



Your Gifts and Awards Program: A Taxable Benefit That Could Improve Your Bottom Line!

You are a generous person, but did you know that using your benevolence to add a positive dimension to your workforce also makes good business sense? No, really! Giving gifts and awards can motivate employees, help create a positive and engaged team, and allow you to show appreciation for those who go above and beyond expectations. Let's be honest here though; magnanimous or not, it's nice to get some of that generosity back as a taxable benefit! Before you can expect the government to support your gift giving or award program, however, there are a few things you should know.

As much as you may want to sprint down the office corridor tossing goodwill around like confetti, there are limits to what you can then claim as a taxable benefit. A gift or award that you give an employee can be a taxable benefit where it is:

- cash (the green stuff)
- near-cash (e.g., gift certificates or gift cards)
- non-cash (e.g., tickets to an event) If the event is for a specific date and time and there is no element of choice it may not be a taxable benefit if the other rules discussed below apply. Some non-cash gifts and awards like special occasion gifts (birthday, wedding, religious holiday or birth of a child) are considered non-taxable by the CRA.

An award has to be for an employment-related accomplishment such as outstanding service, employees' suggestions, for meeting or exceeding safety standards, or overall contribution to the workplace. It is not for recognition of job performance. The award for that is called a pay-cheque!

Setting up an award program

So, how do you go about setting up an award or gift program? To make an award non-taxable, there must be clearly defined criteria:

- a nomination
- an evaluation process
- a limited number of recipients

Nomination

I recommend that you document the policy covering awards and gifts in the employee manual. What work-related accomplishment do you want to recognize as gift or award-worthy? Another way to look at it: What would an employee have to do to be named 'employee of the month' in your company? Is it positive feedback from customers; suggestions that improve service or logistics; a stellar safety record? Choose the parameters and write it to policy. An employee should know what 'above and beyond' looks like.

You will then need to define the nomination process. Do employees nominate one another or is that a function of management only? How long does an employee need to work for the employer before being



eligible? Will the award occur at a specific time of year? Is it an annual, monthly, or weekly recognition? How many employees could be eligible at one time?

Evaluation process

Once you choose your specific target accomplishments, you will need to establish a tracking method to determine the standard you expect from every employee, and then how far above standard merits special recognition. For example: What standards would exceed customer service expectations? How many customers would praise an employee before you would consider it exceptional? How many 'no accident' days go far beyond the norm? Whatever standard you use and whatever tracking method you employ, the evaluation process to determine elevated performance should be fair and impartial.

Maximum

Of course, although your generosity may be limitless, the value of this tax-free benefit is not. Gifts and awards cannot exceed \$500 per year. Any amount exceeding \$500 is a taxable benefit and must appear on the employees T4 as such. It is interesting to note that this limitation has not changed since 2000 so those of you who feel passionate about giving more should start writing their M.P.s!

There is one exception to that limitation. You can give a tax-free, long-time service award of an additional \$500 to an employee, but only every five years.

Recording taxable benefits

Keep in mind that all forms of remuneration received by virtue of employment are taxable if for the employee's personal enjoyment (yes, they've actually found a way to tax *fun*!) For a complete list of taxable benefits that should be included on an employee's T4 slip see the link:

<https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/payroll/benefits-allowances/benefits-allowances-chart.html>

Refer to the Benefits and Allowances Chart to make sure that you include any benefits received by the owner or manager on the T4 slip as a taxable benefit. This chart is also a quick reference guide to determine if CPP/EI and HST must be calculated on the benefit. Make sure you include these items in Box 40, otherwise, if the CRA audits your corporate tax return or orders a payroll trust exam, they could find that there is a Section 15.1 violation that results in double taxation. In that case, they will deny the expense to the corporation and tax it to the individual.

Tax-free benefits

Tax-free benefits are things like:

- Reimbursement of a business expense
- Reimbursement of a business-use home expense



- Reimbursement of vehicle expenses on a per KM basis at the CRA legislated rates: <https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/payroll/benefits-allowances/automobile/automobile-motor-vehicle-allowances/reasonable-kilometre-allowance.html>
- Reasonable travel allowances: <https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/payroll/benefits-allowances/automobile/automobile-motor-vehicle-allowances/automobile-allowance-rates.html>

Refer to the guide T4130 Employers Guide – Taxable Benefits and Allowances for more info:
<https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/t4130.html>

If you follow the guidelines I've outlined, you should have no trouble setting up a gift or awards program that will improve the employee experience, increase productivity and allow you to claim your goodwill as a taxable benefit. If our office prepares your T4s, just remember to inform us of any amounts expensed that would be a taxable benefit to the employee or, more importantly, the company manager or owner. Now go forth and spread joy to the masses with confidence *and* blessings from the CRA!