



**TAX LETTER**  
**Non-taxable Gifts to Employees**  
**Updated October 2009**

**CRA's current policy:**

An employer can give an employee two non-cash gifts per year for a special occasion (e.g. Christmas, birthday, wedding, etc.), as well as two non-cash awards in recognition of employment achievements (e.g. years of service, meeting or exceeding certain performance goals, etc.). If the cost to the employer for the two gifts or two awards is not more than \$500, the employer does not have to include the amount in the employee's income.

It is worthwhile to note that there are two separate categories, one for gifts and one for awards. The policy is for two sets of two, with each set subject to the \$500 limit. Therefore, the total can be up to \$1,000 of gifts and awards.

At a typical income tax rate of ~ 30%, \$1,000 after-tax would be equivalent to over \$1,400 before tax.

Please note that if the cost of the non-cash gifts or awards exceeds the \$500 limit, the full value will included in the employee's income (not just the amount in excess of \$500 is taxable).

This administrative exemption does not apply to cash or "near-cash" gifts and awards. "Near-cash" items are those that can easily be converted into cash such as gift certificates, air travel or other reward points, or gold nuggets.

CRA has also noted on its website that it will consider it to be a taxable employment benefit if it is a gift or award that an employee selected, paid for and then provided a receipt to the employer for reimbursement.

**Effective for 2010:**

To reduce or eliminate the administrative burden for employers, CRA has made the following changes and clarifications to its gift and award policy effective for 2010:

Regardless of number, non-cash gifts and non-cash awards to an arm's-length employee will not be taxable to the extent that the aggregate value of all non-cash gifts and awards is less than \$500 annually. The value in excess of \$500 annually will be taxable.

In addition, a separate non-cash long-service/anniversary award may also qualify for non-taxable status to the extent its total value is less than \$500. The value in excess of \$500 will be taxable. In order to qualify, the anniversary award cannot be for less than five years of service or for five years since the last long-service award had been provided to the employee.

The policy for non-taxable employee gifts and awards will not apply to non-arm's-length employees or persons related to non-arm's-length employees.

For clarification purposes, items of an immaterial or nominal value, such as coffee, tea, T-shirts with employer logos, mugs, plaques, trophies, etc., will not be considered a taxable benefit to employees.