

EMPLOYMENT INCOME | EXCLUSIONS AND TAXABLE BENEFITS

Employees are generally taxed on a cash basis:

- Salaries, Bonus, Wages are all taxed when received
- Signing bonuses and non-competition payments are taxed when received
- Gratuities (tips) are also taxable employment income

Employment Benefits

- Value of benefits received by virtue of employment is also included in employment income: gifts, club membership, automobile provided by employers, etc.

Tax Free Employee Benefits:

1. Employer Contributions to:
 - (i) RPP/DPSP
 - (ii) Group sickness/accident insurance plans
 - (iii) Private health care plans (including former employees)
 - (iv) Employer's portion of provincial health tax
2. Counselling services provided to an employee by the employer for:
 - (i) Mental/physical health
 - (ii) Re-employment
 - (iii) Retirement
3. Subsidized school services for the employee's children
 - (i) This does not extend to a payment of an educational allowance directly to the employee by the employer
4. Things Primarily for Employer's benefit:
 - (i) Tuition for courses (i.e. MBA)
 - (ii) Club dues -- employer can **NEVER** deduct this for tax purposes – this is a rare situation
 - (iii) Business trip expenses
 - also wife's expenses paid by the employer are also excluded if she is also included in business activities;
 - if she is not involved with the business and she is just accompanying you, then her costs of the trip covered by your employer is included as a taxable benefit.
 - (iv) Uniforms
5. Use of employer recreation facilities
6. Board and Lodging at Special Work Site (cannot commute daily and must be away for at least 36 hours)
7. Cafeteria Meals if Price \geq Cost of food, preparation and service
8. Employee discounts available to **ALL** employees (i.e. common in retail operations)

9. Frequent Flyer points earned on business trips as long as points are not converted to cash
 - If the employer allows you to use your credit card for stuff not needed for business i.e. to pay for non-business related expenses or even other employee's expenses, the travel points are considered additional benefit and is taxable
 - If you redeem points from your boss's credit card, then it is a taxable benefit
9. First \$500 of the **Fair Value** of gifts (including HST) is tax free (regardless of the number of gifts given)
 - This rule does not work on “**near cash gifts**”
 - If it's very similar to cash like **gift certificates**, it is taxable and included on the T4
 - Same holds for Christmas bonuses
 - Therefore, The \$500 only applies to **non-cash items (not near cash items)**
 - **Note that the employer can deduct the costs of gifts regardless of if it is a taxable benefit to the employee or not.**
10. Reimbursement (**not allowance**) of reasonable moving expenses
 - Reimbursement of losses on sale of house: Taxable portion = (reimbursement-**15,000**)*.50
11. Professional dues paid by employer; if its needed for the job (i.e. ICAO membership dues paid by firm)

Taxable Employee Benefits:

1. Employer provided child care services are generally taxable unless:
Child care is not taxable only if **all** of the following conditions are met:
 - The services are provided **at employer' place of business**.
 - The services are **managed directly by employer**.
 - The services are provided to all of the employees at **minimal or no cost**.
 - The services are not available to the general public, **only to employees**

Child Care expenses borne by employer to a third party facility are taxable
2. Tools reimbursed by the employer ; even if those tools are used for employment purposes are taxable benefits
3. Non-group disability insurance premiums
4. Life Insurance **premiums** paid by employer (benefits not taxable) - doesn't matter if it's a group plan or non-group plan
5. Free Board and lodging (not at special work site) if given for free– the fair value of the board and lodging is included as taxable benefits

- Subsidized board and lodging (benefit = FMV of board and lodging – payment by employee)
6. Cheap Rent/Free Rent to employees
 7. Automobile
 - Standby Charge + Operating Cost Benefit – Reimbursements by Employees
 8. Low interest/interest free loans (car loans, home relocation loans, home purchase loans)
 9. Employee Stock Options
 10. Non-travel allowance
 11. Unreasonable travel allowance
 - **Car Allowances** - not based on a “reasonable per KM driven rate”; flat rate allowances are taxable benefits
 - **Maximum Reasonable Rate:**
 - 52¢ per kilometre for the first 5,000 kilometres driven; and
 - 46¢ per kilometre driven after that.
 - **Non Car Allowances** (i.e. travelling) - judgement call; is it needed for business?
 12. Some Moving Expenses paid by employer
 - Reimbursement of losses on sale of house: Taxable portion = (reimbursement-15,000)*.50
 13. Parking space if other employees pay
 14. Prizes, holiday trips, awards
 15. RRSP contributions made by employer, these are then deducted as part of the RRSP contributions deduction.