

Employment Expenses CRA Reviews



In the fall of 2017, the CRA began reviewing individual tax returns when they noticed a trend in the reviews. The review focused on “other employment expenses” claimed on line 229 of the T1 Individual Income Tax and Benefits Return. The focus was on those taxpayers that have a shareholder-employee relationship. The CRA had started to reassess these taxpayers based on a tax court ruling that CRA had won that disallowed a taxpayer that was a shareholder-employee to be able to claim other employment expenses on their personal tax return. The reason for this was that the CRA had successfully argued in the court case that there are no negative consequences to the taxpayer that is the shareholder-employee if the expenses were not paid personally and thus no deduction should be allowed on the taxpayer’s personal tax return. These reviews and resulting reassessments were causing confusion among taxpayers, who were the subject of these reviews, as to how they should be claiming “other employment expenses”.

The CRA has since announced that the “Canadian tax system is based on self-assessment, which is in turn supported by clear guidelines for taxpayers and their representatives. The Agency agrees with our industry stakeholders that additional consultation and new guidance products are necessary.”

The Canada Revenue Agency has indicated that it will stop reviewing and disallowing “other employment expenses” claimed on line 229 of the T1 Individual Income Tax and Benefits Return by shareholder-employees. The Canada Revenue Agency also announced that it would reverse the reassessments specific to line 229 already issued during the review period of September 1, 2017 to February 10, 2018. The Canada Revenue Agency also indicated that taxpayers involved in these reviews will be contacted by letter to inform them of this decision.

The Canada Revenue Agency has indicated that a consultation will be undertaken with stakeholders in the tax professional community to clarify the requirements as it relates to shareholder-employees and expects that clarification will be issued to take effect in the 2019 tax year.

We will advise our clients of the new requirements once released by the Canada Revenue Agency, however, we would like to remind our clients that the Canada Revenue Agency has and will continue to review “other employment expenses” closely so appropriate records should be retained to support any claims.



Call Vine and Partners for more information at (905) 549-8463.