



Shareholder-employees:
Here's what you need to know about
claiming employment expenses

Shareholder-employees Claims Expense Changes

When you are an employee and also a shareholder, you must satisfy two key conditions before you can deduct employment expenses on your income tax return:

1. The expenses were incurred as part of your employment duties, and;
2. You were required to pay for the expenses yourself as part of your employment duties.

These conditions can be satisfied in the following way:

1. The expenses were incurred as part of your employment duties, and not as a shareholder.

If you are a shareholder, you must establish that the expenses were incurred in your capacity as an employee and not a shareholder. To do this, you must be able to establish that the expenses are comparable to expenses incurred by employees (who are not shareholders or related to a shareholder) with similar duties at your company, or at other businesses similar to your company in size, industry and services provided. You do not need to include this information on your tax return or the Form T2200 Declaration of Conditions of Employment, however, the CRA could ask you to provide this later.

2. You were required to pay for the expenses yourself as part of your employment duties.

Usually, a written contract of employment specifies the expenses a non-shareholder employee must pay. Sometimes there is no written contract or the requirement to incur expenses is not clearly identified in the contract, but there is an implied requirement for the employee to pay the expenses. For example, an employee can demonstrate an implied requirement by showing they face possible disciplinary action from their employer if they do not meet the requirement.

If you are a shareholder-employee however, an implied requirement may be more difficult to demonstrate and a written contract may not be adequate to establish that you were required to pay for the expenses as part of your employment duties.

To satisfy this condition, you must therefore be able to establish that the expenses are comparable to expenses incurred by employees (who are not shareholders or related to a shareholder) with similar duties at your company, or at other businesses similar to your company in size, industry and services provided. This will support that you were required to pay the expenses to fulfill your obligations in your capacity as an employee.

You must satisfy both key conditions to deduct the expense(s) on the T1 Individual Income Tax Return. If both conditions are met, you may, as a shareholder, have the authority to certify Form T2200, Declaration of Conditions of Employment, for yourself or a related employee.

If you have any questions, please feel free to contact us at (905) 549-8463