on the basis discussed in 6 above and referred to in 12 above. The amount of the interest to be so apportioned is subject to the limitation discussed in 28 below for a "passenger vehicle" and in 30 below for an aircraft. No interest is deductible where the requirements of subsection 8(10) are not met – see 58 below.

28. Where an aircraft or a "motor vehicle" other than a "passenger vehicle" is involved, the interest referred to in 3(c) above is that determined under paragraph 8(1)(j) as discussed in 27 above. Where the vehicle is a "passenger vehicle," section 67.2 limits the amount deductible to a maximum of $250 or such other amount as may be prescribed for each 30 days in the period for which the interest was paid. Thus, the interest referred to in 3(c) above for a "passenger vehicle" is the lesser of the relevant interest paid in the period and the amount determined by the formula

$$\frac{\mathbf{A}}{30} \times \mathbf{B}$$

where

A is $250 or such other amount as may be prescribed, and

B is the number of days in the period for which the interest was paid.

Pursuant to subsection 7307(2) of the Regulations for the purposes of **A** the amount prescribed for an automobile acquired after August 1989 is $300.

Joint Owners or Lessees

29. Where an employee owns or leases a "passenger vehicle" jointly with one or more other persons, section 67.4 provides that the amounts of $600, $23,529, $20,000 and $250 (or such other amounts replacing them as may be prescribed) referred to in 9, 16 and 28 above shall be apportioned among them on the basis of the fair market value of their respective interests in the vehicle. For example, if an employee owned an interest valued at $9,000 in a "passenger vehicle" valued at $27,000, the $300 limit referred to in 28 above for that employee would be $100 (that is, $9,000/$27,000 × $300) for each relevant 30 days ($3.33 per day).

Aircraft Expenses – Limitation

30. For the purposes of 11, 20 and 27 above, subsection 8(9) limits the amount an employee may claim in the operation of an aircraft, owned or leased, to an amount that is reasonable having regard to the relative cost and availability of other modes of transportation. For example, where an employee's territory is inaccessible or it is impractical to travel to it other than by private aircraft, the Department will consider the costs of operating the aircraft (including capital cost allowance and interest where applicable) that are attributable to earning income from an office or employment to be reasonable, provided the conditions set out in paragraphs 8(1)(f) and (j) or paragraphs 8(1)(h) and (j), as the case may be, are met and the conditions of subsection 8(10) are satisfied (see 58 below). However, where other modes of transportation are available to the employee but the use of a private aircraft is chosen instead, the employee must be prepared to justify that the expenses associated with the use of the aircraft are reasonable; otherwise, the claim will be reduced to the reasonable costs of the alternate transportation.

Employees in General

31. Provided the requirement in subsection 8(10) is satisfied (see 58 below), an employee is entitled to deduct under paragraph 8(1)(h) or (h.1) amounts spent in the year for travelling provided the amounts are reasonable in the circumstances and **all** of the following conditions are met:

(a) the employee is ordinarily required to carry on the duties of the office or employment away from the employer's place of business or in different places (see 32 below);

(b) under the contract of employment, the employee is required to pay travel expenses incurred in the performance of the duties of the office or employment (see 33 below); and

(c) where the expense is deducted under paragraph 8(1)(h)

(i) the employee is not in receipt of an allowance for travel expenses that was excluded from income by virtue of subparagraph 6(1)(b)(v), (vi), or (vii) (see 40 to 49 below), and

(ii) the employee has not claimed any deduction for the year under paragraph 8(1)(e) (expenses of certain railway company employees away from their ordinary residence or home terminal), 8(1)(f) (salesperson's expenses) or 8(1)(g) (transport employee's expenses);

or

(d) where the expense is deducted under paragraph 8(1)(h.1)

(i) the employee is not in receipt of an allowance for motor vehicle expenses that was excluded from income by virtue of paragraph 6(1)(b), and

(ii) the employee has not claimed any deduction for the year under paragraph 8(1)(f) (salesperson's expenses).

32. Concerning 31(a) above,

(a) "ordinarily" means "customarily" or "habitually" rather than "continually," but there should be some degree of regularity in the travelling that the employee is required to do,

(b) "required" means that the travelling is necessary to the satisfactory performance of the employee's duties (it does not necessarily imply that the employer must order the employee to travel),

(c) "place of business" generally is considered to have reference to a permanent establishment of the employer such as an office, factory, warehouse, branch or store, or to a field office at a large construction job, and

(d) "in different places" generally refers to the situation where the employer does not have a single or fixed place of business. For example, a school inspector who has a number of schools to supervise and is required to travel from school to school meets this requirement. Similarly, an employee who is required to travel from building to building within the boundaries of the employer's property meets this requirement if the employer's property is very large and the distance between buildings is sufficient to justify the use of a "motor vehicle." On the other hand, where the employee is employed on a ship, the ship is the employer's place of business where the employee is ordinarily required to carry on the duties, and the fact that the ship may travel to different places is insufficient to meet this requirement.

33. Concerning 31(b) above, the requirement will be met where the following conditions are satisfied:

(a) the employer must clearly indicate on the required form T2200 (see 58 below) that the employee is required to pay travel expenses incurred in the performance of duties; and

(b) the employee's reasonable travel costs must not be fully reimbursed by the employer. In determining the reasonableness of the amount claimed by the employee for travel costs, consideration will be given to the mode of transportation used by the employee versus the mode of transportation that could be used to satisfy the requirement to travel.

34. Concerning the requirement in 31(c)(i) and 31(d)(i) above,

(a) where for one type of travel expense, an employee receives an allowance that is excluded from income by virtue of paragraph 6(1)(b), but the employee must pay a second type of travel expense for which no allowance or reimbursement is received, the second type of travel expense will not be disallowed provided it is otherwise deductible under paragraph 8(1)(h) or (h.1). For example, where an employee while on an out-of-town business trip receives a daily meal allowance that is excluded from income by virtue of subparagraph 6(1)(b)(vii) and the employee must bear the cost of "motor vehicle" expenses, the employee will not be prevented from claiming the vehicle expenses if they are otherwise allowable under paragraph 8(1)(h.1), and

(b) where an employee receives an allowance for travel expenses that must be included in income, the employee may claim actual expenses under paragraph 8(1)(h) or (h.1) (and capital cost allowance and interest under paragraph 8(1)(j)) if the other requirements of paragraph 8(1)(h) or (h.1), and the requirement of subsection 8(10) as discussed in 58 below, are met.

Salespersons

35. Provided the requirement in subsection 8(10) is met (see 58 below) and subject to the limitation discussed in 37 below, amounts expended by an employee to earn employment income are deductible under paragraph 8(1)(f) where the employee is employed in the year in connection with the selling of property or negotiating of contracts, and

(a) the contract of employment required the employee to pay the expenses so incurred,

(b) the employee was ordinarily required to carry on the duties of employment away from the employer's place of business,

(c) the employee was remunerated in whole or in part by commissions or other similar amounts fixed by reference to the volume of the sales made or the contracts negotiated, and

(d) the employee was not in receipt of an allowance for travel expenses that was excluded from income by virtue of subparagraph 6(1)(b)(v) (see 45 below),

to the extent that such amounts were not

(e) outlays, losses or replacements of capital or payments on account of capital, except capital cost allowance and interest deductible under paragraph 8(1)(j) as discussed in 15, 27 and 28 above,

(f) outlays or expenses made or incurred for club dues or the use of recreational facilities that would, by virtue of paragraph 18(1)(l), not be deductible if the employment were a business carried on by the salesperson. The paragraph 18(1)(l) restrictions are discussed in the current version of IT-148, *Recreational Properties and Club Dues*, or

(g) payments which reduced the amount of the standby charge that was required to be included in income in the year.

See the current version of IT-352, *Employee's Expenses, Including Work Space in Home Expenses*, where an employee who is entitled to deduct expenses under paragraph 8(1)(f) has an office in the home.

36. Although expenses deductible under paragraph 8(1)(f) may include expenses other than travel expenses, the comments in 32, 33 and 34 above, which apply to employees in general, are applicable where relevant to any expenses claimed by a salesperson under paragraph 8(1)(f). In this regard and with reference to 34(a) above, the only expenses disallowed solely because the requirement in 35(d) above is not met will be those that relate to the particular travel allowance excluded from income by virtue of subparagraph 6(1)(b)(v).

37. The amount deductible under paragraph 8(1)(f) is limited to the amount of the commissions or other similar amounts referred to above in 35(c). This limitation does not apply, however, to amounts deducted under paragraph 8(1)(j) for capital cost allowance (see

15 above) or interest (see 27 and 28 above). Where the deduction under paragraph 8(1)(j), together with the deduction available under paragraph 8(1)(f), exceeds the employee's commission income, the excess may be applied against other income. Any excess not applicable in this manner will represent a non-capital loss of the employee.

38. Where a salesperson, who receives both a travel allowance that is excluded from income under subparagraph 6(1)(b)(vii) (for example, the meal allowance referred to in 34(a) above) and a "motor vehicle" allowance that is required to be included in income, includes both allowances in income and claims related expenses otherwise allowable under paragraph 8(1)(f), the Department will not challenge such reporting. However, it may be advantageous for a salesperson who meets the conditions set out in paragraph 8(1)(h.1) to only deduct motor vehicle expenses under that paragraph rather than include the allowance under subparagraph 6(1)(b)(vii) and deduct expenses under paragraph 8(1)(f).

Clergy

39. The requirement in 31(a) above will normally be met where a member of the clergy is ministering to a diocese, parish or congregation and is required to travel to different places in the course of performing the related duties.

Allowances for Travel Expenses – General

40. In this bulletin, the word "allowance" means any periodic or other payment that an employee receives from an employer, in addition to salary or wages, without having to account for its use. It may be computed by reference to distance or time (for example, a "motor vehicle" expense allowance based on the distance driven or a travel expense allowance based on the number of days away) or on some other basis. An allowance is subject to tax unless it falls within the exceptions listed in subparagraphs 6(1)(b)(i) to (ix) or subsection 81(3.1) (see 54 below), or unless it is excluded from income under subsection 6(6) (see 53 below). See 50 below for a discussion on the meaning of "reimbursement" and "accountable advance."

41. If the Department considers that an allowance, which is claimed to be non-taxable under subparagraph 6(1)(b)(v), (vi), (vii) or (vii.1), is unreasonably high, the employee is required to provide vouchers or other acceptable evidence to show that the allowance is not in excess of a reasonable amount. Where the employee is unable to show that the allowance is reasonable, the whole amount of the allowance is included under paragraph 6(1)(b) in computing the employee's income and, if the employee qualifies, an amount may be deducted under paragraph 8(1)(f), (h), (h.1) or (j), depending on the circumstances, as discussed in 31 through 38 above. An allowance for travel expenses is not considered unreasonable merely because the employee's total expenses for business travel exceed the total travel allowances received in the year.

42. Subparagraphs 6(1)(b)(x) and (xi) deem an allowance received in a taxation year by an employee for the use of a "motor vehicle" in connection with or in the course of an office or employment not to be a reasonable amount for the purposes of subparagraphs 6(1)(b)(v), (vi) and (vii.1) where

(a) the allowance is not calculated solely by reference to the number of kilometres for which the vehicle was so used in the year,

or

(b) the employee receives an allowance for use of the vehicle and is reimbursed in whole or in part for expenses for the use of the vehicle in the year in connection with the office or employment except where, for the 1993 and later taxation years, the reimbursement is for supplementary business insurance or toll or ferry charges and the amount of the allowance is determined without reference to those reimbursed expenses.

Where the allowance is not a reasonable amount the whole amount of the allowance is included under paragraph 6(1)(b) in computing the employee's income and, if the employee qualifies, an appropriate amount may be deducted under paragraph 8(1)(f), (h), (h.1) or (j), depending on the circumstances, as discussed in 31 through 38 above.

43. In addition to the requirements in 42 above, in order to be excluded from income by virtue of paragraphs 6(1)(b)(v), (vi) or (vii.1), the allowance for a motor vehicle must be reasonable. Under section 7306 of the Regulations a payer will be limited to a deduction based on 31 cents for the first 5,000 kilometres and 25 cents for the remaining kilometres (or 35 cents and 29 cents, respectively, where the kilometres are driven in the Yukon or Northwest Territories). Although the reasonableness of an allowance is normally decided based on the facts of the particular case, the Department will, as a general rule, accept as reasonable an allowance based on 31 cents (or 35 cents in the Yukon or Northwest Territories) for the first 5,000 kilometres and 25 cents (or 29 cents in the Yukon or Northwest Territories) for the remaining kilometres, or such other amounts as may be prescribed, where such allowance is not materially different from that which would otherwise be considered reasonable.

Note:
In a Press Release dated December 12, 1995, the Parliamentary Secretary to the Minister of Finance announced that for 1996 the limit for tax-exempt allowances paid by employers to employees will be increased from 31 cents to 33 cents for the first 5,000 kilometres driven, and from 25 cents to 27 cents per kilometre for each additional kilometre driven (except for the Yukon and Northwest Territories, where the tax-exempt allowance will be 37 cents for the first 5,000 kilometres driven, and 31 cents for each additional kilometre).

44. Where an employee receives a set periodic (monthly, weekly, etc.) amount from the employer, and the amount is calculated solely by reference to the number of kilometres for which the automobile was used in the year in an office or employment the periodic amount may constitute an advance rather than an allowance. It will constitute an advance where **all** of the following attributes are present:

(a) there is a beginning-of-the-year agreement between the employer and employee that the employee will receive a stated amount for each kilometre travelled by the employee's vehicle in connection with or in the course of the office or employment;

(b) there is a year-end accounting. That is, at the end of the year (or, where the employee ceases to be employed during the year, at the time the employment ceases), the total of the periodic advances received in the year is compared with the result obtained when the stated amount per kilometre is multiplied by the kilometres travelled by the vehicle in the year in connection with or in the course of the office or employment. If the total of the advances exceeds the result so obtained, the employee must reimburse the employer for the amount of the difference and vice-versa. Simply reporting any excess on the employee's T4 supplementary is not acceptable; and

(c) the per-kilometre amount, the amount of each monthly advance and the projected annual kilometrage are reasonable.

For further information on advances, see 50 to 52 below under the caption Reimbursements and Accountable Advances.

Allowance for Travel Expenses – Salespersons and Clergy

45. Subject to the comments in 42 above, a reasonable allowance for travel expenses is non-taxable by reason of subparagraph 6(1)(b)(v) provided it was for a period when the employee was employed in connection with the selling of property or negotiating of contracts for the employer. Consequently, the subparagraph does not apply to bill-collectors, maintenance or servicepersons, or to salespersons when engaged in any duties other than selling.

46. Subject to the comments in 42 above, a reasonable allowance received by a member of the clergy is non-taxable by reason of subparagraph 6(1)(b)(vi) provided that

(a) the member was in charge of or ministering to a diocese, parish or congregation, and

(b) the allowance was for transportation expenses incident to the discharge of the duties of the office or employment.

47. Where an employee referred to in subparagraph 6(1)(b)(v), (vi), (vii) or (vii.1) receives an allowance for travel expenses which is unreasonably low, the allowance is technically required to be included in income. However, the Department will not insist upon its inclusion provided that no amount is claimed for travel expenses by the employee under paragraph 8(1)(h) or (h.1).

Allowance For Travel Expenses – Other Employees

48. An allowance (other than for the use of a "motor vehicle") received by an employee (other than one employed in connection with the selling of property or negotiating of contracts for the employer) for travel expenses is taxable under paragraph 6(1)(b) except where the conditions of subparagraph 6(1)(b)(vii) are satisfied; that is,

(a) the allowance is a reasonable amount,

(b) the allowance is received for travelling away from the municipality and the metropolitan area where the employer’s establishment, at which the employee ordinarily worked or to which the employee made reports, was located, and

(c) the travelling is done in the performance of the duties of the office or employment.

49. An allowance received by an employee (other than one employed in connection with the selling of property or negotiating of contracts for the employer) for the use of a "motor vehicle" is taxable under paragraph 6(1)(b) except where the conditions of subparagraphs 6(1)(b)(vii.1), are satisfied; that is,

(a) the allowance is a reasonable amount (see 42 above), and

(b) the allowance is received for travelling in the performance of the duties of the office or employment.

Travelling to the place where a person works generally does not qualify as "travelling in the

performance of the duties of the office or employment." For example, an employee described in 57(a) below would not be "travelling in the performance of the duties of the office or employment" when the employee is travelling from his or her residence to the employer's place of business where he or she reports for instruction or work assignment but the same employee would be "travelling in the performance of the duties of the office or employment" when the employee is travelling between the employer's place of business where the instructions or work assignments are received and where the employer is carrying out the contract.

Reimbursements and Accountable Advances

50. In this bulletin, "reimbursement" and "accountable advance" have the following meanings:

(a) a reimbursement means a payment by an employer to an employee to repay the employee for amounts spent by the employee on the employer's business. Where an employee receives a reasonable allowance to cover particular "motor vehicle" expenses and for other "motor vehicle" expenses the employee charges the cost to the employer (for example, the employee uses the employer's credit card), the amount charged to the employer does not represent a reimbursement. Where subparagraphs 6(1)(b)(x) and (xi) do not apply (see 42 above) and the conditions in subparagraph 6(1)(b)(vii.1) are satisfied (see 49 above), the allowance is excluded from income under subparagraph 6(1)(b)(vii.1); and

(b) an accountable advance means an amount given by an employer to an employee for expenses to be incurred by the employee on the employer's business and to be accounted for by the production of vouchers and the return of any amount not so spent.

51. Usually a reimbursement or an accountable advance for travel expenses is not income in the hands of the employee receiving it, unless it represents payment of the employee's personal expenses. For example, a reimbursement or accountable advance for expenses incurred in travelling between home and the employer's place of business at which the employee ordinarily reports for work is included in income.

52. Where a spouse accompanies an employee on a business trip, the payment or reimbursement by the employer of the spouse's travel expenses is a taxable benefit to the employee, unless the spouse was, in fact, engaged primarily in business activities on behalf of the employer during the trip.

Employment at Special Work Site

53. An allowance, accountable advance or reimbursement received by an employee for board and lodging or certain transportation expenses is excluded from income under subsection 6(6) provided that all the requirements of that subsection are met. In general, this subsection applies to an employee who is required to work at a location some distance from home, either because the duties there are of a temporary nature or because the remoteness of the location is such that the employee could not reasonably be expected to establish a home there. In order to qualify, among other things, the duties of employment must require the employee to be away from home for a period of at least 36 hours. Detailed comments on the requirements of subsection 6(6) are contained in the current version of IT-91, *Employment at Special or Remote Work Sites*.

Part-time Employees

54. The cost of getting to and from the place of employment is a personal or living expense of the employee. Subsection 81(3.1) provides that, to the extent it does not exceed a reasonable amount, an allowance or reimbursement of travel expenses paid by an employer to a part-time employee for travelling to and from the employee's part-time employment shall not be included in computing the employee's income provided that

(a) the part-time employee and the employer were dealing at arm's length,

(b) throughout the period that the expenses were incurred, the employee had other employment or was carrying on a business,

(c) the allowance or reimbursement was paid on account of travel expenses incurred by the employee in respect of part-time employment, other than expenses incurred in the performance of the duties of the part-time employment, and

(d) the duties of the part-time employment were performed at a location not less than 80 kilometres from both the ordinary place of residence and the principal place of employment or business of the employee.

Meals

55. Except where the employee is required to be away from home for a period of at least twelve hours from the municipality and the metropolitan area in which the employer's establishment is located, subsection 8(4) provides that the employee may not deduct under paragraph 8(1)(f) or (h) the cost of meals consumed while away from home in the course of performing the duties of employment. This means that the employee usually cannot be allowed a deduction for meals unless they are consumed during a trip that requires an overnight stay away from home. Where the employee is entitled to deduct an amount for the cost of a meal, the amount deductible is limited under subsection 67.1(1) to 50% (80% for expenses incurred before February 22, 1994 for food and beverages consumed before March 1994) of the lesser of

(a) the amount paid for the meal, and

(b) a reasonable amount for the meal.

The limitation on the cost of meals is discussed in the current version of IT-518, *Food, Beverages and Entertainment Expenses*. For further information, see the current version of Information Circular 73-21, *Away-from-Home Expenses*.

56. The employer's establishment referred to in subsection 8(4) is the one to which the employee ordinarily reports for work. It includes an employer's place of business (see 32(c) above) and may also include any place where the employer is carrying out a contract. Where the employer has more than one place of business to which an employee ordinarily reports on a continuing basis, the establishment referred to in subsection 8(4) is the one to which the employee reports most frequently. Where more than one of the employer's places of business is located within the same municipality or metropolitan area, all such places of business will be viewed as a single establishment for the purpose of subsection 8(4).

57. In determining whether subsection 8(4) applies to an employee who is working at a place where the employer is carrying out a contract, a distinction must be made between two groups of employees.

(a) The first group consists of employees (for example, supervisory engineers) who are employed on a more-or-less permanent basis. Where such an employee is required to report for instruction or a new assignment at a place of business of the employer but spends most of the time away from it working at places where the employer is carrying out contracts, subsection 8(4) does not prevent the employee from deducting the cost of meals (subject to the percentage limitation discussed in 55 above) consumed while away for the required 12 hours from the municipality and metropolitan area in which that place of business is located. However, subsection 8(4) will apply if the employee is not so away.

(b) The second group consists of temporary employees; for example, employees hired to work on a particular project of the employer and who may or may not be kept on the payroll when that project is completed. Where such an employee is hired to work solely at a place where the employer is carrying out a contract and the employee's responsibility is to report to that place for work and to receive instructions from a person who is in charge there (that is, the employee does not ordinarily report to any other establishment of the employer), the place where the contract is being carried out is regarded as the employer's particular establishment to which the employee ordinarily reports for work. By reason of subsection 8(4), amounts spent on meals consumed while working at that place are not deductible in computing the employee's income. However, where the employer requires the employee to work somewhere else on a temporary basis so that the employee is away for at least twelve hours from the municipality and metropolitan area in which the particular establishment is located, the employee is entitled to a deduction for the cost of meals, subject to the percentage limitation discussed in 55 above.

The comments in (b) above generally are also applicable in the case of any employee who is hired at a series of places at which the employer is carrying out a contract or contracts, each such place in turn being looked upon as the establishment to which the employee is ordinarily required to report for work during the time worked there. The deduction entitlement referred to in the last sentence of (b) above is unlikely to have any application to such an employee.

General Remarks

58. Subsection 8(10) provides that no amount may be deducted under paragraph 8(1)(f), (h) or (h.1) for a year unless the employee obtains a form T2200, *Declaration of Conditions of Employment* signed by the employer certifying that the conditions set out in paragraph 8(1)(f), (h) or (h.1) were met for that year. The T2200 should be kept with the taxpayer's records for examination on request.

59. Travel expenses, to be allowable, must be incurred by the employee exclusively for travelling in the course of employment. Amounts paid for business promotion (for example, costs of entertainment of customers or suppliers) are not travel expenses, even though laid out for business reasons while the employee is travelling in the course of employment and even though the employer may provide for such expenses in any travelling allowance made to the employee. Although they are not travel expenses, costs of entertainment may qualify under paragraph 8(1)(f) as a deduction from income where the requirements of that paragraph are met (see 35 and 36 above). Where an employee is entitled to deduct an amount for the cost of entertainment, the amount deductible is limited under subsection 67.1(1) to 50% (80% for expenses incurred before February 22, 1994 for entertainment enjoyed before March 1994) of the lesser of

(a) the amount paid for the entertainment, and

(b) an amount for the entertainment that would be reasonable in the circumstances.

The limitation for the cost of entertainment is discussed in the current version of IT-518, *Food, Beverages and Entertainment Expenses.*

60. To the extent that travel expenses are unreasonable, they are not deductible by virtue of section 67.

61. Pursuant to subsection 6(8), an employee who

(a) deducts an expense under section 8 or

(b) includes an amount in the capital cost of a motor vehicle that is used, or an aircraft that is required for use, in the performance of the employee's duties of an office or employment and

the employee receives a rebate for any GST for the expense or for the capital cost of the motor vehicle or aircraft, the amount of the rebate in the year of receipt

(c) is included in income from an office or employment to the extent the rebate relates to the expense, or

(d) reduces the capital cost of the motor vehicle or aircraft to the extent that the rebate relates to that property.

Preparation of T4 Slips by Employer

62. If an employer is providing its employees with allowances, reimbursements or accountable advances for travel expenses, reference should be made to 40 through 52 above when preparing T4 slips.

Appendix

Assumptions:

- Mr. Sammy Runz is a travelling salesperson who receives a commission on his sales. He is required to pay his automobile expenses but receives an allowance of $.22 per kilometre plus a reimbursement of up to $50 per month for petroleum products.
- In 1993, Mr. Runz sold an automobile for $4,000 which he had used in his employment from the time of its acquisition in 1990. Mr. Runz paid $20,000 including PST and GST for this automobile. (Prior to the acquisition of this car, Mr. Runz used automobiles supplied by his employer.) Mr. Runz claims the maximum amount of capital cost allowance to which he is entitled.
- On September 1, 1993, Mr. Runz purchased a new automobile at a cost of $28,000 plus GST and PST (which amounted to $4,200). To assist in purchasing this automobile he borrowed some money and paid interest of $800 on the debt. Mr. Runz retired this debt on December 31, 1993.
- In 1994, Mr. Runz's employer decided to resume supplying its salespersons with automobiles and on June 30, 1994 Mr. Runz sold the automobile that he had purchased in 1993 to his employer for the fair market value at June 30, 1994.

Analysis:

While a reasonable allowance for travel expenses of a person engaged in selling property or negotiating contracts for an employer need not be included in income by virtue of subparagraph 6(1)(b)(v) (see 45 above) the amount that Mr. Runz received is deemed by subparagraph 6(1)(b(xi) not to be a reasonable allowance since he received both an allowance and a reimbursement of expenses (see 42 above).

If Mr. Runz's employer provides him with a form T2200, *Declaration of Conditions of Employment* (see 58 above) and certifies that the conditions set out in paragraph 8(1)(f) are met (see 35 above) Mr. Runz will be able to claim capital cost allowance and interest expense under paragraph 8(1)(j) for the automobiles used by him in his employment (see 15 and 27 above).

The automobile that Mr. Runz acquired in 1990 was placed in Class 10 of Schedule II of the Regulations (see 17 above) since the prescribed amount for passenger vehicles purchased in 1990 was $24,000 (see the discussion of subsection 7307(1) of the Regulations in 9 above). Mr. Runz may include capital cost allowance of $3,000 in 1990, $5,100 in 1991 and $3,570 in 1992(1) in calculating the amount of automobile expenses that he can deduct in those years. He is not entitled to include either capital cost allowance or a terminal loss in calculating his income for 1993 for the automobile that he purchased in 1990.

The automobile that Mr. Runz acquired in 1993 was placed in Class 10.1 of Schedule II of the Regulations (see 17 above) since the prescribed amount for passenger vehicles purchased after 1990 is $24,000 plus the GST and PST on $24,000 (see the discussion of subsection 7307(1) of the Regulations in 9 above). The amount of $24,000 plus GST and PST thereon was $27,600 in the province where Mr. Runz lived. Mr. Runz can include $4,140(2) in 1993 and $3,519(3) in 1994 of capital cost allowance on this vehicle in calculating the amount of automobile expenses that he can deduct in those years. There can be neither a recapture of capital cost allowance nor a terminal loss on the disposition of a Class 10.1 property (see 18 and 24 above).

Mr. Runz can include the interest of $800 in calculating the amount of motor vehicle expenses that he can deduct in 1993. The interest limit discussed in 28 above is $300/30 × 122 = $1,220.

While Mr. Runz includes the various amounts of capital cost allowance and interest noted above in calculating the amount of motor vehicle expenses for the year he must reduce those amounts to reflect his personal use of the automobile to determine the amount that he can deduct in calculating his income.

(1) The capital cost allowance is calculated as:

1990 cost of acquisition	$ 20,000
1990 CCA (30% × 20,000 × 1/2*)	3,000
1990 Undepreciated capital cost	$ 17,000
1991 CCA (30% × 17,000)	5,100
1991 Undepreciated capital cost	$ 11,900
1992 CCA (30% × 11,900)	3,570
1992 Undepreciated capital cost	$ 8,330
1993 Proceeds of disposition	4,000
	$ 4,330

(2) Capital cost allowance for 1993 is calculated as:

1993 cost of acquisition as determined under paragraph 13(7)(g) (see 16 above)	$ 27,600
1993 CCA (30% × 27,600 × 1/2*)	4,140
1993 Undepreciated capital cost	$ 23,460

(3) Capital cost allowance for 1994 is calculated as:

Undepreciated capital cost at the end of 1993	$ 23,460
1994 CCA (30% × 23,460 × 1/2**)	$ 3,519

* Pursuant to subsection 1100(2) of the Regulations, CCA is reduced to one half of the normal amount in the year a motor vehicle is acquired or becomes available for use (see 24 above).

** Pursuant to subsection 1100(2.5) of the Regulations, CCA is reduced to one half of the normal amount in the year a Class 10.1 motor vehicle is disposed of (see 24 above).

If you have any comments regarding the matters discussed in this bulletin, please send them to:

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875 Heron Road
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Explanation of Changes for Interpretation Bulletin IT-522R - *Vehicle, Travel and Sales Expenses of Employees*

Introduction

The purpose of the *Explanation of Changes* is to explain the reasons for the revisions to an interpretation bulletin. It outlines revisions that we have made as a result of changes to the law, as well as changes reflecting new or revised departmental interpretations.

Overview

The bulletin describes the taxability of allowances for travelling expenses that an employee may receive in connection with an office or employment and the sales and travel expenses that an employee may deduct in computing income from such a source.

The bulletin reflects amendments to the *Income Tax Act* resulting from S.C. 1994, c.7

Schedule II (S.C. 1991, c.49 – formerly Bill C-18), S.C. 1994, c.21 (formerly Bill C-27), and S.C. 1995, c.3 (formerly Bill C-59).

In a Press Release dated December 12, 1995, the Parliamentary Secretary to the Minister of Finance referred to subsections 7307(1) – (4) of the Regulations (as described in paragraphs 9 and 28 of the bulletin) and announced that the subsections would not be changed for 1996. Except as described in the note following ¶ 43, the comments in the bulletin are not otherwise affected by proposed legislation that has been released as of February 16, 1996.

Legislative and Other Changes

¶ 1 reflects the amended definition of "automobile" contained in Bill C-18. Generally, the amendment removes from the definition of "automobile," buses, vans, pick-up trucks and motor vehicles used for transporting passengers in the business of arranging or managing funerals.

¶ 9 reflects the amendment to section 67.3 contained in Bill C-18. The amendment deletes the reference to provincial sales tax and permits taxpayers using the cash basis method of calculating income to deduct amounts paid in connection with the cost of leasing a passenger vehicle. A description of the relevant prescribed amounts was also added.

¶ 10 gives an example of the application of section 67.3, including the changes described in ¶ 9, and reflects the amounts presently prescribed in section 7307 of the Regulations.

¶ 31 reflects an amendment to paragraph 8(1)(h) and the addition of paragraph 8(1)(h.1) by Bill C-18. Paragraph 8(1)(h) is no longer concerned with motor vehicle travel expenses which are now dealt with in paragraph 8(1)(h.1).

¶ 35 (former ¶ 36) reflects the amendment in Bill C-18 to paragraph 8(1)(f). This amendment clarifies the limits of the deduction provided for under paragraph 8(1)(f) by stating that no deduction is permitted for a payment which results in a reduction of the standby charge that would otherwise be included in the employee's income.

¶ 38 (former ¶ 39) was revised to incorporate observations from former ¶ 34 and to describe that it may be advantageous for a salesperson who is in receipt of two travel allowances (only one of which is excluded from income) and who is entitled to deduct motor vehicle expenses under paragraph 8(1)(h.1) to only deduct expenses under that paragraph rather than include both allowances in income and deduct expenses under paragraph 8(1)(f).

¶ 42 (former ¶ 43) reflects the amendments in Bill C-18 and Bill C-27 to subparagraphs 6(1)(b)(x) and (xi). It is now provided that an allowance under subparagraph 6(1)(b)(v),(vi) or (vii.1) is deemed not to be a reasonable amount and must therefore be included in income if the employee is also reimbursed in whole or in part for expenses other than supplementary business insurance, toll or ferry charges, or if the allowance is not based solely on the number of kilometres the vehicle is used for employment purposes.

¶ 43 (former ¶ 45) reflects the regulations as promulgated. A note has been added following the paragraph to describe a Press Release dated December 12, 1995 which, for 1996, increased the tax-exempt allowances paid by employers to employees by 2 cents per kilometre.

¶ 49 (former ¶ 51) was expanded to provide an example of an employee travelling in the performance of the duties of an office or employment.

¶ 55 (former ¶ 58) reflects the Bill C-59 amendment to subsection 67.1 which reduced the portion of the cost of food and beverages that an employee could deduct to 50% from 80%.

¶ 59 (former ¶ 61) reflects the Bill C-59 amendment to subsection 67.1 which reduced the portion of the cost of entertainment that an employee could deduct to 50% from 80%.

¶ 62 was added to reflect subsection 6(8). The provision applies to an employee who in certain circumstances receives a rebate of the goods and services tax.

Former ¶ 46 was not carried forward as the comments are no longer relevant.

Former ¶ 52 was not carried forward as subparagraphs 6(1)(b)(vii) and (vii.1) were amended by Bill C-18 to permit allowances that are not reasonable to be included in income rather than only those in excess of a reasonable amount.

An Appendix was added to illustrate some of the provisions discussed in the bulletin.

Throughout the bulletin we have deleted observations which are no longer relevant and we have revised some of the wording to improve readability without altering the substance.

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