

# Navigator

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC WEALTH MANAGEMENT SERVICES



Aaron Fennell, MBA, CFA Portfolio Manager & Investment Advisor Tel: 416-313-6397 aaron.fennell@rbc.com

RBC Dominion Securities 181 Bay Street, Suite 2350 Toronto, ON M5J 2T3 www.agronwfennell.com

# Employee compensation – fringe benefits

As an employee, you may be compensated in a number of ways. Your remuneration could include salary, a bonus, or other non-cash benefits such as gym memberships and awards from your employer. This article discusses the taxation and implications of receiving fringe benefits.

The information in this article is not intended to provide legal or tax advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax advisor before acting on any of the information in this article.

### What is it?

Fringe benefits are benefits received or enjoyed by you because of your relationship with your employer. Fringe benefits are generally noncash or non-stock benefits. They can be taxable or non-taxable depending on the nature of the benefit.

# Why is it used?

Fringe benefits are used mainly to boost employee morale, build loyalty or reward employees for their contribution to the success of the business.

### How is it taxed?

## To the individual

Unless the Income Tax Act (Act) specifically excludes a benefit, you are generally subject to tax on the value of all benefits you receive by

virtue of your employment. The value of a taxable benefit is included in your income for the year it is received.

Some common examples of taxable benefits that you may receive are:

- Free board and lodging
- Use of a company car for personal use
- Recreational club memberships
- Financial counselling (unless done for re-employment, retirement or your mental or physical health) and income tax preparation
- Cash gifts or near-cash gifts (e.g. gift cards)

Some common examples of nontaxable benefits that you may receive are:

- Personal development or technical education courses that are considered to be for the primary benefit of your employer (e.g. courses taken that allow you to upgrade your skills used in your employer's business)
- Use of a company car related to business use
- Financial counselling services related to your re-employment or your retirement
- Counselling services related to your mental or physical health
- Professional membership or association dues paid by your employer if your employer is the primary beneficiary of the membership. Generally, the employer is considered the primary beneficiary of the professional membership if it is a condition of employment
- The fees required for you to be a member of a social or athletic club where the membership was principally for your employer's benefit rather than your own
- The use of an in-house recreational facility provided by your employer or the membership fees relating to an organization that provides recreational facilities where the facility or membership is available to all employees
- Frequent flyer points or other loyalty points
  accumulated on your personal credit card if you use the
  card to pay for expenses while travelling on business
  as long as the points are not converted to cash and the
  arrangement is not implemented as a form of additional
  remuneration or tax avoidance
- Generally, non-cash gifts received for a special occasion, such as a birth, or non-cash awards received for employment-related accomplishment if the total amount of gifts and awards received in the year are less than \$500
- Non-cash long-service or anniversary awards valued at \$500 or less. You must have provided the employer at least five years of service and you can only receive one of these awards every five years

# To the company

If a company pays cash in lieu of a taxable benefit, the amount is subject to regular payroll withholding for income taxes and government benefit programs such as Canada Pension Plan (CPP)/Quebec Pension Plan (QPP) and Employment Insurance (EI) contributions. The cash paid to the employee and the employers' portions of the CPP/QPP and EI payments may be deducted by the corporation if the expense was incurred for the purpose of earning income.

Generally, if the benefit is a taxable non-cash benefit, the employer needs to determine the value or make a reasonable estimate of the value of the benefit. This amount is reported to the employee on a T4 slip. Income taxes and CPP/QPP contributions will need to be withheld from the employee's pay based on the benefit amount. Generally, El contributions will not need to be withheld on non-cash taxable benefits. The value of a non-cash amount can be deducted by the company from income provided it was incurred for the purpose of earning income, unless specifically excluded by the Act. For example, generally only 50% of the expenses relating to meals and entertainment are deductible and 100% of membership fees paid to recreational or sports facilities are not deductible. The employer's portion of the CPP/QPP payments can be deducted.

The general rules surrounding taxable employee benefits are complex and contain a number of exceptions. Speak with a qualified tax advisor to determine how a particular fringe benefit should be treated and reported to the employee. You may also consider reviewing the Canada Revenue Agency's guide, T4130 Employers' Guide – Taxable Benefits and Allowances.



This document has been prepared for use by the RBC Wealth Management member companies, RBC Dominion Securities Inc. (RBC DS)\*, RBC Phillips, Hager & North Investment Counsel Inc. (RBC PH&N IC), RBC Global Asset Management Inc. (RBC GAM), Royal Trust Corporation of Canada and The Royal Trust Company (collectively, the "Companies") and their affiliates, RBC Direct Investing Inc. (RBC DI) \*, RBC Wealth Management Financial Services Inc. (RBC WMFS) and Royal Mutual Funds Inc. (RMFI). \*Member-Canadian Investor Protection Fund. Each of the Companies, their affiliates and the Royal Bank of Canada are separate corporate entities which are affiliated, "RBC advisor" refers to Private Bankers who are employees of Royal Bank of Canada and mutual fund representatives of RMFI, Investment Counsellors who are employees of RBC PH&N IC, Senior Trust Advisors and Trust Officers who are employees of The Royal Trust Company or Royal Trust Corporation of Canada, or Investment Advisors who are employees of RBC DS. In Quebec, financial planning services are provided by RMFI or RBC WMFS and each is licensed as a financial services firm in that province. In the rest of Canada, financial planning services are available through RMFI, Royal Trust Corporation of Canada, The Royal Trust Company, or RBC DS. Estate and trust services are provided by Royal Trust Corporation of Canada and The Royal Trust Company. If specific products or services are not offered by one of the Companies or RMFI, clients may request a referral to another RBC partner. Insurance products are offered through RBC Wealth Management Financial Services Inc., a subsidiary of RBC Dominion Securities Inc. When providing life insurance products in all provinces except Quebec, Investment Advisors are acting as Insurance Representatives of RBC Wealth Management Financial Services Inc. In Quebec, Investment Advisors are acting as Financial Security Advisors of RBC Wealth Management Financial Services Inc. RBC Wealth Management Financial Services Inc. is licensed as a financial services firm in the province of Quebec. The strategies, advice and technical content in this publication are provided for the general guidance and benefit of our clients, based on information believed to be accurate and complete, but we cannot guarantee its accuracy or completeness. This publication is not intended as nor does it constitute tax or legal advice. Readers should consult a qualified legal, tax or other professional advisor when planning to implement a strategy. This will ensure that their individual circumstances have been considered properly and that action is taken on the latest available information. Interest rates, market conditions, tax rules, and other investment factors are subject to change. This information is not investment advice and should only be used in conjunction with a discussion with your RBC advisor. None of the Companies, RMFI, RBC WMFS, RBC DI, Royal Bank of Canada or any of its affiliates or any other person accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. ®/TM Registered trademarks of Royal Bank of Canada. Used under licence. © 2021 Royal Bank of Canada. All rights reserved. NAV0207