

Non-Taxable Employee Perks!

Good employees are difficult to find, so it may be worthwhile to offer benefits that will encourage them to stay.

Many owner-managers would like to provide their employees with additional benefits. However, many benefits must be included in the employee compensation. Unfortunately, this may attract additional income tax for the employees and add costs to both the employee and employer.

Some benefits, however, are not taxable to the employee, yet may provide a deductible expense to the employer.

If you, the owner-manager, could design the ideal benefit for your employees, what features would it include? The following four factors may be worth considering:

- ✓ A deductible expense to you;
- ✓ No extra costs for you, such as employment insurance or CPP;
- ✓ Non-taxable in the hands of the employee; and
- ✓ Attractive enough to keep hard-to-replace employees working for you.

You may be surprised to discover that a few such benefits already exist, if they meet the right criteria.

Uniforms and Special Clothing

In most situations, an employer cannot provide clothing to an employee without creating a taxable benefit for the employee. Uniforms and special clothing (including protective clothing, safety footwear and safety glasses) are exceptions, however.



The Employee Point of view

When employees receive special work-use clothing and protective gear, the benefits to the employee are two-fold; employees don't have to spend their own money for these items and the CRA does not consider these items taxable benefits.

The Employer Point of view

From the owner-manager's point of view the benefits are also two-fold: a distinctive uniform, usually containing the employer's logo, is a walking advertisement for your business, while protective gear, if it helps to prevent injuries, keeps insurance costs down. The uniforms and protective gear are deductible expenses to the employer.

If laundry or dry cleaning costs are incurred to clean uniforms or protective clothing, employers may opt to pay a reasonable allowance to the employee or, alternatively, to reimburse the employee when receipts are presented. These costs are not taxable to the employee.

Cell Phone Service

If you provide employees with a personal cell or other handheld device for business use, the portion attributable to business is not taxable to the employee. In theory, if an employee uses any of these devices for personal use, the personal-use portion would be considered a taxable benefit. The CRA has, however, recognized that it is impractical to try to draw a distinct line between personal and business use. Instead the CRA states:

Generally, we do not consider your employee's personal use of the services to be taxable benefit if all the following apply:

- ✓ The plan cost is reasonable.
- ✓ The plan is a basic plan with fixed costs.
- ✓ Your employee's personal use of the service does not result in charges that are more than the basic plan.

Child-Care Expenses

Child care is not just a financial issue; it is also an emotional one. A non-taxable, child-care facility at work is an excellent way to keep employees happy. This benefit is only non-taxable, to the employee is all the following conditions are met:

- ✓ Child care must be provided at the place of business;
- ✓ Services must be managed by the business;
- ✓ All employees must have the option of utilizing the services;
- ✓ The services must be provided free or with minimal costs attached; and
- ✓ Third parties (individuals who are not employees) cannot use the service.

Options to consider

Assume for a moment you want to provide on premises child-care facilities for your employees but the costs are so high you will have to offer the service to non-employees at a higher rate. If you decide to go that route, the difference between the cost to your employees (which may be as low as zero), and the price paid by the third parties, will be considered a taxable benefit to your employees.

However, if you subsidize your employees to use the child-care services of a third party, the CRA considers the subsidy to be a taxable benefit to employees who use the service.

Internet

If you have employees working at home, you may wish to pay the portion of their Internet service used for business. Internet cost for business use are a non-taxable benefit to the employee; however the personal portion of Internet use must be included in the employees' income as a taxable benefit.

Spouses and Business Trips

Under most circumstances, any reimbursement for the cost of having a spouse or partner accompany an employee on a business trip is taxable to the employee. If, however the spouse or partner is involved in activities related to the business and attendance is requested by the employer, reimbursement of reasonable traveling expenses is not taxable to the employee.

Education Cost for Employee's Children

Reimbursement of educational cost for employees' children is a taxable benefit to the employee. The CRA recognizes, however, that education facilities may not be available to employees' children because of the remoteness of the worksite or because the local curriculum is inadequate. If an allowance or reimbursement is paid and it is established that the following FOUR conditions are met, then the CRA may consider the amount to be a non-taxable benefit to the employee.

- ✓ Education is provided in one of Canada's official languages used by the employee;
- ✓ The education facility must be the closest one available;
- ✓ Full-time attendance is required; and
- ✓ The reimbursement must be reasonable.

Parking

Taxable benefits regarding parking are a contentious issue for both the employees because many employees need to drive to work and believe the cost of parking should be absorbed by the employer.

Under most circumstances, parking is a taxable benefit to employees. The benefit to the employee is calculated at the rate charged for the parking plus HST/GST. Any contribution by the employee towards parking costs is deducted from the benefits. There are, of course, exceptions to the general rule:

- ✓ Employees with disabilities are not subject to the taxable benefit.
- ✓ If the employer provides parking because it is necessary to conduct business AND the employee must regularly use a vehicle (their own or a company vehicle), the add-on to income as a taxable benefit does not apply.
- ✓ Where your business operates from a mall or an industrial park and parking is considered free to all, a taxable benefit does not arise.

Be Prepared to Defend Yourself

In many situations discussed above, determination of the non-taxable portion of the benefit may be somewhat subjective. Owner-managers should be prepared to support their position with solid documentation in the event the CRA decides to challenge any claims.

Friendly Reminder

A Canadian must file a Foreign Income Verification statement (Form T1135) if that person owns specified foreign property costing more than \$100,000 in total.

Form T1135 has been revised and now requires significantly more information. For the new format and revised information requirements, please click [here](#).

We hope you had a safe and enjoyable summer!