EMPLOYMENT INCOME

- Automobile standby charge changed and clarified
- Low interest loans cost more
- Termination payments to be treated as retiring allowances

EMPLOYER PROVIDED AUTOMOBILES

Employees, and employers too, are at last able to determine just how much more tax Mr. MacEachen intends to collect from the use of company cars. The draft legislation modifies the original proposals and sets out a ponderous, but nevertheless workable, approach for determining the standby charge. For 1982 and subsequent years the basic taxable benefit arising from the standby charge is 2% per month of the original cost of a company car, or two-thirds of the payments for leasing the car, excluding any insurance cost included therein. The 2% and 2/3rds figures are a reduction from the 2-1/2% and 5/6ths proposed last November, but do represent a doubling of the rates that have been in place for the past decade.

Reduction in Benefit

There are two ways in which the basic benefit can be reduced. First, if the employee can establish in prescribed form (the form is not yet available) that his personal use is less than 12,000 kilometres (7,500 miles) a year, the basic standby charge may be reduced proportionally. Second, it may also be reduced by any payments made to the employer for use of the automobile that do not pertain to operating expenses. The general employee benefit sections of the Act are also to be amended to provide that ownership benefits (such as cost, licences, insurance) are taxable only under the standby charge rules. Any benefits that relate to operation (gas, oil, washes, etc.) will continue to be taxed under the general benefits section and these benefits will be in addition to the standby charge. At their employers' option, automobile salesmen may have the standby charge computed at 1.5% of the cost per month rather than 2%, again a doubling of the former rate.

Shareholders

Persons who have the use of a company car by reason of being shareholders will also be subject to the new standby charge; however, there is no provision for shareholders to reduce their benefit where personal use is low. Presumably, if there is business mileage, the benefit should be by virtue of being an employee rather than by virtue of being a shareholder and the benefit and reduction will be calculated under the employee rules. Both employees and shareholders are now also taxable if their position results in an automobile being made available to persons related to them.

OTHER BENEFITS

Health Service Plans

As announced in November, the draft Budget legislation now taxes employer contributions to private health service plans beginning in 1982; however, the amount of such a benefit for active employees will be allowed in the computation of eligible medical expenses. Contributions on behalf of retired employees and their families will be exempt. Travelling expenses paid by an employer and included in the employee's income will also be viewed as medical expenses where the patient and his attendant must travel 80 kilometres or more to obtain reasonable medical services.

Special Work Sites

Employees who work at special work sites will not be taxed in 1981 or thereafter on room and board if they maintain a self-contained residence away from the work site. Before this change, the exemption only applied if a dependant was supported in that residence.

Salary Repayments

The draft legislation expands upon the November Budget proposal to allow a deduction for employees who used Workmen's Compensation and like awards to repay part of their salary. This proposal now encompasses any repayment of salary or wages for a period throughout which the employee did not perform his employment duties.