



EMPLOYER-PROVIDED GIFTS AND AWARDS THE CRA'S POLICY

In September 2001, the Canada Revenue Agency (CRA) announced a new policy for employer-provided gifts and awards.

The policy change was made to assist employers in their administration of a gifts and awards program because it removes the administrative burden associated with determining the fair market value of small gifts and awards.

In considering these guidelines, it is important to note that this policy has been developed by the CRA as an administrative concession rather than by virtue of any specific rule in the Income Tax Act. Consequently, although some of these guidelines may appear arbitrary, a taxpayer may have a difficult task to challenge them in the event of a CRA review since the non-taxable status of any employee gift is not prescribed by the Income Tax Act.

CRA's Policy

Application

The policy is applicable to non-cash gifts, which would be given by an employer to mark a special occasion such as Christmas, Hanukkah, a birthday, wedding or similar event, and non-cash awards, which are given for work-related reasons to honour long service, innovation, excellence or suggestions which usually have pre-established guidelines and criteria.

Effective January 1, 2001, deductible to the employer, employees may receive tax-free each year:

- Two non-cash gifts if the employer's total cost for the gifts does not exceed \$500, including applicable taxes; plus
- Two non-cash awards if the employer's total cost for the awards does not exceed \$500, including applicable taxes.

If it is determined that the total cost to the employer, including taxes of any particular gift or award is greater than \$500, then the full fair market value of the gift or award is included in the employee's income – not just the value in excess of \$500.

Where the employer gives more than one non-cash gift a year and the total cost to the employer is more than \$500, the CRA will allow the employer to exclude from the employee's income the cost of up to two gifts as long as the excluded gift or gifts do not cost more than \$500 in total. This policy also applies to non-cash awards.

Where the employer gives more than one non-cash gift a year and the total cost is \$500 or less per employee, the CRA will allow the employer to exclude the cost of any two of the non-cash gifts from the employee's income. This policy also applies to non-cash awards.

Non-Application

Shareholders and contractors

The CRA's policy applies only in employment situations. It does not apply to gifts and awards that corporations give to their shareholders or their relatives because the CRA would consider these gifts and rewards to have been given to the individuals in their capacity as a shareholder.

Also, the policy does not apply to gifts and awards that an employer gives to non-employees such as independent contractors or self-employed individuals.

Disguises

The policy does not apply where an employee foregoes salary, wages or other taxable benefits in favour of a gift or award. Nor does the policy apply to cover items or events that serve as a "thank you" or reward for good performance, such as completing a job within a specified timeframe.

Cash or near-cash gifts and awards

It is important to note that the policy is applicable to **non-cash gifts and awards**. The policy does not apply to cash or near-cash gifts and awards. Near-cash is any item that can readily be converted to cash or that is equivalent to cash. The value of cash or near-cash gifts and awards continues to be assessed as a taxable employment benefit.

Examples provided by the CRA of near-cash would include, but are not limited to, the following:

- gift certificates, including those with a declining balance,
- "points" that can be redeemed for air travel or other items;
- company-sponsored credit cards that allow the employee to purchase select items,
- reimbursement by the employer for an item bought by the employee,
- items selected by the employee but purchased by the employer (unless the number of items from which to select is very limited),
- contributions to the employee's RRSP,
- gold nuggets, silver, precious jewels, precious metals
- stocks.

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