

# Taxes Issues: UPDATE 2010

## The Dark Side of Employee Recognition



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**When it comes to motivating and recognizing employees, one size does not fit all.** Some employees are motivated by money, some by recognition, while others are motivated by self-satisfaction. While we as employers strive to find the perfect balance for our employees, do we both understand the tax implications of employee recognition?

Beware the tax burdens masquerading as employee awards, rewards, perks and incentives. Canada Revenue Agency (CRA) has strict guidelines regarding taxable employment benefits. As you're planning your next employee recognition program, keep the following in mind:

CRA separates gifts and rewards into two categories, (1) cash/near-cash and (2) non-cash.

- 1. Cash or near-cash.** Regardless of the cost, the following gifts and awards **are** considered a taxable employment benefit:
  - **cash or near-cash gifts and awards** such as Christmas or holiday bonuses or near-cash gifts and awards such as gift certificates.
  - **points** that can be redeemed for air travel or other rewards.
  - **reimbursements** from an employer to an employee for a gift or an award that the employee selected, paid for and then provided a receipt to the employer for reimbursement.
  - **hospitality rewards** such as employer-provided team-building lunches and rewards in the nature of a thank you for doing a good job.
  - **gifts and awards** given by closely held corporations to their shareholders or related persons.
  - **disguised remuneration** such as a gift or award given as a bonus.
  - **manufacturer-provided gifts or awards** given directly by the manufacturer to the employee of a dealer.

Additional information can be found on the CRA website at:

<http://www.cra-arc.gc.ca/tx/bsnss/tpcs/pyrll/bnfts/gfts/wrds/menu-eng.html>

2. **Non-cash.** **As of January 1, 2010**, CRA has changed the policy for gifts and awards as taxable benefits. CRA no longer limits the number of tax-free non-cash gifts and awards you may give your employee in a year. Second, there is now a single \$500 exemption that you apply against the total value of all the non-cash gifts and awards you give an employee. So, if you give your employee a number of gifts and awards whose total value is less than \$500, there is **NO** taxable benefit. If you give gifts and awards with a total value of \$650, there is a taxable benefit of \$150 (\$650-\$500). Additional details can be found here: <http://www.cra-arc.gc.ca/tx/bsnss/tpcs/pyrll/bnfts/gfts/nwplcy2010-eng.html>

Items of "small or trivial value" will **not** be considered a taxable benefit. These items are not included when calculating the total value of gifts and awards given in the year in order to apply the exemption. Examples of small value include: coffee or tea; t-shirts with employer's logos, mugs, plaques or trophies.

From a non-taxable perspective, if you want to do employees a favour, opt for **non-cash** gifts and awards. The last thing you want is to have a well intentioned motivation program morph into a taxable burden.

It behooves us to (a) find out what is important to employees and (b) how each individual would like to be recognized for a job well done, followed by (c) ensuring that employees understand the tax implications of their choices. Helping them see the light with straight-up communication will provide you the opportunity to create brilliant motivation programs that produce results! As Yoda said, "do or do not ... there is no try".

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*Nancy Schreiner is the president of Excel Advertising Specialties Inc., Burlington-based branded promotional products specialists. Excel Advertising's focus is providing promotional product expertise, superior quality and value, along with exceptional customer service to businesses and organizations of all sizes. Proudly Canadian and based in Burlington, Excel Advertising has been in business since 1995. Excel Advertising was recognized with the finalist award for Small Business Excellence by the Burlington Chamber of Commerce in 2005 and 2006, a rare and significant accomplishment.*

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