

Avoid Legal Pitfalls When Asking Current Employees to Take Pay Cuts



As the Trump trade war escalates, so does the pressure on Canadian companies to cut operating costs. And when companies need to cut costs, payroll is typically the first place they look. As an alternative to layoffs, companies may offer employees the opportunity to keep their jobs in exchange for cuts in pay, benefits, or other concessions. Imposed unilaterally, these takebacks may lead to liability for constructive dismissal. But you can take this risk out of play by having the employee sign a new or amended employment contract incorporating the revised compensation terms.

While this is a workable strategy, it's not without risks. Contracts Law, 101. Promises aren't legally binding unless the promisor receives "consideration," or something of value in return for making them. In the context of givebacks, letting employees who are currently employed remain employed isn't adequate consideration.

Lack of Consideration Invalidates Termination Notice Limits Concession

A British Columbia forestry company learned this lesson the hard way. The story began in 2021 when a Moulder Technician relocated from Calgary to Chilliwack to take a new job with the company. Three years and one wage increase later, he signed a new employment agreement with the firm which unlike his original contract, included a clause purporting to limit his notice rights for termination without cause to the minimum required by employment standards laws.

Sure enough, the company did terminate him without cause and paid him only the statutory minimum. The Technician sued for wrongful dismissal claiming that the termination notice limits clause was unenforceable because he got no fresh consideration for accepting it. The company argued that the Technician did get fresh consideration for signing the new contract in 2024, namely, retention of his job and a \$3.50 wage increase to \$38.50 per hour. But the court shot down the argument. Employment wasn't fresh consideration, the court explained, because the Technician was already employed by the firm when he signed the new contract. Nor was the wage boost since he earned that increase under the terms of the original contract and didn't have to sign the new agreement to get it [[Chowanetz v Ivor Forest Products Ltd.](#), 2026 BCSC 1760 (CanLII)].

Employees Must Receive Fresh Consideration for Pay Cuts & Givebacks

The takeaway from *Chowanetz* is that while providing employment is valid consideration when contracting with new hires, it's not enough when dealing with current employees that you already employ.

What To Do: Don't make the same mistake. When incorporating compensation cuts or other voluntary givebacks into a new or amended employment contract, ensure the employee receives fresh consideration in exchange. Fresh consideration means a pay raise, benefits boost, or other new entitlement or legal concession that the employee didn't have and received as a condition for signing the new or amended agreement.

Find out [how to avoid contractual pitfalls when restructuring the terms of employees' employment](#).