

# Marmer Penner Inc. Newsletter

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## THE T4 SLIP – MORE THAN MEETS THE EYE

During the first two months of the year, business owners will be preparing T4 slips for their employees. These slips are required to be filed with Canada Revenue Agency (“CRA”) by the last day in February of each year. Most of us collect our T4 slips, put them in an envelope and pass them on to our accountants in April. This disinterest with respect to the T4 slip may be common with regular taxpayers, but for litigation accountants, it’s a different story.

We are often asked to assist in reviewing the parties’ financial information in order to assess and comment on their net family property (“NFP”) and calculate income pursuant to the *Federal Child Support Guidelines* (“*Guidelines*”). For a litigation accountant, a T4 slip can be of great assistance in this process.

In our example below, Mr. Man was provided with a T4 slip for 2016 from his employer. Let’s take a look what information we can potentially gather from this document:

- 1) The T4 slip indicates that Mr. Man lives on 123 Missing Property Rd. In reviewing Mr. Man’s NFP, we would verify whether this property was listed or ask for an explanation as to who it belonged;
- 2) The employment income that is received by the taxpayer during the year is included in box 14. In our example, we can see that Mr. Man

received \$150,000 from his employer, Mind Your Own. However, in the case where an employee is given a year-end bonus which is payable after December 31, this will not show up in the current year T4 slip. Since a bonus receivable is an asset which should be considered for NFP purposes, we would inquire about any bonuses awarded in the year or ask to review the corporate financial statements of Mind Your Own;

- 3) In Box 28, we see that the "EI" box is selected. This means that according to his employer, Mr. Man is exempt from remitting employment insurance to the CRA. This is a possible indicator of share ownership. In order for the EI exemption to be valid, we would expect that Mr. Man controls more than 40% of the voting shares of the corporation (or is related to a shareholder);
- 4) The pension adjustment is the value of the benefits earned during the year under a registered pension plan, deferred profit sharing plan, and any other retirement plans. The pension adjustment is an amount shown on the T4 slip, but not included in employment income. This amount is shown for illustrative purposes because it reduces the taxpayer's RRSP deduction limit for the following year. In Box 52, we can see Mr. Man received \$1,000 in benefits during 2016. We would verify whether a retirement plan was included in Mr. Man's NFP. Registered pension plan contributions, like above, highlight that capital sources may need to be in NFP. RRSP income (i.e. when RRSPs are withdrawn) is included in *Guidelines* income, but the deduction allowed by the *Income Tax Act* when contributions are made to the RRSP, is not deducted from *Guidelines* income. This supports that the inclusion of RRSP income into *Guidelines* income calculations may be inappropriate;
- 5) On occasion, employers provide their employees with taxable benefits such as use of an automobile. These taxable benefits are already considered in the employment income reported in Box 14. When the employee is also a shareholder, we often request calculations of these benefits to ensure that they were prepared correctly and to compare them to what was expensed by the business. In our example Mr. Man had \$10,000 of automobile benefits provided to him by his own company, Mind Your Own as shown in Box 34. If during our review of

Mind Your Own's financial statements, we notice that \$50,000 of automobile expenses were deducted by the company and Mr. Man is not required to drive to earn business income, we would recommend the necessary adjustments to his *Guidelines* income as likely all \$50,000 should be considered for *Guidelines* income;

- 6) If corporate real property is made available for personal use to a shareholder, a benefit is generally considered to have been conferred pursuant to subsection 15(1) of the *Income Tax Act*. The CRA would generally deem the shareholder to have received a benefit equivalent to the fair market rent for the property less any consideration paid by the shareholder to the corporation for the use of the property. In some instances, the fair market rent does not provide for a reasonable return on the value or the cost of the property. This is often the case with luxury properties. If the fair market rent is not an appropriate measure, or it does not exist or cannot be determined, the benefit is determined based on a normal return on the property with some adjustments. In the T4 slip below, Box 40 does not appear as Mr. Man does not report any other taxable benefits. If during our review of Mind Your Own's financial statements, we notice that a real property, such as a luxury cottage, appears on the balance sheet, we would inquire as to its use and may recommend the necessary adjustments to Mr. Man's *Guidelines* income to reflect this taxable benefit;
- 7) Typically, benefits received by an employee from employee stock options are taxed as employment income in the year the options are exercised. In most cases, a deduction under section 110(1)(d) of the *Income Tax Act* is available which causes employee stock options to be taxed similar to capital gains. If we see this deduction which is shown in Box 39 on the T4 slip (\$5,000 in our example), we would inquire whether stock options should be considered for NFP. Furthermore, Section 19(1)(h) of the *Guidelines* states that the Court may impute income as it considers appropriate when "the spouse derives a significant portion of income from dividends, capital gains or other sources that are taxed at a lower rate than employment or business income or that are exempt from tax." If the section 110(1)(d) deduction is available, only half of a taxpayer's employment income from the stock options is taxed. In our scenario, Mr. Man earned \$10,000 of employment income from employee stock options as we can see he

received a \$5,000 deduction in Box 39. This resulted in his employment income from stock options being taxable on \$5,000 and not the full \$10,000 received. An assessment of whether this is “significant” needs to be made. If indeed significant, an income tax gross-up may be applied, which will equate amounts recovered at lower tax levels to sources of income such as employment/interest income;

- 8) Employees who earn commission income have their commissions included in Box 42 on their T4 slip. These commissions do not need to be reported elsewhere on the taxpayer’s tax return as they are already included in the employment income shown in Box 14. In our example, we can see that \$95,000 of Mr. Man’s total employment income is from commissions. We would inquire whether there is a possible asset related to these commissions such as a book of accounts or commissions receivable that should be considered in his NFP; and

Salespeople who are paid commission may deduct certain expenses paid to earn commission income, including travel, automobile, meals and entertainment, advertising among others. These expenses claimed must be reasonable and are allowed as a deduction under section 1(d) of Schedule III of the *Guidelines*.

So request and review those T4 slips to help ensure that NFP and *Guidelines* income is complete and accurate.

This newsletter is not intended to substitute for proper professional planning. It is intended to highlight areas where professional assistance may be required or enough to discuss at the next hoedown. The professionals at Marmer Penner Inc. will be pleased to assist you with any matters that arise. Please feel free to visit our website at [www.marmerpenner.com](http://www.marmerpenner.com).

Employer's name – Nom de l'employeur  
**Mind Your Own**

Canada Revenue Agency / Agence du revenu du Canada  
 Year / Année: **2016**

**T4**  
**Statement of Remuneration Paid / État de la rémunération payée**

Protected B when completed / Protégé B une fois rempli

54 Employer's account number / Numéro de compte de l'employeur  
 Social insurance number / Numéro d'assurance sociale: **987 654 321**  
 Exempt – Exemption:  CPP/QPP,  EI,  PPIP,  RPC/RRQ,  AE,  RPAP

Employee's name and address – Nom et adresse de l'employé  
 Last name (in capital letters) – Nom de famille (en lettres moulées): **MAN**  
 First name – Prénom: **GINGERBREAD**  
 Initial – Initiale:  
 123 Missing Property Rd.  
 Toronto, ON

14	Employment income – line 101 / Revenus d'emploi – ligne 101	150,000.00	22	Income tax deducted – line 437 / Impôt sur le revenu retenu – ligne 437	
16	Employee's CPP contributions – line 308 / Cotisations de l'employé au RPC – ligne 308	2,544.30	24	EI insurable earnings / Gains assurables d'AE	
17	Employee's QPP contributions – line 308 / Cotisations de l'employé au RRQ – ligne 308		26	CPP/QPP pensionable earnings / Gains ouvrant droit à pension – RPC/RRQ	
18	Employee's EI premiums – line 312 / Cotisations de l'employé à l'IAE – ligne 312		44	Union dues – line 212 / Cotisations syndicales – ligne 212	
20	RPP contributions – line 207 / Cotisations à un RPA – ligne 207	1,000.00	46	Charitable donations – line 349 / Dons de bienfaisance – ligne 349	
52	Pension adjustment – line 206 / Facteur d'équivalence – ligne 206	1,000.00	50	RPP or DPSP registration number / N° d'agrément d'un RPA ou d'un RPDB	
55	Employee's PPIP premiums – see over / Cotisations de l'employé au RPAP – voir au verso		56	PPIP insurable earnings / Gains assurables du RPAP	

Other information (see over)	Box – Case	Amount – Montant	Box – Case	Amount – Montant	Box – Case	Amount – Montant
	34	10,000.00	39	5,000.00	42	95,000.00
Autres renseignements (voir au verso)						

**Report these amounts on your tax return.**

- 14 – Employment income – Enter on line 101.
- 16 – Employee's CPP contributions – See line 308 in your tax guide.
- 17 – Employee's QPP contributions – See line 308 in your tax guide.
- 18 – Employee's EI premiums – See line 312 in your tax guide.
- 20 – RPP contributions – Includes past service contributions. See line 207 in your tax guide.
- 22 – Income tax deducted – Enter on line 437.
- 37 – Employee home-relocation loan deduction – Enter on line 248.
- 39 – Security options deduction 110(1)(d) – Enter on line 249.
- 41 – Security options deduction 110(1)(d.1) – Enter on line 249.
- 42 – Employment commissions – Enter on line 102. This amount is already included in box 14.
- 43 – Canadian Forces personnel & police deduction – Enter on line 244. This amount is already included in box 14.
- 44 – Union dues – Enter on line 212.
- 46 – Charitable donations – See line 349 in your tax guide.
- 52 – Pension adjustment – Enter on line 206.
- 55 – Provincial parental insurance plan (PPIP) – Residents of Quebec, see line 375 in your tax guide. Residents of provinces or territories other than Quebec, see line 312 in your tax guide.
- 66 – Eligible retiring allowances – See line 130 in your tax guide.

- 67 – Non-eligible retiring allowances – See line 130 in your tax guide.
  - 72 – Section 122.3 income – Employment outside Canada – See Form T626.
  - 73 – Number of days outside Canada – See Form T626.
  - 74 – Past service contributions for 1989 or earlier years while a contributor
  - 75 – Past service contributions for 1989 or earlier years while not a contributor – See line 207 in your tax guide.
  - 77 – Workers' compensation benefits repaid to the employer – Enter on line 229.
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|---------------------------------------|---------------------------|
| 78 – Fishers – Gross income           |                           |
| 79 – Fishers – Net partnership amount | See Form T2121.           |
| 80 – Fishers – Shareperson amount     | Do not enter on line 101. |
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| 81 – Placement or employment agency workers                        | Gross income              |
| 82 – Taxi drivers and drivers of other passenger-carrying vehicles | See Form T2125.           |
| 83 – Barbers or hairdressers                                       | Do not enter on line 101. |
- 84 – Public transit pass – See line 364 in your tax guide.
  - 85 – Employee-paid premiums for private health services plans – See line 330 in your tax guide.
  - 87 – Emergency services volunteer exempt amount – See "Emergency services volunteers" at line 101, and the information at lines 362 and 395 in your tax guide.

**Do not report these amounts on your tax return. For Canada Revenue Agency use only. (Amounts in boxes 30, 32, 34, 36, 38, 40, and 86 are already included in box 14.)**

- 30 – Board and lodging
- 31 – Special work site
- 32 – Travel in a prescribed zone
- 33 – Medical travel assistance
- 34 – Personal use of employer's automobile or motor vehicle
- 36 – Interest-free and low-interest loans
- 38 – Security options benefits
- 40 – Other taxable allowances and benefits
- 68 – Indian (exempt income) – Eligible retiring allowances
- 69 – Indian (exempt income) – Non-eligible retiring allowances
- 70 – Municipal officer's expense allowance
- 71 – Indian (exempt income) – Employment
- 86 – Security options election
- 88 – Indian (exempt income) – Self-employment