



TAX LETTER

Business Expenses, Employee Benefits and Shareholder Appropriations (Updated December 2008)

Canada Revenue Agency (CRA) has consistently shown considerable interest in areas of particular concern such as travelling, automobile, entertainment and promotion expenses, as well as benefits to employees and shareholders.

In general, when there is a dispute with CRA over a particular matter, the onus of proof is on the taxpayer. Furthermore, in a case where CRA alleges that the benefit was to a shareholder, it may invoke the shareholder appropriation rules. The results amount to double taxation – the company is denied a deduction for the expense and the shareholder is deemed to have received the amount paid for the expense (which allegedly was for the shareholder's benefit) as income! Therefore, it would be prudent to maintain complete and properly documented records for all business expenses.

1. Travelling expenses:

- travelling expenses must be incurred for business purposes;
- details of the nature and purpose of each business trip should be well documented;
- reasonable out-of-town travel allowances to cover the various expenses of travelling are deductible by the employer and not taxable to the employee.

2. Automobile expenses:

- automobile expenses should be based on actual mileage travelled for business purposes and should be supported by a log;
- car insurance, repair and maintenance, gasoline expenses etc. should be prorated according to business and personal use;
- the current prescribed non-taxable mileage reimbursement for employees using their own vehicles for carrying out employment duties is 52 cents per km. for the first 5,000 kms. and 46 cents per km. thereafter;
- please note that travelling to and from work is considered a personal expense of the employee.

3. Entertainment and promotion:

- entertainment and promotion expenses should be incurred for business purposes only;
- details of the party entertained, business relationship, and matters discussed should be documented;



- meals for employees could be 100% deducted if they are generally available to all individuals employed by the company (e.g. Christmas dinner for the whole company); however, CRA has indicated that the cost per employee must be reasonable (guideline is not exceeding \$100 per person) – otherwise, the employees could be assessed a taxable benefit;
- amounts related to a fund-raising event, the primary purpose of which is to benefit a registered charity, would also be 100% deductible.

4. Employment benefits:

Examples of items considered to be taxable benefits to an employee and included in his/her employment income:

- company-provided rent-free or low-rent housing; the taxable benefit would be equal to the difference between what is charged and the fair market rent;
- interest-free or low-interest loans, and forgiven loans;
- frequent flyer / air miles points accumulated during business travel and used for personal trips by the employee;
- subsidized meals, unless the employee is required to pay a reasonable charge (generally cost of food, preparation and service).

Please note that the company's contributions to private health and dental plans for the employees are not taxable benefits.

The material in this tax letter is intended to be general information and not specific advice for any particular individual or entity. Readers are cautioned that they should seek appropriate professional advice from an accountant or tax lawyer on their specific situation. We would be pleased to be of further assistance.