

# Holiday Parties, Gifts and Bonuses May Cost Employees at Tax Time



*Understand the potential taxable benefit of holiday parties, gifts, and other workplace perks*

It would be wonderful if the current economic situation allowed for organizations to generously reward employees with well-deserved holiday parties, gifts and bonuses. However, a recent survey by H&R Block tells us that very few Canadian workers, only 17%, expect a holiday bonus, and, only 44% expect a holiday party.

## **The Benefit of Year End Generosity**

Holiday parties have their pitfalls (alcohol and lowered inhibitions), but they are a good way to boost moral and build relationships. Giving a bonus rewards employees for helping contribute to the bottom line of an organization. Giving a gift is an effective way to build team spirit.

If an organization can afford to reward and celebrate successes with employees, why not go ahead and do so? Before taking action, ensure that you and your employees understand the financial and taxation implications of bonuses, holiday parties & gifts .

## **Taxing Holiday Booty**

We are all familiar with the story of January sticker shock when bills come flooding in. Not very many people take the time to consider the implications of employer generosity. According to the H&R Block survey:

On the positive side, most Canadians (72%) understood that cash bonuses are taxable income.

Only 10% realized that an employer-hosted event could be a taxable benefit if the cost per person exceeds \$100. Add up the cost of a party at a hotel with a musical guest, food, arranged transportation, and even accommodations.

Only 52% realized that gifts such as gift cards and cash equivalents could be taxable. Only 51% understood that receiving a company perk such as tickets to a sporting event is taxable.

Once you exceed the \$500 non-cash limit, everything above that is reported on your

T4' (that is based on the entire year, not only the year end).

### **Think about the numbers!**

If you rewarded an individual with an 'employee of the month' reward, and it included overnight accommodations at a hotel, dinner, and tickets to a show, an employer may write off the costs, but the employee could be on the hook for the taxes. When deciding on year-end holiday bonuses including gifts or cash, \$500 is a useful non-cash limit to remember. When you hand out cash, help the employee understand what the numbers will really look like. It may be that an employee would appreciate a few extra days off or leaving on Friday afternoon early for a few weeks over a few extra dollars.

It is also good advice to employers and employees to remember that if an employee is not going to use an item they may consider turning it down, not collecting it and not taking it and then giving it away.

Go ahead and reward your employees with parties, events, incentives and other gifts just accompany these with information on potential year end tax costs.

### **Source**

[H&R Block Canada](#)