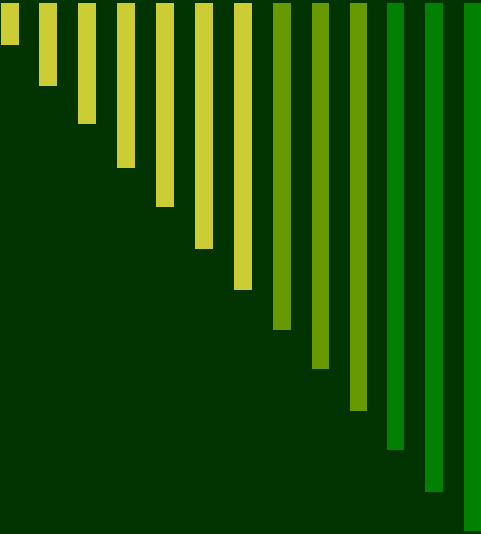


Chamber Presentation 2006 Part 2

Mixed Use Expenses
Masuda Munro Chartered
Accountants



Expenses/Assets with both a Personal and Business Element



Meals and Entertainment

- Food, beverage, and entertainment expenses, which are incurred for the purpose of income, are generally restricted to 50% of the amount actually paid.
-



Meals and Entertainment

- The 50% limitation does not apply if:
 - The employer incurs the amount for food, beverages, or entertainment that is generally available to all its employees.
 - Is consumed or enjoyed by them.
 - Not to exceed 6 events per year.
-



Meals

- The 50% limitation applies to:
 - The cost of food or beverages.
 - Any related expenses such as Tips and Taxes.
 - The cost of a restaurant gift certificate.
-



Entertainment

- Includes amusement and recreation.
 - Includes but not restricted to the following:
 - Tickets for theater or concert events or performances
 - Private boxes at events
 - Hospitality suite room rentals
 - Cruises
 - Admission to a fashion show
 - Entertaining guests at night clubs and on vacation
-



Deemed to Enjoy

- ❑ The act refers to “the enjoyment of entertainment”.
 - ❑ CRA does not accept that you did not enjoy the event because, for example, your team lost.
 - ❑ It refers to the mere attendance at or experience of the event or service.
 - ❑ You are deemed to have enjoyed.
-



Documentary Evidence

- Records are to be maintained of the customers or persons being entertained:
 - Names
 - Business addresses
 - Will also include the following information about the entertainment:
 - Places
 - Dates
 - Times
 - Amounts supported by such vouchers as are reasonably obtainable
-



Use of Recreational Facilities and Club Dues

- Act restricts the entire amount of outlay or expense.
 - Relating to types of activities or facilities which are perceived by parliament to have marginal business purpose and prone to abuse.
-



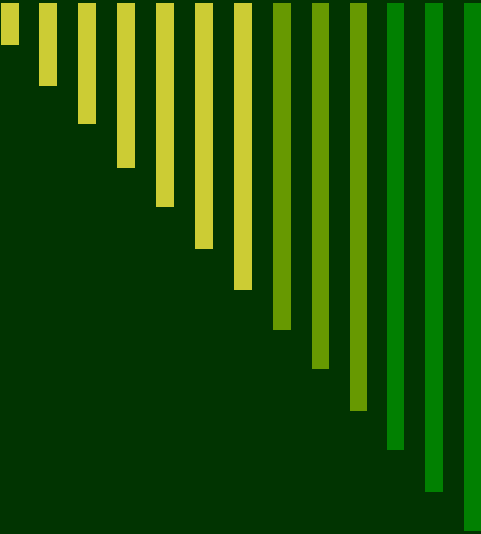
Use of Recreational Facilities and Club Dues

- Yacht, camp, lodge, golf course or facility.
 - Membership in dining, recreational or sporting club.
-



Meals and Beverages at Golf Clubs

- Are not 100% disallowed.
 - Function as regular meals at 50%.
-



Other Fringe Benefits



Other Fringe Benefits

- ❑ Assume that any benefit provided to an employee is taxable.
 - ❑ Check if the Income Tax Act specifically excludes the particular benefit
 - ❑ If the act is silent about the benefit, ask who gets the greatest benefit of the amount paid or use of an item.
 - ❑ If it is the employer then there may not be a benefit to the employee.
 - ❑ Taxpayers often have to go to court to get this treatment.
-



Other Fringe Benefits

- CRA has certain favorable administrative positions that exempt benefits from taxation that would otherwise be taxable.
 - For example the \$500 gift and award policy.



The \$500 Gift and Award Policy

- Allows 2 non-cash gifts or awards per year per employee with a total cost not exceeding \$500.
 - Will not be taxable in the hands of the employee.
 - Will be deductible by the employer.
 - Meant for such things as
 - Longevity
 - Safety
 - Christmas
 - Births
 - Marriage
 - Etc.
-



The \$500 Gift and Award Policy

- Does not apply to cash or near cash:
 - Gift certificates
 - Gold nuggets
 - If it is over \$500:
 - The full fair market value is taxable
 - The full fair market value is included in the employee's income
 - The employee may receive up to 2 gifts and two awards in a year, tax free as long as the total cost to the employer does not exceed \$500 for the gifts and \$500 for the awards.
-



Gift and Award Policy

- The following gifts and award are considered a taxable employment benefit:
 - Cash or near cash gifts and awards
 - Points
 - Reimbursements
 - Hospitality rewards
 - Gifts and awards given by closely held corporations to their shareholders or related persons
 - Disguised remuneration
 - Manufacturer-provided gifts or awards given directly by the manufacturer to the employee of a dealer
-



Christmas Parties & Employer Paid Special Events

- An employer-provided party or other social event which is generally available to all employees, if the cost per employee is reasonable in the circumstance, is accepted as a non-taxable privilege.
 - As a guideline those events costing up to \$100 per person will be considered to be non-taxable.
-



Use of Home - Corporations



Criteria and Restrictions for Individual's Income from Employment

- For an employee to deduct an amount in respect of a work space in a home
 - The work space must be either:
 - The place where the individual principally performs the employment duties or
 - Used exclusively to earn income from employment and be used on a regular and continuous basis for meeting customers or other persons in the ordinary course of performing the employment duties.
 - Limited to the income from the employment.
 - Expenses on account of capital cost allowance, property taxes, insurance and mortgage interest will not be allowed.
-



Criteria and Restrictions for Individual's Income from Business

- For a self employed individual to deduct an amount in respect to a work space in a home:
 - The work space must be either:
 - The principle place of business or
 - Be used exclusively for the purpose of earning income from business and be used on a regular and continuous basis for meeting clients, customers or patients in respect of the business.
 - Limited to the income from the business for the year.
-



Criteria and Restrictions for Corporations

□ Must be reasonable

- Any expense incurred by the corporation must be reasonable in relation to the good or services the corporation receives.
- Where a shareholder of the corporation obtains a tax advantage, CRA will be more judgmental about “reasonableness”.

□ Must be Incurred to Earn Income

- The expense must be incurred by the corporation for the purpose of earning income from the business or property.
-



Canada Revenue Agency Website

www.cra-arc.gc.ca

- **My Account** connects you to personal tax and benefit information
 - 21 hours a day
 - 7 days a week

 - Allows you to:
 - Change a return
 - Change an address
 - Authorize a representative
 - Register a formal dispute
-



Canada Revenue Agency Website

www.cra.gc.ca

- The following information is also available:
 - Returns
 - Carryover amounts
 - CCTB and GST/HST credit
 - Account balance and statement of account
 - Installments
 - Direct deposit
 - RRSP
 - Home Buyers' Plan and Lifelong Learning Plan
 - Authorized Representatives
-



This presentation is courtesy of

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