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CESTNICK

TAX MATTERS

Beware the pitfalls of not tracking employment tax deductions

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If you're an employee, you probably wish you could claim more tax deductions. But believing you can save tax by deducting the cost of a latte at Starbucks every morning is sort of an adult version of believing in the tooth fairy. A recent court case, Chennenkunnath v. The King (2026 TCC 112), shows how claiming employee tax deductions can spell trouble when you don't dot your i's and cross your t's. It's also a reminder about the CRA's power to revisit an older tax year and the test that applies before gross-negligence penalties can stick.

The story

Hameed Chennenkunnath had worked as a car salesman in Markham, Ont., since the early 2000s. In 2017 and 2018, about 60 per cent of his compensation came from commissions – which entitled him to claim more tax deductions than the average employee. He told the court he had to find customers himself and risked his job if he didn't bring in enough business.

There were three issues: (1) whether the taxman could reassess Mr. Chennenkunnath for his 2017 tax year after the normal three-year reassessment period, (2) the CRA's denial of $56,777 of employment expenses Mr. Chennenkunnath claimed on his 2017 tax return and another $61,722 claimed in 2018, and (3) whether CRA was correct to impose gross-negligence penalties.

Mr. Chennenkunnath's claims for employment expenses included $24,000 of vehicle costs each year, telephone, internet and cable charges, supplies, home-office costs, flyer distribution, marketing consultants, and a $2,798 laptop.

His employer provided T2200 forms confirming he had to pay certain advertising, promotion, gift and telephone costs. But the forms didn't confirm that he was required to pay vehicle expenses or maintain a home office.

The evidence was thin. Mr. Chennenkunnath said he used four vehicles for work but admitted there was personal use and kept no mileage records. Beyond insurance documents, he produced no receipts or details of vehicle spending.

For telephone costs, he supplied only two Rogers bills from 2017, totalling about $750, with no details. He estimated that 90 per cent of his phone use was business-related but didn't keep a log.

He also said he paid several people cash to make calls, distribute flyers and help customers. His account of who did the work was inconsistent, and the supposed invoices had been created and signed by him. He also admitted that his accountant delivered the returns near filing deadlines and that he didn't review them completely.

The decision

The judge denied every disputed employment expense except $7,000 in annual flyer and telemarketing costs, which the Crown conceded at trial. Mr. Chennenkunnath had also abandoned rental-expense claims.

The vehicle deductions failed for two reasons: He couldn't prove the amounts spent or that employment terms required him to pay them. He also failed to separate business from personal use.

His phone, internet and cable deductions failed because two incomplete bills weren't enough to prove the annual costs or business portion. Supplies and home-office claims lacked evidence. And marketing-consulting claims rested on vague testimony and unreliable documents. Mr. Chennenkunnath proved a laptop purchase, but not that his employment required it; he already had a cellphone capable of checking e-mail.

Now, CRA reassessed his 2017 tax return after the normal three-year period. The court allowed the late reassessment because unsupported deductions were misrepresentations caused by neglect or carelessness. His failure to review his accountant-prepared return didn't protect him.

Was there any good news for Mr. Chennenkunnath? For sure: The court cancelled the gross-negligence penalty. That penalty requires conduct far beyond ordinary carelessness. The judge described Mr. Chennenkunnath as careless, disorganized, aggressive in his tax positions, too optimistic and negligent – but not willfully blind or grossly negligent. He may have spent much of the money; he simply couldn't prove the amounts were deductible.

The lessons

What can we take away from this story? First, a signed form T2200 from your employer is important, but it's not a blank cheque. The form and employment terms should confirm that you're required to pay the expense claimed. Even then, you have to satisfy the tax rules.

Second, document expenses when they happen. Keep receipts, invoices, contracts, proof of payment and notes explaining the business purpose. For vehicles and phones, maintain logs and allocate costs between employment and personal use. And cash payments are risky without signed receipts and records identifying who was paid, for what work and when.

Third, review your tax return before filing. Your accountant might prepare it, but you're responsible for its accuracy. And when an incorrect claim results from carelessness, the CRA could still reassess you after the usual three-year limitation period.

Finally, don't confuse winning on penalties with winning on the tax deductions. Mr. Chennenkunnath escaped a severe penalty because the Crown couldn't prove serious misconduct, but he still lost a lot of tax dollars for poor documentation.

Tim Cestnick, FCPA, FCA, CPA(IL), CFP, TEP, is an author, and co-founder and CEO of Our Family Office Inc. He can be reached at tim@ourfamilyoffice.ca