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# The Learning Kurve

Presented by

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## In-House Benefits

*Employers wishing to reward employees for a "job well done" should check first with their Chartered Accountant to make sure the reward is not taxable to the employee.*

Generous, well-intentioned employers are often surprised to discover the value of many rewards is reduced because the reward is taxable to the employee. Employees, on the other hand, are often disappointed and discount the value of the benefit received because, in their minds, anything taxable is not a real benefit. Indeed, employees may perceive the "reward" as a means by which the employer can avoid giving pay increases.

Unfortunately, in truth, employers have very little leeway to provide incentives that are not taxable to employees. The following list, though not all-inclusive, provides an idea of the administrative position of Canada Revenue Agency (CRA).

- gifts of cash or near-cash (such as gift certificates) are taxable;
- gifts that neither cash nor near-cash, but have an annual value greater than $500 will have tax applied to the amount in excess of the $500 limit;
- gifts to recognize service are not taxable as long as they are not given more than once every five years. In the event the service-reward amount is given in the same year as cash or near-cash gifts, the two amounts are treated as separate items, thereby avoiding the $500-per-annum threshold.

*Even the Shirt off Your Back?*

One would think an achievement or service award bearing a company logo but of immaterial value such as a coffee cup or a T-shirt would not attract income tax. However, CRA leaves the door open for possible taxation by indicating that the concept of immaterial value is subjective. CRA takes the position that such awards should be valued at an amount the employee could get for the item if sold immediately after receipt. For instance, an outstanding employee of the Canadian Football League rewarded with a team jersey signed by all the players of a Grey Cup championship team could have received an item with a value far in excess of the immaterial cost of the jersey.

*The Grinch Who Taxes Christmas*

The next time your employer holds a picnic or holiday party take pity on the planner who may be under pressure to keep the cost per employee under $100 because CRA administrative practice stipulates that a cost below $100 is not a taxable benefit. However, if the expenditure exceeds $100 per employee, the entire amount may become taxable to the employees.

*Club Memberships*

Club memberships and fees are taxable in the hands of the employee member if the club is primarily used for personal wining, dining and sports activities. On the other hand, if the employer receives the primary benefit and the employee does not participate sufficiently to be considered to have received a benefit then there may be no taxable benefit to the employee. If, by way of example, a business owns a club membership and an employee uses it to entertain company clients or management meets there to discuss business issues, then no individual employee would be deemed to have received a taxable benefit. Good management would suggest that use of the facilities for corporate functions be documented to establish the corporation as the primary user and to prove that employees are not receiving benefits.

*Flying High*

Frequent-flyer points were a contentious issue between employees/employers and CRA until an understanding was reached in 2009. Before 2009 employees who used their own credit cards to gain points while on company business were considered to be earning a taxable benefit. In 2009, the CRA conceded that the use of personal credit cards to pay for company business would not be considered a taxable benefit as long as:

- the employee did not receive cash for the points;
- management did not provide the card as an alternative to remuneration; and
- there was no intention to avoid taxes.

Employees and employers should be aware, however, that if the employer owns the credit card and distributes the accumulated points as a reward to employees, the value of the reward will be perceived as a taxable benefit to the employee.

*Withholding Taxes*

Benefits taxable in the hands of the employee are subject to deductions at source. The general guideline is as follows:

If the gift is taxable, both income tax and the Canada Pension Plan contribution must be calculated, deducted and remitted. Should the employee receive cash, income tax, CPP and Employment Insurance must be calculated, deducted and remitted. (Naturally, the employers must remit its share of CPP and EI). Gift certificates (near-cash benefits) are not considered cash for purpose of the EI calculation and thus only income tax and CPP are calculated, deducted and remitted.

*Employer Responsibility*

The end of the calendar year is close. Employers should review gifts and incentives provided during the year to determine whether employee remuneration must be adjusted for benefits taxable to the employee. If it was the employer's intention to provide gifts in the last month of the year, now is the time to consider how best to structure the gifts to say "thank you" to employees without impacting their pay cheques. Employers should also remember that February 28, 2011, is the last day for sending out T-4s to employees. For employers needing guidance determining which benefits are taxable, your Chartered Accountant might just be a wise resource.

### Tax Treatment of Computer Equipment

Until January 31, 2011, taxpayers purchasing qualifying computer equipment and software are entitled to capital cost allowance of 100% in the year of acquisition. Starting February 1, 2011, capital cost allowance reverts to 55% and will be subject to the half-year rule in the year of acquisition.

### Last Settlement Trading for 2010

CDN exchanges are closed December 27th and 28th so a trade placed on December 24th settling T+3 should settle December 31st.

US Exchanges are closed December 24th and open the 27th and 28th. So a US stock trade entered December 28th settling T+3 should settle December 31st.

### This'n That at Logan Katz

**January Breakfast Seminar**

We hope to see you at our breakfast seminar to be held on January 24. In collaboration with the *University of Ottawa* and *BMO Bank of Montreal*, Logan Katz is pleased to welcome Douglas Porter, Deputy Chief Economist of BMO Bank of Montreal who will offer an economic perspective for 2011. Book your space now by visiting our Events page at www.logankatz.com.

**Algonquin College Business Planning Competition**

Once again, Logan Katz was pleased to sponsor the *Algonquin College* Business Planning Competition held on December 7. In addition, Logan Katz's James Bush and Cari McGratten sat on the panel of judges. The competition provided *Algonquin* Business Planning students an opportunity to present their business plans to business leaders and obtain valuable feedback and expertise.

**Speaking Engagements**

David Logan and Denis Chainé spoke to *Intact Insurance* agents across Canada on the tax and accounting implications specific to the construction industry, as well as provide an overview of the Canadian accounting standards in transition.

**New Faces at Logan Katz**

*Vivian Menard* and *Cari McGratten* have recently joined Logan Katz. Vivian is a new addition to our support team, while Cari joins our Financial Reporting Services group. We look forward to introducing both to you.