

## TAX BULLETIN

# DEDUCTING EXPENSES AS AN EMPLOYEE

Employees don't seem to get any breaks. They usually have to follow bosses' orders and they don't get to share in the profits of the business at the end of the day. And, when it comes to tax, the employee's situation doesn't get much better. Employees are very limited in the expenses they can deduct when calculating the tax they owe to the Canada Revenue Agency (CRA).

Self-employed individuals have much more flexibility – they basically can deduct any reasonable expense incurred to earn income from their business.

If you are an employee, however, don't despair. You can deduct some types of expenses. And, by structuring your employment arrangement with this in mind, you can reduce your tax bill.

This bulletin looks at the types of expenses you can deduct as an employee and the planning you should consider to maximize your deductions. Throughout the bulletin, we'll also discuss the differences in the rules for commissioned salespeople and the types of strategies they can use to maximize their deductible expenses. Finally, we'll look at situations where special rules apply – these include artists, musicians, tradespersons, and railway and transport employees.

This bulletin does not examine deductible expenses for self-employed individuals. If you are interested in this information, see our bulletin [Self-Employment: Is it for you?](#)

### When are expenses deductible?

Under Canadian tax rules, employees can only deduct expenses that are specifically allowed. Unlike individuals who run their own business, there is no general rule allowing employees to deduct any reasonable expense incurred to earn employment income. This makes tax minimization more challenging for employees.

Except for expenses such as pension contributions, union dues and professional fees, before any employee can deduct expenses, a basic test must always be met: the employee must be required by the contract of employment to pay his/her own expenses. This means that the employee needs to ensure that their employer signs [Form T2200, Declaration of Conditions of Employment](#), certifying that this requirement indeed exists. The form does not need to be filed with the CRA, but it should be kept by the employee in case of an audit by the CRA.

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### Expenses of commissioned salespeople

The rules for commissioned salespeople are somewhat more generous. In addition to being allowed to deduct specific expenses, they can deduct any reasonable expense incurred to earn income (such as commissions) that is based on the amount of sales they generate.

To be able to deduct expenses as a salesperson, the following tests must be met:

- You must be required to pay your own expenses by virtue of your contract of employment;
- You must ordinarily be required to carry on the duties of your employment away from your employer's business location (e.g. at customer locations);
- Your remuneration must be wholly or partly based on commissions or other amounts, such as bonuses, which are calculated by reference to the volume of sales made or contracts negotiated;
- You are not in receipt of a tax-free travel allowance for your expenses; and
- You keep a copy of Form T2200, *Declaration of Conditions of Employment*, which has been signed by your employer.

If you are deducting expenses as a commissioned salesperson, there are a couple of points you should keep in mind. First, you can only deduct expenses to the extent of your commission income. If your expenses exceed this income, you will lose the ability to deduct any excess amounts. And, any excess can't be transferred to another year to deduct against income earned then.

This leads to the second point: you can always deduct certain expenses as a regular employee against your salary. You only need to use the rules that allow you to deduct certain expenses as a commissioned salesperson if you couldn't otherwise deduct them as a regular employee. A good example of an expense that is only deductible by a salesperson is meals and entertainment. Therefore, to minimize the likelihood that your expenses will exceed your commission income, you should always consider the rules for regular employees and then

only use the rules for commissioned salespeople if the expense deduction is higher.

### What's deductible?

Let's review the specific expenses that are deductible. We've prepared a chart on page 3 outlining various expenses, comparing what's deductible for regular employees and for commissioned salespeople. We've also added a column for self-employed individuals – keep in mind that they have the greatest flexibility in deducting expenses. Near the end of the bulletin we'll briefly discuss the possibility of rearranging your affairs to become self-employed as an independent contractor.

We discuss many of the items in more detail below. Be sure to read the commentary for each item to determine if a particular expense will be deductible for you. We've also included a separate section on home office expenses. The rules for this area are complicated and the types of expenses you can deduct vary depending on whether you are a regular employee, commissioned salesperson or an independent contractor.

#### Annual professional membership dues

Let's say that you are an engineer working for a large company. Every year you have to pay fees to the provincial Professional Engineers Association to maintain your P.Eng. If your employer does not pay these fees, you can deduct them as an employment expense on your tax return. If your employer pays the fees on your behalf you can't deduct them, but you won't be taxed on this benefit either (as long as it was necessary that you maintain your professional status for your job). If your employer does include these fees as a taxable benefit on your T4, you can deduct this amount on your tax return. It is worth noting that these fees are not deductible in Québec, however, they are eligible for a non-refundable tax credit for Québec tax purposes.

#### Union dues

Similarly, employees who are members of a union can deduct the annual union dues they are required to pay.

### Salary paid to an assistant

In certain circumstances an employee can deduct the costs of hiring an assistant. An employee hiring their own assistant is unusual, because most assistants are hired directly by their employer. However, there are situations where it may make sense for an employee to hire their own assistant.

Let's consider a mutual fund salesperson who is an employee of a financial planning firm. The person makes a small base salary but also earns sales commissions based on the dollar value of mutual funds sold in the year. The more time the individual has to meet clients and make sales, the higher their commissions will be. In this case, an assistant could be invaluable. The assistant could perform a lot of the administrative duties, freeing up the salesperson to do what they do best – make sales and therefore earn higher sales commissions.

If the contract of employment requires that the salesperson pay their own expenses, and the employer does not agree to hire an assistant, the salesperson could hire the person instead and could deduct the cost of paying the person, including all related payroll costs (such as Canada Pension Plan contributions and Employment Insurance premiums).

It's important to keep in mind that the amount you pay an assistant must be reasonable. This is extremely important if you want to hire a relative such as a spouse or a child. You will only be allowed to deduct a reasonable salary for any services performed.

You should also note that this provision does not allow you to deduct amounts paid to someone to take care of your children to allow you to work. You can deduct these costs up to certain limits but only under the child care expense rules. These rules allow the lower income spouse to deduct expenses incurred up to two-thirds of their earned income to a maximum amount. The maximum amount that will be deductible in 2016 and subsequent years is \$8,000 per child under 7 at the end of the year, \$5,000 for a child between 7 and 16 at the end of the year, and \$11,000 for each child having a severe and prolonged physical or mental impairment.

Expense	Regular Employee	Commissioned Salesperson	Independent Contractor
Professional dues	✓	✓	✓
Union dues	✓	✓	n/a
Salary paid to an assistant	✓	✓	✓
Supplies consumed	✓	✓	✓
Travelling expenses	✓	✓	✓
Capital expenses – automobile/ aircraft	✓	✓	✓
Capital expenses – equipment, furniture	No	No	✓
Rental costs of equipment/ telephone	No	✓	✓
Interest expense	No	No	✓
Meals & entertainment	No	✓	✓
Office rent/home office expenses	✓	✓	✓

### Supplies consumed in employment duties

You can deduct supplies you have to pay for and that are consumed in your employment duties. These include items such as:

- Paper
- Office supplies
- Long distance telephone call charges

- Cellular phone airtime that reasonably relates to earning your employment income. Note that you cannot deduct amounts you paid to connect or license the cell phone or the cost of fees for internet service.

This list is not exhaustive. For example, a medical practitioner who is an employee and who is required to buy his/her own medical supplies is allowed to deduct these costs as a supply.

Note that special clothing may be considered a supply, but it is not consumed and therefore the cost of special clothing is not deductible. However, as with some other employment benefits, if your employer provides you with specialty clothing for work, the provision of this clothing does not represent a taxable benefit.

### Travelling expenses

Employees are allowed to deduct travelling expenses if they are required to pay these expenses under their contract of employment and they don't receive a tax-free allowance for these expenses. These rules also allow employees to deduct automobile expenses.

A couple of points you should note. Most allowances you receive from your employer will be taxable, except for reasonable automobile allowances that are calculated by reference to the kilometres you drive for employment purposes. In certain circumstances, other reasonable allowances can be considered tax-free, such as allowances paid to cover travel expenses for salespeople, for clergy and for ordinary employees if they are required to travel away from the municipality in which they ordinarily report to work. Keep in mind that if these allowances are reasonable and therefore not taxable, you cannot deduct any of the travelling expenses that you incur.

The most common travelling expenses are for your automobile. Many employers require their employees to have a car and do not reimburse them on a tax-free basis for their expenses. See our Tax Bulletin [Automobile Expenses and Recordkeeping](#) that explains what automobile expenses you can deduct and the records you need to keep.

**Planning Tip:** *Most employers are willing to pay a reasonable amount per kilometre if you are required to use your car for employment purposes. What is reasonable is a question of fact but the CRA won't likely challenge a per-kilometre allowance of 48 to 54 cents. Compare the amount you receive as a per-kilometre allowance to the amount of deductible automobile expenses you have. If the allowance is higher, don't include it in your income and don't deduct automobile expenses. The excess amount of the allowance over the deductible expenses will be tax-free. This will usually be the case if you drive an inexpensive or older car and therefore the amounts you can deduct for tax depreciation on the car (see below), as well as maintenance and fuel costs, are not very high.*

### Capital expenses

Capital expenses include any amount paid for a capital asset. For example, office furniture or equipment (such as a computer) are capital assets. Businesses (including self-employed individuals) can deduct the cost of capital assets through our tax depreciation system called capital cost allowance (CCA). Generally, as an ordinary employee or a salesperson you cannot deduct anything you pay for capital assets.

There is one common exception. An employee can deduct CCA on his/her car if they are eligible to deduct automobile expenses. However, there are limits on the amount of CCA you can claim on your automobile. The rules are complex, but basically you cannot deduct CCA on any purchase price greater than \$30,000 plus applicable GST/HST, QST and provincial sales tax (PST), as applicable to your province of residence.

If the cost of your automobile is less than the limits above, it is considered a "Class 10" asset. Your purchase price (including sales tax) is added to a pool of costs with any other Class 10 assets you own. Each year you are entitled to claim up to 30% of the pool's balance as CCA (only 15% on assets in the year of purchase). Any amount claimed in one year reduces the pool balance for the next year's calculation.

If the cost of your car exceeds the limits, the maximum deductible amount will go into its own separate CCA class, known as Class 10.1, which is eligible for the CCA deductions at the same rate of 30% as Class 10 vehicles. However, there are differences in the amount deductible as CCA in the year of acquisition and the year of disposition between Class 10.1 vehicles and Class 10 vehicles.

If you sell a Class 10 car in the year you may have a gain or loss, depending on whether the proceeds are greater or less than the pool's remaining balance. The rules are complicated so we suggest you discuss the consequences with your BDO advisor.

Similar rules also allow employees to deduct CCA on an aircraft, if they are required to own a plane and use it in their employment duties.

Finally, note that special rules for employed artists and employed tradespersons may allow for additional deductions for certain capital expenses (see the Special Situations section later in the bulletin).

### Rental costs of equipment/telephone lines

Ordinary employees cannot deduct the cost of renting equipment, such as office equipment or a computer. The CRA does not consider the rental payment to be a supply consumed in the course of performing employment duties and therefore it's not deductible. The same rationale also means that an employee can't deduct the monthly cost of renting a telephone line or cellular phone – even if the only reason for the line or phone was for employment purposes.

The fact that these rental costs are not deductible for ordinary employees is often misunderstood. This is probably due to the fact that commissioned salespersons can deduct these expenses against their commission income. Remember that salespeople have more flexibility in what they can deduct – they can deduct rental payments under the rule that allows them to deduct any reasonable expense incurred to earn commission income provided it is not a capital payment.

**Planning Tip – ordinary employees:** *Ordinary employees should avoid paying for the cost of equipment they need for employment purposes.*

*Instead, you should have your employer purchase or rent the equipment you need. Your employer can deduct these costs as a business expense – there will be no tax consequences for you as long as you don't use the equipment for personal purposes. If you do, you will be taxed on the value of the personal use.*

**Planning Tip – commissioned salespeople:** *If you are a salesperson and you have to provide your own equipment for your job, such as a computer, you should always lease this equipment. If you buy the equipment you cannot deduct the cost as CCA. If you lease the equipment, however, you can deduct the lease payments as an expense incurred to earn commissions.*

### Interest expense

You generally can't deduct interest expense, whether you are an ordinary employee or a commissioned salesperson as interest is generally payment of capital. An exception to this rule is interest on a car loan – you can deduct a prorated portion of this interest expense as a car expense.

**Planning Tip:** *Don't borrow to fund your employment expenses (unless you're borrowing to buy a car and you can deduct automobile expenses). Use cash for these expenses whenever possible and borrow for other purposes if the interest will be tax deductible. For example, you can deduct interest expense if you borrow to make an investment.*

### Meals & entertainment

Ordinary employees had better hope their employer reimburses them for that business lunch. If they don't, they can't deduct anything as an employment expense.

Commissioned salespeople, however, have more flexibility. Meal and entertainment expenses are deductible against their commission income. However, only 50% of the cost is deductible.

### Office rent/home office expenses

As an employee, you can deduct the cost of renting an office if your employer requires you to pay for your own space to work. This isn't very common. It is more common for individuals to work for their



employers out of a home office. You can deduct the cost of maintaining a home office as long as you were required to provide your own place of work and you pass one of the following two tests:

- Your home office is the principal place of your employment. Basically, this means that you work more than 50% of the time from your home office. This can be a difficult test to meet for some employees who have home offices. For example, a commissioned salesperson might use a home office to carry out administrative duties. If they are on the road at customer sites for a majority of their time, however, they likely won't meet the 50% test and therefore aren't eligible to deduct home office expenses.
- Your home office is used exclusively for employment purposes and is used on a regular or continuous basis for meeting clients, customers or patients. This test is designed primarily for individuals such as doctors, chiropractors and massage therapists – they might have an office where they usually work away from their home but they might also see clients or patients at home. These individuals can deduct home office expenses as long as they use the office space exclusively in their employment duties (in other words, the office is not part of their living space).

There is an important difference in these tests to note. Under the first test, as long as you work primarily out of your home office, which means more than 50% of the time, you don't have to use your home office exclusively for your job. The office can be combined with personal living space. What you have to do is prorate the expenses related to your home office between its use for employment and personal purposes. If you use it 60% of the time for your job and 40% for something else, then only 60% of the expenses related to the maintenance of the home office are deductible.

### What expenses can you deduct?

As an employee, you can deduct the cost of renting an office. If you own the space in which the office is located (i.e. it's a home office that meets one of the two tests), you can only deduct the expenses of

the office that are considered to be “supplies consumed in your employment activities.”

### How will these rules apply to you?

Let's first consider the situation where you rent your living space and it contains a home office. You'll be able to deduct a portion of your rent as a cost of renting an office. If you have to pay for utilities or minor repairs, you can also deduct these expenses as supplies consumed in your employment duties.

For example, assume you rent a two bedroom apartment for \$1,500 a month and you use the second bedroom as a home office. You also have to pay \$300 a month for utilities in addition to your rent. The office is 25% of the total apartment and you use it 80% of the time for work. You will be able to deduct \$360 a month for home office expenses – this is calculated in the chart below:

Office Expenses	
Monthly rent	\$1,500
Utilities	<u>\$300</u>
Total costs	<u>\$1,800</u>
Office portion @ 25%	\$450
Time used for employment @ 80%	\$360
Tax savings @ 45%	\$162
*Assumes your marginal tax rate is 45%	

Now let's assume you own a house in which you have a home office that you use for employment purposes. You can deduct the portion of your utilities and maintenance costs that relate to the business use of your home office as supplies consumed in your employment. However, the deductible portion of these expenses is probably not significant.

What about other costs you pay for your home, such as property taxes, insurance and mortgage interest? As an ordinary employee, you are not allowed to deduct these expenses as there is no provision in our tax law that allows this. In

particular, these expenses are not considered supplies consumed in your employment duties and therefore are not deductible (the CRA does

consider such items as basic repairs and utilities to be supplies).

Commissioned salespeople have a bit more flexibility in what they can deduct. Remember that they can deduct any reasonable expense they incur to earn commission income. Because of this provision, they are allowed to deduct a portion of their property taxes and house insurance that relates to their home office. However, they also cannot deduct any of their mortgage interest, since employees generally cannot deduct capital expenses, such as interest. The office expenses chart below shows what expenses are deductible for a home office, comparing an ordinary employee, commissioned salesperson and self-employed individual. As the chart shows, self-employed individuals have the most flexibility in what they can deduct.

These differences probably seem unfair to you. You're right! Employees who rent a home office have much more flexibility in the expenses they can deduct (since they can deduct office rent, they can effectively deduct all the costs that are built into the rent such as property taxes, insurance and interest). And commissioned salespeople and self-employed individuals are able to deduct more expenses for a home office if they own their own home as compared with an ordinary employee.

Expense	Regular Employee	Commissioned Salesperson	Independent Contractor
Rent	X	X	X
Utilities	X	X	X
Repairs & maintenance	X	X	X
Insurance		X	X
Property taxes		X	X
Interest			X
Capital cost allowance			X

## Special considerations for owner-managers

A decision in a court case casts doubt on whether an owner-manager of a business is able to deduct employee expenses, such as automobile expenses and home office expenses. The concern is whether it could be said that an owner-manager who is the controlling shareholder is required under his contract of employment to pay for these expenditures incurred. In this particular case the court determined that in order to satisfy the condition of "requirement to pay", there would need to be some detrimental consequence if the obligation was not fulfilled. In this case the court held that there would be no detrimental consequence and that the taxpayer had chosen to pay amounts personally rather than have the company pay such expenses directly or indirectly through reimbursement. Although this is a lower level court decision, it does show that there are risks to claiming employment expenses in such circumstances. An alternative approach could be to have the corporation pay the owner-manager a business travel allowance based on kilometers driven for business purposes that would be non-taxable to him and deductible to the corporation. If you have a situation similar to this one, please see your BDO advisor for suggested actions to minimize taxes.

## Planning to maximize tax breaks

If you're an employee, you are limited in what you can do to maximize your tax breaks. However, there are some measures you could consider.

### Become a salesperson

Are you involved in sales? Do you often negotiate contracts on your employer's behalf? If you do, consider renegotiating your salary package so that at least some of your income is based on the revenue you produce. This could be as simple as receiving a year-end bonus that is based on the sales you are responsible for. If you can rearrange your affairs, you'll be eligible to deduct expenses as a commissioned salesperson. Make sure your employer reports your commission or bonus separately as a commission on your T4 – otherwise,

the CRA will likely question your expense deductions as a commissioned salesperson.

You'll have to assess whether this makes sense for you. Are you willing to accept the risk that part of your remuneration package will be based on the sales you produce? Also, consider the amount of expenses you currently have to pay that would become deductible if you became a commissioned salesperson. If you would have minimal deductible expenses anyway, it's probably not worthwhile. For example, you could increase the amount of deductible home office expenses, deduct the rental costs of any equipment you have to pay for and deduct business meals and entertainment if part of your remuneration is based on sales.

### **Become an independent contractor**

Self-employed individuals have the most flexibility in deducting expenses. It may be possible to contract with your employer so that you will be considered to be self-employed rather than an employee.

A few words of caution: You can't just state that you're an independent contractor to be treated that way for tax purposes. There is a series of tests used by the CRA in determining whether you are self-employed or are an employee. For example, the CRA looks at who controls the work – whether you have the flexibility to determine when and how you do the work, whether you are required to work between certain hours, etc. It also checks whether your remuneration is fixed or whether you have the ability to earn as much money as possible. The CRA also now considers the intention of both the worker and the payer when a working arrangement is entered into. Specifically, the CRA considers if the two parties intended to enter into a contract of service (employer-employee relationship) or if they intended to enter into a contract for services (a business relationship). You should note that the factors to be considered when determining whether or not you are independent contractor differ in Québec so you should always consult with your BDO advisor before attempting to become an independent contractor.

Under Employment Insurance (EI) measures that have been in effect since January 2010, self-employed individuals can, on a voluntary basis

choose to pay EI premiums to be eligible to receive EI special benefits. To participate, you must enter into an agreement with the Canada Employment Insurance Commission through Service Canada.

You'll have to consider a number of things to determine if becoming an independent contractor is a viable option for you. Will you have significant expenses that will now be deductible? Are you prepared to give up some of the perks of employment, such as dental and health plans? Do you want the protection of regular EI benefits, which is only available to employees and not to independent contractors? And finally, is it even possible to change your relationship with your current employer so that you are an independent contractor?

For further considerations, see our bulletin [Self-Employment: Is it for you?](#)

### **Don't forget to take advantage of the Canada employment tax credit**

Since 2006, you may be able to claim the Canada employment tax credit which provides recognition for work-related expenses such as home computers, uniforms and supplies in the public and private sector. The credit is non-refundable and is calculated at the appropriate percentage on the lesser of \$1,161 (for 2016, indexed annually) and the total of your employment income that you reported on your personal tax return. You should note that self-employed individuals are not eligible to claim this credit.

## **Special situations**

For certain types of employees, there are special rules that allow them to deduct other expenses in addition to the ones described above. The special rules are an attempt by the government to recognize the special nature of these jobs and the fact that certain expenses may have to be incurred by the employee and should be allowed as a deduction from employment income.

### **Musicians**

Musicians usually have to buy their own musical instruments. They can deduct the cost of instruments using the tax depreciation rules.



Most instruments are classified as Class 8 – the purchase price (including GST/HST, PST or QST) is added to a pool of costs with any other Class 8 assets. Each year, a deduction of 20% of the pool's balance is allowed (10% can be claimed on assets added to the class in the year of purchase).

### Artists

Artists who earn employment income from an artistic activity can deduct additional expenses from their employment income. Artistic activities include:

- creating paintings, prints, etchings, drawings, sculptures or similar works of art;
- composing a dramatic, musical or literary work;
- performing a dramatic or musical work as an actor, dancer, singer or musician; or
- carrying out an artistic activity in respect of which the taxpayer is a member of a professional artists association that is certified by the Minister of Canadian Heritage.

The expenses that can be deducted are limited to the lesser of:

- \$1,000; and
- 20% of employment income from artistic activities

The lesser of these two amounts is then reduced by any amounts claimed as CCA on automobiles or musical instruments, musical instrument expenses (such as maintenance costs and insurance) and interest for your motor vehicle. This net amount can be deducted as an artist's employment expense.

### Transport employees

Individuals who work for employers whose principal business is the transport of passengers, goods or both, can deduct reasonable expenses for meals and lodging if their employer does not reimburse them for these costs. Only costs incurred while travelling away from the municipality where the individual reports to work can be deducted.

For employees who are long-haul truck drivers meals and beverage expenses will be deductible at a higher rate than the 50% permitted for other

transportation employees. During eligible travel periods, meal and beverage expenses incurred by long haul truck drivers will be deductible at a rate of 80%. A long-haul truck driver is a transport employee whose main duty of employment is transporting goods by way of driving a long-haul truck, whether or not the employer's main business is transporting goods, passengers, or both.

There are several ways for an employee to calculate their meal expense. Perhaps the easiest way for transport employees to calculate their meal expense is the simplified method which is based on a daily meal rate. Under this method there is no need to keep meal receipts – instead, a detailed list of the trips taken must be kept in a record or logbook. Transport employees can claim up to 3 meals per day based on the daily meal rate.

### Railway employees

Similar to transport employees, individuals who are employees of a railway company can deduct expenses for meals and lodging to the extent they are not reimbursed by their employer for these costs. Only costs incurred while away from their ordinary place of residence are eligible to be deducted.

### Tradespersons

Individuals who are employed tradespersons may be eligible to claim an annual deduction of up to \$500 to help cover the costs of new tools necessary for their trade. The maximum deduction that applies to the total cost of eligible tools is the lesser of:

- \$500 and
- The amount, if any, determined by the formula  $A - 1,161$  (for 2016), where A = the lesser of:
  - i. The total cost of eligible tools purchased in the year; and
  - ii. Employment income as a tradesperson for the year plus the amount the tradesperson received in the year under the Apprenticeship Incentive Grant and the Apprenticeship Completion Grant, minus the amount of any Apprenticeship Grant repayment made during the year.

The cost of the tools includes any GST/HST, PST or QST that you paid for the tools.

An eligible tool is a tool that was bought solely for use in the tradesperson's job and that was not used for any purpose before it was bought.

As well, an apprentice mechanic is allowed to deduct the cost of eligible tools purchased. The deduction allowed is equal to the cost of tools purchased less the greater of

- (a) 5% of the total of
- your employment income as an eligible apprentice mechanic,
  - plus the amount you received in in the year under the Apprenticeship Incentive Grant and the Apprenticeship Completion Grant programs,
  - minus any claim you made for the tradesperson's deduction for tools, and
  - minus the amount of any Apprenticeship Incentive Grant and Apprenticeship Completion Grant overpayments that you had to repay in the year; and
- (b) \$500 plus the Canada employment amount claimed. The allowable amount deducted can't be greater than the cost of tools purchased in the year, nor can it exceed an individual's net income (from all sources). An unclaimed amount can be carried forward and the unused amount can be deducted against any type of income in a future year even if the apprentice mechanic is no longer employed as an apprentice mechanic at that time.

An apprentice mechanic may be able to claim the tradesperson's tool deduction and the apprentice mechanic tools deduction. The tradesperson's tool deduction however, must be calculated first, as it is taken into consideration in the calculation of the apprentice mechanic's tools deduction. (A deduction can't be claimed under both rules for the same tool cost.)

If you dispose of tools on which the mechanic's or tradesperson's deduction was claimed, a special adjustment must be made in the year of disposition to determine if some portion of the proceeds from such disposition may be taxable as a result of the

tradesperson's or mechanic's deduction claimed in an earlier year.

## Documentation of expenses

If you are deducting expenses for tax purposes, documenting your expenses is crucial. If you keep track of your expenses in an organized fashion, not only will this save you time when you prepare your tax return (and money on your accountant's bill), it will also help ensure that you are prepared should the CRA decide to review your return.

Receipts are crucial for all of your expenses. If you're a salesperson and you are deducting meals and entertainment expenses, it's a good idea to write on the receipt who you took to lunch and why. Automobile expenses, in particular, have to be properly documented. It's extremely important to keep a logbook of your driving to support the number of kilometres you drive for business purposes. Your BDO advisor can provide you with a BDO logbook you can use to keep track of your driving.

## GST/HST/QST rebates

When you incur expenses, you also pay GST and PST or HST on some of the expenses. If your employer reimburses you and is registered for the GST or HST, your employer is eligible to recover the GST or HST. Although there are some differences, the Québec Sales Tax (QST) essentially functions in a manner similar to the GST/HST.

### GST/HST and QST rates for 2016

- Nova Scotia – 15%
- Ontario – 13%
- New Brunswick, Newfoundland and Labrador - 13% before July 1, 2016 and 15% on or after July 1, 2016
- Prince Edward Island – 14% before October 1, 2016 and 15% on or after October 1, 2016
- Québec – 9.975%; combined rate – 14.975%
- Other provinces and territories – 5%

If you don't get reimbursed and are eligible to deduct the expenses for tax purposes, it only makes sense that you can recover the GST/HST and or QST as well. You do this by requesting a

GST/HST rebate when you file your personal tax return. For expenses paid, the rebate is 5/105ths of your deductible expenses (including CCA) that were subject to the GST. If the expense was subject to HST, the rebate would be equal to the following:

- 15/115 for an expense incurred in Nova Scotia;
- 13/113 for an expense incurred in Ontario;
- 13/113 for an expense incurred in New Brunswick or Newfoundland and Labrador before July 1, 2016 and 15/115 for an expense incurred on or after July 1, 2016;
- 14/114 for an expense incurred in Prince Edward Island before October 1, 2016 and 15/115 for an expense incurred on or after October 1, 2016; and
- 9.975/109.975 (QST) and 5/105 (GST) in Québec.

Examples of expenses on which you won't have incurred GST/HST are insurance and interest on a car loan. The rebate is claimed by filing CRA [Form GST 370](#) (the QST rebate is claimed on [Form VD 358-V](#)). Note that you don't qualify for the rebate if your employer is not a registrant or if you work for a listed financial institution. Finally, the rebates are taxable in the year of receipt. Where a rebate is claimed on capital equipment, the rebate amount will reduce the balance for CCA purposes rather than being taxable as income.

## Summary

Employees are very limited in what they can deduct for tax purposes. However, with a little planning and care they can take advantage of the deductions that are available to them. If you have any questions, talk to your BDO advisor today.

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The information in this publication is current as of September 1, 2016.

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