

Taxes Issues 2012

The Dark Side of Employee Recognition



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Beware the tax burdens masquerading as employee awards, rewards, perks, events and incentives. Canada Revenue Agency (CRA) has strict guidelines regarding taxable employment benefits and they refine and revise their policies regularly. Before you create an employee recognition program, make sure that you and your employees understand the taxable benefit consequences of cash, near-cash and non-cash gifts and awards. Current information is available at: <http://www.cra-arc.gc.ca/gifts/>

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, gift cards, precious metals, or securities.
 - **points** that can be redeemed for air travel or other rewards; or an internal points system where an employee earns points and can redeem them for items from a catalogue.
 - **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 on cash or near-cash gifts and awards can be found on the CRA website at: <http://www.cra-arc.gc.ca/tx/bsnss/tpcs/pyrll/bnfts/gfts/wrds/menu-eng.html>. Information related to Social events and hospitality functions can be found at: <http://www.cra-arc.gc.ca/tx/bsnss/tpcs/pyrll/bnfts/gfts/scl-eng.html>

2. Non-cash (effective January 1, 2010). 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). There are special rules for Long service awards. Additional details can be found here: <http://www.cra-arc.gc.ca/tx/bsnss/tpcs/pyrll/bnfts/gfts/plcy2010-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 benefit perspective, do yourself and your employees a favour, and opt for **non-cash** gifts and awards. The last thing you want is to have a well intentioned motivation program turn into a tax burden.

The most successful recognition programs are those created through understanding (a) what is important to employees; (b) how each individual would like to be recognized; and ensuring that (c) employees understand the tax implications of their choices.

Silence may be refreshment for the soul, but recognition done the right way speaks volumes!

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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