

January , 2024

Dear Client:

In order to facilitate the accurate preparation of your 2023 T4 information returns, we are pleased to enclose a summary of significant taxable benefits that may apply to your employees.

New for 2023 - T4 information returns filed after December 31, 2023, **if you are submitting more than 6 information returns (slips), you are required to file electronically.** If you do not file electronically when required to do so, the Canada Revenue Agency “CRA” will assess a penalty of \$125 per T4 slip.

If your T4 information return is being prepared by Lipton LLP, it will be electronically filed whenever possible.

If you have any questions concerning the preparation of 2023 T4 information returns and slips, please contact your Lipton LLP advisor.

Yours very truly,

Lipton LLP

Chartered Professional Accountants
Licensed Public Accountants

TAXABLE BENEFITS

New for 2023 - Employer-offered dental benefits – Box 45

For the 2023 calendar year and after, it is mandatory to indicate whether the employee or any of their family members were eligible to access any dental care insurance or coverage of dental services of any kind on December 31, 2023.

Employers must report the details on a new box 45 provided in the information return by indicating the following codes:

- 1 Not eligible to access any dental care insurance, or coverage of dental services of any kind.
- 2 Payee only.
- 3 Payee, spouse, and dependent children.
- 4 Payee and their spouse.
- 5 Payee and their dependent children.

For administrative convenience, *for 2023 only*, employers *need not* complete Box 45 if Code 1 applies to the employee (i.e., they had no access to coverage of any kind). This administrative policy only applies if all reasonable efforts have been made to comply with the reporting requirements. Note that for the 2023 T4 slips filed before January 2024, are not required to be amended.

Employee/Shareholder Loans:

Where a person received an interest-free or low-interest loan by virtue of his/her employment or by virtue of being a shareholder of a corporation, he or she is deemed to have received a taxable benefit from the corporation. As well, the individual is deemed to have received a taxable benefit if the loan was made to another person who is related to him or her, and the loan was made by virtue of his or her shareholdings in or employment with the corporation.

The taxable benefit is included in income to the extent that the amount of interest that the individual has paid to the corporation during the year (or within 30 days of the immediately following year) is less than the interest for the year computed at the prescribed interest rate. For the 2023 calendar year, the prescribed interest rate was 4% for the first quarter and 5% for the remaining three quarters. Attached is a schedule which will assist you in the calculation of the interest benefit where the average monthly balance is indicative of the true amount of the loan. Where this is not the case, the interest will have to be calculated on daily basis.

There are some exceptions to the general rule of computing a taxable benefit on interest-free or low-interest loans. These exceptions mainly involve loans granted to purchase housing units or certain shares by an individual. In certain cases, the taxable benefit can be reduced where the loan was made for investment purposes. Please contact us if these circumstances apply to you.

Personal Use of Employer's Automobile:

The taxable benefit on a company-owned or company-leased automobile made available to an individual is calculated in two parts:

1. The first part involves a standby charge, which is a maximum of 2% of the original cost of the automobile including HST, for each 30-day period where the employer owns the automobile, or 2/3 of the monthly lease charges, excluding insurance, for the number of months the car is available to the employee. The standby charge may be reduced if the kilometers driven for business use are more than 50% of the total kilometers driven and less than 20,004 kilometers per year or an average of 1,667 kilometers a month are driven for personal use.

Remember, driving directly from home to your regular place of business and back is not considered “business use” by the CRA.

If there is a reduction in the standby charge, there may also be a reduction in the operating benefit noted below if the election is made to base the latter benefit on ½ of the standby charge.

Keeping an accurate mileage log book to support the claim is required.

2. The second part of the benefit involves the automobile operating costs paid by the employer. The amount of this benefit can be calculated using either one of the following methods:
 - a) 50% of the standby charge in respect of the automobile as discussed above (if the automobile was used more than 50% for business purposes as noted above), or
 - b) for those individuals not entitled to use the method under (a) above, or who choose not to use it, the amount of the benefit is determined by reference to the number of kilometres driven for personal purposes. For 2023, the benefit is equal to 33 cents for each such kilometre. For those employees principally selling or leasing automobiles, the prescribed rate is 30 cents per kilometre. In both cases, the amount of the operating cost benefit is reduced by any reimbursements paid to the employer by the employee during the year in respect of the operating costs.

If there is no automobile standby charge, the general rule for calculating the operating cost benefit is that proportion of operating costs that personal use mileage is of total mileage.

We strongly recommend that the situation of everyone be reviewed in light of these rules. Where possible, the method yielding the lowest taxable benefit on operating expenses should be used. If it is determined that the first method of calculating the operating cost benefit (50% of the standby charge) is available and is more beneficial, a letter should have been obtained from the individual prior to December 31, 2023 notifying the employer that the benefit should be calculated on that basis. For 2024 reductions, this letter should be obtained now.

Attached are schedules to assist you in the calculation of an individual's automobile benefits where the employer purchased or leased an automobile and made it available to the shareholder or employee.

It is important that you keep well documented records with your T4 files as to how the benefit was calculated.

Payments for Use of Employee's Automobile:

In certain circumstances, employers reimburse individuals for business use of an employee-owned automobile. The payments are usually made through a fixed car allowance, payments for operating costs, mileage allowance, or a combination thereof. The CRA publishes reasonable allowance rates.

For 2023, these rates are 68 cents per kilometre for the first 5,000 kilometres driven and 62 cents per kilometre thereafter. Income tax rules make the tax treatment of these payments complex. For clarification, please contact our office.

Insurance Plans:

Generally, payments to privately held medical and dental plans, are not considered a taxable benefit to the employee. However, payments of life, critical illness and personal disability insurance premiums made for an employee's benefit are considered full taxable benefits and should be included in the employee's 2023 employment income.

Other Taxable Benefits:

The taxable benefits discussed above are the most common benefits encountered when preparing T4s. Other taxable benefits which require reporting are board and lodging, rent-free or low rent housing, gifts, holiday trips, prizes, incentive awards, tuition fees, and stock-option benefits. There are various requirements and certain exceptions dealing with these benefits. Please contact us if you believe any of these benefits have been conferred on your employees.

Completion of T4 Statement of Remuneration Paid

Year - 2023

Box (10) - Province of Employment:

Enter the province of employment (for Ontario, enter ON).

Box (12) - Social Insurance Number:

Enter the employee's social insurance number.

Box (14) - Employee income before deductions:

Include all remuneration before any deductions, as well as all taxable benefits reported in the "Taxable benefits" area (discussed below).

Box (16) - Employee's CPP contributions:

Include all amounts withheld from the employee as a contribution to the

- Canada Pension Plan. (Box (17A) would include all amounts withheld from the employee as a contribution to the Quebec Pension Plan (QPP2).)
- Box (16A) For T4 slips filed for calendar year 2024 and after, report employees' second CPP/QPP contributions - Province of employment other than Quebec
- (Box(17A) would include all amounts withheld from the employee as contribution to QPP2.
- Box (18) - Employee's EI Premium:
- Include all amounts withheld from the employee as a contribution for Employment Insurance premiums.
- Box (20) - Registered pension plan contributions:
- Include all current and past service amounts contributed on behalf of the employee to a registered pension plan. Any amounts relating to past service contributions included in this box should be identified as such in the space provided beneath Box (52).
- Box (22) - Income tax deducted:
- Include all Federal and Provincial (except Quebec) income taxes withheld from the employee.
- Box (24) - EI insurable earnings:
- Include the amount of employee's insurable earnings on which Employment Insurance premiums were required to be remitted up to a maximum of \$61,500 for 2023.
- Box (26) - CPP/QPP pensionable earnings:
- Complete this box only if it is different from the amount reported in Box (14), otherwise leave blank up to a maximum of \$66,600 in 2023.
- Box (27A) For the calendar years 2024 and after, employer's second CPP2 contributions
- Box (28) - Exempt – CPP/QPP, EI and PPIP:
- Enter "X" under "CPP/QPP" if the employee was exempt from contributions to the Canada Pension Plan or Quebec Pension Plan for the entire period of employment. Enter "X" under "EI" if the employee was exempt from Employment Insurance premiums for the entire period of employment.
- Box (29) - Employment code:
- In most cases, this box is to be left blank unless employee was employed as a:
- placement or employment agency worker (code 11)
 - taxi driver (code 12)
 - barber or hairdresser (code 13)

- withdrawal from a prescribed salary deferral arrangement plan (code 14)
- was part of a seasonal agricultural worker program (code 15)
- “detached employee” under a social security agreement (code 16)
- fisher - Self-employed (code 17)

Other information:

Box (44) - Union dues:

Include all deductions from employee's remuneration for qualified union dues.

Box (45) Employer-offered dental benefits

Reports employer-offered dental benefit by selecting from the following codes to report the dental benefits provided to the employee

- 1 Not eligible to access any dental care insurance, or coverage of dental services of any kind.
- 2 Payee only.
- 3 Payee, spouse, and dependent children.
- 4 Payee and their spouse.
- 5 Payee and their dependent children.

Box (46) - Charitable donations:

Include deductions from an employee's remuneration for donations on his/her behalf to registered Canadian charitable organizations.

Box (50) - Registered Pension plan or DPSP registration number:

This amount must be reported for all employees who are members of a Registered Pension Plan or DPSP.

Enter the Canada Revenue Agency registration number of the pension plan to which an employer contributed to on behalf of the employee. This registration number should be entered in all cases where a contribution is made on behalf of the employee, notwithstanding the fact that the plan might be non-contributory (i.e., the employee does not make any contribution to the plan).

Box (52) - Pension Adjustment:

Box (54) - Employer's Account Number:

Enter employer's payroll account number that appears at the top of Statement of Account.

Box (55) - Employee's PPIP premiums:

Enter provincial parental insurance plan premiums that you deducted for employees working in Quebec

Box (56) - PPIP/QPIP insurable earnings:

Enter amount used to calculate employee's PPIP premiums for a maximum of \$91,000 for 2023. Otherwise leave blank if no insurable earnings.

Taxable benefits

The amount of taxable benefits already included in Box 14 must also be shown in the "Other Information" portion of the T4 Supplementary, along with the appropriate box number as follows:

- Box (30) - Board and lodging:

Include subsidized board and lodging and subsidized meals provided to the employee.
- Box (34) - Personal use of employer's automobile:

Include the entire taxable benefit as discussed in this circular.
- Box (36) - Interest-free and low-interest loans and employee home relocation loans:

Include any taxable benefit on employee/shareholder loans as discussed in this circular.

Include any amount deducted from employees for interest free or low interest home relocation loan.
- Box (38) - Security options benefits:

Include any taxable benefit from employer stock options.
- Box (40) - Other taxable allowances and benefits:

Include all other taxable benefits that are not itemized in Boxes (30) through (38). Also include in Box (40) the amount of GST/HST to be included in the employee's income. This subject is discussed in greater detail later in this circular.
- Boxes (39) and (41) - Security options deduction applicable to the benefit reported in Box (38) (not be included in Box (14)).
- Box (42) - Employment commissions

Enter any commissions included in Box (14)
- Box (85) - Employee-paid premiums for private health services plans.

SCHEDULE FOR CALCULATION OF
SHAREHOLDERS'/EMPLOYEES' AUTOMOBILE BENEFIT
2023

Company-owned vehicle:

Standby Charge:

1. (A) _____ x 2% $\frac{(B)}{30}$ * = \$ _____ (C) Maximum standby charge
2. (D) _____ x $\frac{(E)}{(F)}$ = \$ _____ (G) Reduced standby charge applicable only if automobile is used > 50% for business purposes and personal use is < 1,667 kilometres per month
3. Lesser of (C) and (G) \$ _____ (H) Actual standby charge benefit

Operating Cost Benefit:

4. \$ _____ (I) Operating cost benefit method (a)
- (J) _____ x 33¢ (or 30¢ if auto salesperson) = \$ _____ (K) Operating cost benefit method (b)
5. Lesser of (I) and (K) \$ _____ (L)

Total Benefit to be Reported:

6. Sub-total (H) + (L) \$ _____ (M)
7. Less \$ _____ (N)
8. Total (M) – (N) \$ _____ (O)

- (A) Total cost of automobile to employer.
- (B) Number of days automobile was available to employee/shareholder (365 days unless automobile was purchased and/or sold during the year).
- (C) Total standby charge before reduction, if any.
- (D) Amount from (C).
- (E) Personal kilometres driven in the period (not to exceed an average of 1,667 kilometres per month and only if automobile is used more than 50% for business use, otherwise disregard this calculation as a reduced standby charge is not available and the amount calculated in (C) applies).
- (F) 1,667 kilometres x number of months automobile was available to employee/shareholder (maximum of 20,004 kilometres per year).
- (G) Reduced standby charge (if applicable).
- (H) Taxable benefit standby charge.
- (I) Equal to (K) unless automobile is used > 50% for business purposes, then equal to 50% of (H).
- (J) Total personal kilometres driven in the year.
- (N) Any amounts that the employee reimbursed the employer during the year for use of automobile.
- (O) Total benefit to be reported on T4.

* Rounded up to nearest whole number (not to exceed 12)

SCHEDULE FOR CALCULATION OF
SHAREHOLDERS'/EMPLOYEES' AUTOMOBILE BENEFIT
2023

Company leased vehicle:

Name of Shareholder/Employee: _____

Standby Charge:

1. (A) _____ x $\frac{2}{3}$ $\frac{(B)}{30}$ * = \$ _____ (C) Maximum standby charge
2. (D) _____ x $\frac{(E)}{(F)}$ = \$ _____ (G) Reduced standby charge applicable only if automobile is used > 50% for business purposes and personal use is < 1,667 kilometres per month
3. Lesser of (C) and (G) \$ _____ (H) Actual standby charge benefit

Operating Cost Benefit:

4. \$ _____ (I) Operating cost benefit method (a)
- (J) _____ x 33¢ (or 30¢ if auto salesperson) = \$ _____ (K) Operating cost benefit method (b)
5. Lesser of (I) and (K) \$ _____ (L)

Total Benefit to be Reported:

6. Sub-total (H) + (L) \$ _____ (M)
7. Less \$ _____ (N)
8. Total (M) – (N) \$ _____ (O)

- (A) Monthly total leasing cost of leased automobile (excluding all operating costs).
- (B) Number of days automobile was available to employee/shareholder (365 days unless automobile was leased and/or lease ended during the year).
- (C) Total standby charge before reduction, if any.
- (D) Amount from (C).
- (E) Personal kilometres driven in the period (not to exceed an average of 1,667 kilometres per month and only if automobile is used more than 50% for business use, otherwise disregard this calculation as a reduced standby charge is not available and the amount calculated in (C) applies).
- (F) 1,667 kilometres x number of months automobile was available to employee/shareholder (maximum of 20,004 kilometres per year).
- (G) Reduced standby charge (if applicable).
- (H) Taxable benefit standby charge.
- (I) Equal to (K) unless automobile is used > 50% for business purposes, then equal to 50% of (H).
- (J) Total personal kilometres driven in the year.
- (N) Any amounts that the employee reimbursed the employer during the year for use of automobile.
- (O) Total benefit to be reported on T4.

* Rounded up to nearest whole number (not to exceed 12)

SCHEDULE FOR CALCULATION OF
SHAREHOLDERS'/EMPLOYEES' LOAN BENEFIT
2023

Name of Shareholder/Employee: _____

<u>Month</u>	<u>Average monthly debit balance (a) or (b)</u>	x	<u>Prescribed rate</u>	=	<u>Taxable benefit</u>
January			0.3397%		\$
February			0.3068%		
March			0.3397%		
April			0.4110%		
May			0.4247%		
June			0.4110%		
July			0.4247%		
August			0.4247%		
September			0.4110%		
October			0.4247%		
November			0.4110%		
December			0.4247%		_____
Less: Interest paid by the shareholder/employee during the year and within 30 days after the year end					_____
Total benefit to be reported on T4					\$ <u> </u>

a) If average monthly balance is indicative of true amount of loan, then calculate as:

$$\frac{\text{Opening monthly balance} + \text{closing monthly balance}}{2}$$

b) If average monthly balance is not indicative of the true amount of loan, then the taxable benefit should be calculated on daily basis. The annual interest rate that should be applied in these circumstances is as follows:

- For all balances outstanding from January 1, 2023 to March 31, 2023, the rate is 4% annually.
- For all balances outstanding from April 1, 2023 to December 31, 2023, the rate is 5% annually.

GOODS AND SERVICES TAX/HARMONIZED SALES TAX

When an employer provides property or services to an employee and the property or services constitute a taxable benefit to be included in computing the employee's income under the Income Tax Act, the employer is deemed to have supplied the property or services to the employee and, if the supply is a GST/HST taxable supply, GST/HST is payable on the benefit (net of provincial sales tax). In this case, the employer is deemed to have collected the GST/HST and therefore must remit the GST/HST.

No GST/HST need be remitted where the employer was unable to claim an input tax credit for the property or service (for example, if the acquisition of property or service was purely for personal use). Where the employer is denied an input tax credit under these rules, the employer will not be deemed to have made a supply and there will be no GST/HST liability. In other cases, no GST/HST is payable since the supplies that generate the benefit are exempt, such as the payment of premiums under a provincial hospitalization or medical care insurance plan, or rent-free or low-rent housing provided to employees. In addition, this rule does not apply in respect of club memberships nor to personal and living expenses, since input tax credits are not available on those expenses.

Where the supply is taxable by nature, such as the availability of a passenger vehicle for personal use, the registrant must account for tax based on the amount that is recorded for income tax purposes (after deducting any provincial sales tax paid on the property or services given to the employee as a benefit). This calculation is done every February, when the T4 information must be prepared for the previous calendar year. The GST/HST must then be remitted by the employer as February GST/HST on the amount included as an employee benefit. As indicated previously, the amount of this GST/HST benefit is included in the taxpayer's income in Box (14) and must also be reported as a taxable allowance and benefit in Box (40).

The area of taxable benefits in connection with the GST/HST is complex. The information which we have provided will enable you to compute these benefits. If any uncertainties in this area arise in the preparation of your T4s, please contact us and we will be pleased to assist you.