

Uniform Allowances Quiz

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Are Free Uniforms and Uniform Allowances Taxable to Employee?

SITUATION

ABC Toxic Waste Disposal Company has the following clothing reimbursement arrangements with its employees:

- ABC supplies Sam, a security guard, the uniform he must wear on duty, plus a weekly reimbursement for his dry cleaning based on receipts submitted.
- ABC furnishes Harry, a toxic waste collector, the disposable hazmat suit he wears to protect him from the dangerous chemicals he handles on the job.
- Tom, a toxic waste transporter who's also required to wear a hazmat suit on the job, buys his own suit and gets a monthly allowance for his costs. Tom doesn't have to submit receipts when claiming reimbursement for these costs. But the allowance amount Tom receives from ABC is much higher than his actual costs.

QUESTION

Which of the following amounts is taxable income to the employee?

- A. The value of the uniform Sam gets from ABC.
- B. The weekly reimbursement for dry cleaning paid to Sam.
- C. The value of the hazmat suit Harry gets from ABC.
- D. The monthly allowance ABC pays Tom to cover the costs of his hazmat suits.

ANSWER

D. Only the allowance ABC pays Tom as reimbursement for hazmat suits is taxable income.

EXPLANATION

This hypothetical scenario illustrates the rules governing whether uniforms and special clothing and associated allowances that employees get from their employers are taxable income. Secs. 6(1)(a) and (b) of the *Income Tax Act* don't specifically mention these amounts. But according to the CRA's Taxable Benefits Guide (T4130), a non-accountable allowance (where the employer doesn't require receipts to support the purchases) to an employee for money spent to buy uniforms or protective equipment is not a taxable benefit as long as three things are true:

- The law requires the employee to wear the clothing on the work site;
- The employee bought the protective clothing; and

- The amount of the reimbursement is reasonable.

In this example, Tom is required to wear protective clothing on the work site, and he did buy the protective clothing. But the amount of the allowance isn't reasonable—it's much higher than Tom's actual costs. So, the allowance would be considered taxable income rather than a reimbursement of expenses.

WHY WRONG ANSWERS ARE WRONG

A is wrong because T4130 says that employees don't receive a taxable benefit when the employer "supplies them with a distinctive uniform they have to wear while they carry out their employment duties." The uniform Sam receives from ABC is "distinctive"; and Sam is required to wear it to perform his job duties. So the value of the uniform isn't taxable income to Sam.

B is wrong because T4130 indicates that reimbursements from an employer to employees to pay a laundry or dry cleaner to clean uniforms and clothing aren't taxable to employees if they present a receipt for those expenses. Sam did submit receipts when claiming the dry cleaning reimbursement.

C is wrong because, according to T4130, employees don't receive a taxable benefit when the employer provides them with special clothing designed to protect them from the hazards of their job. Harry's hazmat suit does furnish such protection.