PERSONAL Newsletter

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Deductions from Employment Income

Only specific kinds of expenses may be deducted from employment income. Compared to the broad number of expenses that can be claimed for computing business income for tax purposes, the scope of employment deductions is much narrower. This article provides an overview of the most common types of expenses that can be deducted from employment income, and the criteria for each deduction. Note that the amount you can deduct also includes sales taxes paid for the good or service.

Home Office

Employees using a home office may claim the rent as well as the electrical, heating, and maintenance costs in proportion to the space occupied for employment purposes. They may not deduct property taxes, home insurance premiums, mortgage interests, or capital cost allowance.

Eligible expenses are only deductible if one of the following conditions is met:

- the home office is the place where the employment duties are principally performed; or
- the home office is used exclusively to earn employment income and is used to meet clients or other persons on a regular and continuous basis in the normal course of employment.

The deduction of home office expenses cannot exceed the employment income earned in the year. However, expenses not deducted in a year because of this limit may be claimed in a following year.

Travel Expenses

An employee may claim the amounts expended in the year for travelling in the course of employment if the employee:

- is ordinarily required to carry on employment duties away from the employer's place of business;
- is required, under the contract of employment, to pay these expenses;
- does not receive a tax-free allowance to cover these expenses; and
- does not claim a deduction, as an employee of a railway company, a commissioned salesperson, or a transport company employee.

Travel expenses include amounts paid for meals, lodging, and automobile expenses, and are discussed in greater detail below.

Meal Expenses

The cost incurred for meals may be deductible by an employee only if the meals are taken during a period where the employee's duties oblige him/her to be away for more than 12 hours from the municipality or metropolitan region where the employer's place of business is located.

Meal expenses may be deducted only up to 50% of the cost incurred for a regular employee (80% of the cost for long-haul truck drivers). To qualify for the higher deduction, the driver must be away for at least 24 continuous hours from his/her place of business (if employed) or residence (if self-employed), and his/her trip must be at least 160 kilometres long.

Automobile Expenses

The following automobile expenses are deductible based on the kilometres travelled in the year for employment purposes:

- gas and oil;
- maintenance and repairs;
- insurance premiums;
- car registration and driver's permit; and
- leasing costs (taking into account the limit below).

Automobile Leasing Costs

Employees paying lease charges for a passenger vehicle used to earn employment income must use the following formula to calculate the maximum leasing costs they are allowed to deduct from their income as allowable motor vehicle expenses.

1. Total lease charges paid for the vehicle for the current year
2. Total lease payments deducted for the vehicle before the current year
3. Total number of days the vehicle was leased for the current and prior years
4. Manufacturer's list price of the vehicle
5. $35,294 + GST and PST, or HST on $35,294
6. [Greater of line 4 or 5] x 85%
7. [$800 + GST and PST, or HST on $800] x [Line 3/30 days] - Line 2
8. [$30,000 + GST and PST, or HST on $30,000] x [Line 1/Line 6]
9. Eligible leasing costs are the lesser of Line (7) or (8).

If the vehicle is used for both business and personal purposes, only the portion of eligible leasing costs related to the business use of the vehicle is deductible from the employment income.

Capital Cost Allowance and Loan Interest

In addition to deductible automobile expenses, an employee may claim the capital cost allowance and the interest on a loan for the acquisition of a vehicle, based on the kilometres travelled for employment purposes.

The calculation of the capital cost allowance must take into account the following rules with respect to "passenger vehicles":

- Passenger vehicles costing $30,000 or less plus all applicable sales taxes are part of Class 10.
- Passenger vehicles costing more than $30,000 plus all applicable sales taxes are part of Class 10.1.
- Only the first $30,000 plus all applicable sales taxes may be subject to capital cost allowance. Recovered applicable sales tax is excluded from this amount.
- A separate class 10.1 must be created for each eligible vehicle. Each new acquisition is subject to the "half-year rule" (i.e., in the year of acquisition of a vehicle, you can only claim a capital cost allowance on one-half of its cost).
- No recapture or terminal loss may result from the disposition of a vehicle included in class 10.1. However, in the year of disposition of the vehicle, a capital cost allowance representing half the deduction normally claimed is granted.
- No terminal loss can result from the disposition of a vehicle included in class 10. However, if the disposition generates a recapture, the amount of this recapture must be included in income.

- No capital cost allowance is permitted when the same class 10.1 vehicle has been acquired and disposed of in the same year.

The maximum amount that may be used to calculate the carrying charges paid with respect to funds borrowed to purchase a passenger vehicle is $300 per month.

Parking

Parking fees incurred elsewhere than the usual place of employment and for the purpose of earning business income are fully deductible.

Refunds and Allowances

Refunds of automobile expenses by an employer and reasonable allowances based exclusively on the distance travelled for employment purposes are excluded from the employee's income. However, any allowance that is considered not reasonable must be included in the employee's income. For 2017, the portion of allowances paid that exceeds 54 cents per kilometre for the first 5,000 kilometres and 48 cents per kilometre for additional kilometres is considered unreasonable. For the territories, those limits are 58 cents and 52 cents, respectively.

Professional and Union Dues

An employee may deduct the following contributions if they have not been reimbursed and the employee is not entitled to a reimbursement:

- annual professional membership dues which are required to maintain a professional status recognized by statute;
- annual dues to a trade union; and
- annual dues to a parity or advisory committee or similar body which are required under the laws of a province.

The contribution is not, however, deductible if it is paid for one of the following purposes:

- superannuation fund or plan;
- insurance plan (other than mandatory liability insurance to maintain a professional status recognized by law); or
- any other purpose not directly related to ordinary operating costs of the organization to which the contribution was paid.

Rent, Salary, and Supplies

An employee may claim the following expenses if he/she is required to pay them under his/her employment contract:

- office rent;
- supplies used directly in his/her employment duties; and
- the salary of an assistant or substitute, and related EI, CPP/QPP, and QPIP premiums.

The expenses are deductible whether they are paid by the employee or paid on his/her behalf and included in his/her income. However, the following expenses, among others, are not deductible:

- the cost of tools considered as equipment (except the cost of apprentice vehicle mechanics' tools);
- the acquisition or rental cost of a computer; and
- the cost of special clothing.

Legal and Accounting Expenses

An employee may claim legal fees paid to collect or establish a right to collect any amount to be included in his/her employment income. However, an employee cannot claim fees paid to meet his/her obligation to file a tax return (except if the employee is a commissioned salesperson).