



Edward E. Lee, MBA, CIM, BSc Investment Advisor Tel: 416-960-4243 edward.e.lee@rbc.com

Vicky Leung, BA Administrative Assistant Tel: 416-960-6832 vicky.vl.leung@rbc.com

RBC Dominion Securities 45 St. Clair Ave. West, Suite 1101 Toronto, ON M4V 1K6 Tel: 416-960-4243 Fax: 416-974-0332 Toll free: 1 800-766-1034 WWW.EDWARDELEE.COM

Employee compensationbonus

As an employee, you may be compensated in a number of ways. Your remuneration could include salary, a bonus, and/or shares of the company you work for. This article discusses the taxation and implications of receiving a bonus.

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?

A bonus is generally an annual or quarterly lump-sum cash payment that your employer provides to you in addition to your base salary. The amount of bonus paid by your employer can be discretionary but is typically related to how well the company has performed and how well you have performed during the current or previous year.

How is it taxed?

To the individual

A bonus is taxed like regular employment income at your graduated tax rates in the year of receipt. A bonus will be reported on a T4 slip. A bonus is subject to payroll withholdings for income taxes and government benefit programs such as Canada Pension Plan (CPP)/Quebec Pension Plan (QPP)

and Employment Insurance (EI) contributions. The amount of payroll withholding is typically determined by your average tax rate and the required contributions for the various government benefits programs applicable in your province/territory of residence.

Some employers will allow you to defer the receipt of a bonus to the following tax year. If you do not need the money currently, deferring your yearend bonus to the next year may be beneficial to you if you expect to be in a lower tax bracket the following year.

Bonuses cannot be deferred indefinitely due to the Salary Deferral Arrangement (SDA) rules in the Income Tax Act. The SDA rules are complex but essentially have been put in place to prevent you from deferring the receipt and taxation

of your bonus or other taxable benefits by having your employer defer your compensation earned in a current year to a future year. If the SDA rules are triggered, you will have to pay tax on the compensation in the current year, even if you receive the compensation in a future year.

In general, the SDA rules are not triggered if the compensation is paid within three years following the end of the year the bonus was payable. Due to this rule, bonuses are generally not deferred for more than three years.

Your employer is permitted to contribute your bonus payment directly to your Registered Retirement Savings Plan (RRSP) or a spousal RRSP, without withholding tax if you have available RRSP room. However, this option is at your employer's discretion and allowed only if your employer has reasonable grounds to believe that you can deduct the RRSP contribution for the year. Your employer may ask to see a copy of your Notice of Assessment showing that you have adequate unused RRSP deduction room or ask you to complete the Canada Revenue Agency (CRA) Form T1213 to ensure that they have reasonable grounds to believe you can deduct the RRSP contribution.

To the company

A company that pays a bonus to an employee is able to deduct the bonus payment and related payroll expenses from its taxable income as long as the expenses were incurred to allow the company to earn income and the amount paid is reasonable.

Where the bonus is paid to an employee who is also a shareholder of a private corporation, it is key that the shareholder is actively involved in the day-to-day operations of the corporation and contribute to the income-producing activities of the corporation in order for the bonus to be deductible. The CRA will likely question the reasonableness of a bonus if it is paid out to a non-active shareholder/manager, a non-resident shareholder/manager or to a holding corporation.

A corporation can declare a bonus and get a deduction for the current corporate tax year even if it does not payout the bonus immediately. The corporation has up to 179 days after the corporate year-end to pay the bonus if they wish to claim the deduction in the year the bonus was declared. A qualified tax advisor can help you determine the deductibility of a bonus payment made by your corporation.

It is important that the company withholds taxes on the bonus payment and remits the proper amounts to the CRA on a timely basis. A qualified tax advisor can help you determine the amounts that should be withheld from an employee's bonus.



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. @/rm Registered trademarks of Royal Bank of Canada. Used under licence. © 2021 Royal Bank of Canada. All rights reserved. NAV0203