

## Chapter 3 – Employees earning a salary

This chapter describes the expenses you can deduct if you earn a salary. If you earn commission income, see Chapter 2.

### Deductible expenses

This guide includes Form T777, *Statement of Employment Expenses*. Use it to calculate your total employment expenses. Once you calculate the employment expenses you can deduct, enter the amount on line 229 of your return. Include Form T777 with your return.

Your employment expenses include any GST and provincial sales tax, or HST, you paid on these expenses. You may be able to get a rebate of the GST/HST you paid. We discuss this rebate in Chapter 10 beginning on page 23.

The following describes the types of deductible expenses in the order they appear on Form T777.

### Accounting and legal fees

You can deduct any legal fees you paid in the year to collect or establish a right to collect any amount that, if received, you would include as employment income on your return. However, you have to reduce your claim by any amount awarded to you or any reimbursement you received for your legal expenses.

In some cases, you may also be able to deduct certain accounting fees. For more details, see Interpretation Bulletin IT-99, *Legal and Accounting Fees*.

### Allowable motor vehicle expenses (including capital cost allowance)

You can deduct your motor vehicle expenses if you meet all the following conditions:

- You were normally required to work away from your employer's place of business or in different places.
- Under your contract of employment, you had to pay your own motor vehicle expenses.
- You did not receive a non-taxable allowance for motor vehicle expenses. Generally, an allowance is non-taxable when it is based solely on a reasonable per-kilometre rate.
- You keep with your records a copy of Form T2200, *Declaration of Conditions of Employment*, that has been completed and signed by your employer.

Sometimes, your employer will include an unreasonably low allowance as income on your T4 slip even though you do not want to claim any expenses. When this happens, have your employer complete and sign Form T2200, or get a letter from your employer stating that the allowance was unreasonably low. On line 229, deduct as an expense an amount equal to the allowance.

For more information, see Interpretation Bulletin IT-522, *Vehicle, Travel and Sales Expenses of Employees*.

We explain motor vehicle expenses on page 16, and capital cost allowance on page 20.

### Travelling expenses

Travelling expenses include food, beverage, and lodging expenses but not motor vehicle expenses. You can deduct travelling expenses as long as you meet all the following conditions:

- You were normally required to work away from your employer's place of business or in different places.
- Under your contract of employment, you had to pay your own travelling expenses.
- You did not receive a non-taxable allowance for travelling expenses. Generally, an allowance is non-taxable as long as it is a reasonable amount and is for travelling away from the municipality and metropolitan area (if there is one) of your employer's location where you normally work, or to which you normally report.
- You keep with your records a copy of Form T2200, *Declaration of Conditions of Employment*, that has been completed and signed by your employer.

You can deduct food and beverage expenses if your employer requires you to be away for at least 12 consecutive hours from the municipality and the metropolitan area (if there is one) of your employer's location where you normally report for work. The most you can deduct for food and beverage expenses is 50% of the lesser of:

- the amount you actually paid; or
- an amount that is reasonable in the circumstances.

The 50% limit also applies to the cost of food and beverages you paid for when you travelled on an airplane, train, or bus, as long as the ticket price did not include such amounts.

If you are a **transportation employee** claiming a deduction for meals and lodging (including showers), see Chapter 4, beginning on page 10.

If you want more information about travelling expenses, see Interpretation Bulletin IT-522, *Vehicle, Travel and Sales Expenses of Employees*, or Interpretation Bulletin IT-518, *Foods, Beverages and Entertainment Expenses*.

### Parking

You can deduct parking costs related to earning your employment income as long as you meet all the conditions listed in the section called "Allowable motor vehicle expenses (including capital cost allowance)" on this page. Generally, you cannot deduct the cost of parking at your employer's office, such as monthly or daily parking fees. These are personal costs.

Do **not** include parking costs as part of your allowable motor vehicle expenses. Enter them on the "Parking" line on Form T777.

## Supplies

You can deduct the cost of supplies if you meet **all** the following conditions:

- Under your contract of employment, you had to provide and pay for the supplies.
- You used the supplies directly in your work.
- Your employer has not repaid and will not repay you for these expenses.
- You keep with your records a copy of Form T2200, *Declaration of Conditions of Employment*, that has been completed and signed by your employer.

Supplies are only those materials you use directly in your work, and for no other purpose.

Supplies include items such as pens, pencils, paper clips, stationery, stamps, street maps, and directories. Supplies do **not** include items such as briefcases or calculators.

You can deduct expenses you paid for telegrams and long-distance telephone calls, as long as you paid them to earn employment income. However, you cannot deduct the monthly basic rate for a telephone.

You can also deduct the portion of the airtime expenses for a cell phone that reasonably relates to earning your employment income. However, you cannot deduct amounts you paid to connect or license the cell phone or the cost of fees for Internet service.

If you buy or lease a cell phone, fax machine, computer, or other such equipment, you cannot deduct the cost. Also, you cannot deduct capital cost allowance or interest you paid on money borrowed to buy this equipment.

You cannot deduct the cost of special clothing you wear or have to wear for your work. Also, you cannot deduct the cost of any tools that are considered to be equipment. However, if you are a tradesperson (including an apprentice mechanic) as described in Chapter 7 beginning on page 13, you may be able to deduct the cost of eligible tools you bought to earn employment income as a tradesperson.

For more information, see Interpretation Bulletin IT-352, *Employee's Expenses, Including Work Space in Home Expenses*.

## Other expenses

**Salaries** – You can deduct the salary you paid to your substitute or assistant if you meet **all** the following conditions:

- Under your contract of employment, you had to pay for extra help.
- Your employer has not repaid and will not repay you for these expenses.
- You keep with your records a copy of Form T2200, *Declaration of Conditions of Employment*, that has been completed and signed by your employer.

You may have to withhold income tax, Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) contributions, Employment Insurance (EI) and Provincial Parental Insurance Plan (PPIP) premiums from the salary you paid.

Report, on a T4 slip, the salary and amounts you withheld. For more information, see [www.cra.gc.ca/slips](http://www.cra.gc.ca/slips), or Guide RC4120, *Employers' Guide – Filing the T4 Slip and Summary*.

As the employer, you can also deduct as an expense your share of the CPP or QPP contributions and the EI and PPIP premiums.

**Office rent** – You can deduct office rent if you meet **all** the following conditions:

- Under your contract of employment, you had to rent an office and pay the expenses.
- Your employer has not repaid and will not repay you for these expenses.
- You keep with your records a copy of Form T2200, *Declaration of Conditions of Employment*, that has been completed and signed by your employer.

You can deduct office rent you paid if you paid it to earn your employment income. Do not confuse office rent with work-space-in-the-home expenses, which we discuss below.

## Work-space-in-the-home expenses

You can deduct expenses you paid in 2007 for the employment use of a work space in your home, as long as you had to pay for them under your contract of employment. These expenses must be used directly in your work and your employer has not reimbursed and will not reimburse you. Also, you must meet **one** of the following conditions:

- The work space is where you mainly (more than 50% of the time) do your work.
- You use the work space only to earn your employment income. You also have to use it on a regular and continuous basis for meeting clients or customers.

Keep with your records a copy of Form T2200, *Declaration of Conditions of Employment*, that has been completed and signed by your employer.

You can deduct the part of your costs that relates to your work space, such as the cost of electricity, heating, and maintenance. However, you **cannot** deduct mortgage interest, property taxes, home insurance, or capital cost allowance.

To calculate the percentage of work space expenses you can deduct, use a reasonable basis, such as the area of the work space divided by the total area. For maintenance costs, it may not be appropriate to use a percentage of these costs. For example, if the expenses you paid (such as cleaning materials or paint) were to maintain a part of the house that was not used as a work space, then you cannot deduct any part of them. Alternatively, if the expenses you paid were to maintain the work space **only**, then you may be able to deduct all or most of them.

If your office space is in a rented house or apartment where you live, deduct the percentage of the rent as well as any maintenance costs you paid that relate to the work space.

The amount you can deduct for work-space-in-the-home expenses is limited to the amount of employment income remaining after all other employment expenses have been

deducted. This means that you cannot use work space expenses to create or increase a loss from employment.

You can only deduct work space expenses from the income to which the expenses relate, and not from any other income.

If you cannot deduct all your work space expenses in the year, you can carry forward the expenses to the following year, as long as you are reporting income from the same employer. However, you cannot increase or create a loss from employment by carrying forward work space expenses.

Interpretation Bulletin IT-352, *Employee's Expenses, Including Work Space in Home Expenses*, has more information.

## Chapter 4 – Transportation employees

You may be able to claim the cost of meals and lodging (including showers) if you are an employee of a transport business, a railway employee, or other transport employee. This cost includes any GST and provincial sales tax, or HST, you paid on these expenses. You may be able to receive a rebate of the GST/HST you paid. We discuss the GST/HST rebate in Chapter 10 beginning on page 23.

### Employees of a transport business

You can claim the cost of meals and lodging if you meet **all four** of the following conditions:

- You work for an airline, railway, bus, or trucking company, or for any other employer whose main business is transporting goods, passengers, or both.
- You travel in vehicles your employer uses to transport goods or passengers.
- You **regularly** have to travel away from the municipality and the metropolitan area (if there is one) where your employer's relevant establishment (home terminal) is located.
- You **regularly** incur meal **and** lodging expenses while away from the municipality and the metropolitan area (if there is one) where your employer's relevant establishment (home terminal) is located. This means that you must generally be away from home overnight to do your job.

If your employer has paid or will pay you for any part of your meal and lodging expenses, subtract that amount from your claim. For information on meal allowances and subsidized meals, see Information Circular 73-21, *Claims for Meals and Lodging Expenses of Transport Employees*.

### Railway employees

You can also claim the cost of meals and lodging when you meet **one** of the following conditions:

- You work away from home for a railway company as a telegrapher or station agent in a relief capacity, or carrying out maintenance and repair work for the railway company.

- You are a railway employee who works away from the municipality and the metropolitan area (if there is one) where your employer's relevant establishment (home terminal) is located. You also work at such a distant location that it is unreasonable for you to return daily to your home, where you support a spouse or common-law partner, or a dependant related to you.

### Other transport employees

Even if you do not meet all of the conditions listed in the section called "Employees of a transport business" on this page, you may still be able to claim the cost of meals you incur in the year. For example, you may be an employee whose main duty of employment is transporting goods, but your employer's main business is not transporting goods or passengers.

If you satisfy the conditions listed under the section called "Travelling expenses" on page 8, you will still qualify to use the simplified method of meal reporting described on this page. For more details about both sets of conditions, see Information Circular 73-21.

If your employer has paid or will pay you for any part of your meal and lodging expenses, subtract that amount from your claim.

### Meals

To calculate your meal expenses, you may use either the simplified or detailed method, or in certain situations, the batching method. These methods are explained in this section.

The most you can deduct for meal expenses is **50%** of your claim (unless you are a long-haul truck driver claiming meals for an eligible trip, as explained on page 11 in the section called "Meal expenses of long-haul truck drivers"). For example, if you use the simplified method, which is based on a daily meal rate of \$17 per meal, the most you can deduct is \$8.50 ( $\$17 \times 50\%$ ) for each meal.

Under either the simplified or detailed method, you can claim one meal after every four hours from the departure time, to a maximum of three meals per day. For the purposes of calculating the maximum number of meals allowed, a day is considered to be a 24-hour period that begins at the departure time.

**The simplified method** – This is the easiest way to calculate your meal expenses since you do not have to keep receipts for your meals, although you do have to keep a detailed list of the trips you take, in a record or log book, similar to the example on the next page. For 2006 and later years, the simplified method is based on a meal rate of **\$17** for each meal. Multiply the actual number of meals you ate by \$17 (to a maximum of three meals per day) and report that amount on Form TL2, *Claim for Meals and Lodging Expenses*, under the "meals bought" column of **Part 2 – Trip and expense summary**.