Wealth Management

the Navigator

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC WEALTH MANAGEMENT SERVICES

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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 non-cash 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 non-taxable 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, EI 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.

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