Service Gifts Quiz

written by Rory Lodge | April 28, 2020

Are Non-Cash Anniversary of Service Gifts Taxable to the Employee?

SITUATION

Times are tough and the accounting firm of Loozem & Weap (LW) is having a tough time hanging on to its experienced and most prized employees. To improve morale and help with retention, LW implements an incentive program offering gift cards, hockey tickets and other awards to employees who reach their 10th anniversary with the firm during the year. LW also offers free circus tickets to all employees with kids under 12, regardless of how long they've been with the firm. These are the only awards LW employees receive from the firm during the year.

QUESTION

All of the following awards from LW would be considered a taxable benefit to the employee EXCEPT:

A. A $400 shopping spree at Wal-Mart.
B. Four circus tickets to a specific performance worth $50 apiece.
C. A $400 Starbucks gift card.
D. A pair of tickets to Game 7 of the Stanley Cup Finals worth $200 apiece (alas, we'll have to assume the scenario takes place in a year when a Canadian team actually makes the Stanley Cup Finals).

1. **All of the awards listed above are taxable benefits except the hockey tickets.**

EXPLANATION

CRA used to take the position that the fair market value (FMV) of retention or any other awards that employers give to their employees in recognition of certain achievements was a taxable employment benefit under Sec. 6(1)(j) of the *Income Tax Act*. But in 2002, the CRA began allowing employers to give their employees up to "two non-cash awards per year, on a tax-free basis, in recognition of special achievements," provided that the total cost of the awards to the employer is less than $500 per year. A "non-cash" award, according to the CRA, is one where the employee can't choose what the award is.

All of the awards listed above are below the $500 threshold. But two of the four—the Starbucks gift card and Wal-Mart shopping spree—would be treated by the CRA as near-cash because they:

- Can be easily converted to cash; or
- Give the employees a selection of choice in the item they receive.

Only the hockey and circus tickets don’t fit either of these concepts. The tickets are for a specific event on a specific date—so there’s no choice. In addition, the hockey tickets are based on an employment-related accomplishment; the circus tickets are not. So only the hockey tickets qualify as a non-taxable non-cash award and D is the right answer.

WHY THE WRONG ANSWERS ARE WRONG

A is wrong because, according to a CRA External Interpretation (No. 2007-0247981E5 (E), March 13, 2008), letting employees select an award from a store the way a shopping spree does is essentially the same thing as a gift certificate. And the CRA’s Taxable Benefits Guide (T4130) makes it very clear that gift certificates are near-cash items that, like cash, are considered a taxable benefit.

B is wrong because the exception regarding the taxability of awards applies only to awards for employment-related accomplishments, such as long or outstanding service, employees’ suggestions, or meeting or exceeding safety standards. The hockey tickets are for an employment-related accomplishment—working for the company for 10 years. The free circus tickets, by contrast, are for any employees with kids under 12. So they don’t qualify for the exception.

C is wrong because, according to the CRA T4130 guidelines, a cash award or “near-cash” award to an employee is a taxable benefit from employment. A “near-cash” item is one that can be easily converted to cash, such as a gift certificate, gift card, gold nuggets, securities or stocks. So the CRA would treat the $400 Starbucks gift card the same as if LW gave the employee $400 in cash.