

Taxes Issues:

The Dark Side of Employee Recognition



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When it comes to employee motivation, 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 employee recognition programs, keep the following in mind:

CRA separates gifts and rewards into two categories, (1) cash/near-cash and (2) non-cash. The following appears on the CRA website <http://www.cra-arc.gc.ca/gifts/>

- 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"

**** As of October 1st, 2007, under a new **Consumer Protection** regulation, businesses in Ontario will have to eliminate expiry dates on gift cards. Cash equivalent gift cards will never expire.**

This means, regardless of whether or not the gift card/certificate is ever used it's considered a taxable employment benefit.

2. Non-cash. "Employers can now give their employees, on a tax-free basis:

- two **non-cash** awards per year to mark employment achievements, and
- two **non-cash** gifts per year to mark special occasions such as holidays, birthdays, or marriage.

The total cost including taxes of the two gifts or the two awards cannot be over \$500 per employee. If the total cost including taxes of the two or more gifts or the two or more awards in a year is over \$500, the fair-market value of one or more of the gifts or awards may have to be included in the employee's income." Visit <http://www.cra-arc.gc.ca/gifts/> for more information

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".

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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