

Tax
Talk

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Tax-free bonus? That's bogus

“Hi, Scott. How can I get the year-end tax-free bonus from my company?

Please call me back.”

That in essence was the message a client left on my voicemail last month. At first I had a flash of anger that someone would believe such a thing is possible. Then once I calmed down I actually started to laugh.

We were in tax season after all, so being stretched to the limit can cause me to have some strange and dramatic reactions to situations.

Seriously, though, it's nothing to laugh about. This client has enough CRA debt to float a boat. Tax-free

bonus? Right.

I first met this guy last spring as he was becoming an owner/operator. He asked for help incorporating and also wanted to talk about accounting services. Ultimately to save some money he decided to do a pay-as-you-go plan and have his wife do the accounting; he said they'd call us when they had questions, and we would file their T4s and corporate and personal tax returns.

I sent the owner/operator an e-mail last fall to check in and received no response. Then in late February came a flurry of messages from his wife. Things weren't going well. The truck was gone and the husband was back driving for someone else as an employee.

They had not made any payroll remittances for their wages from the company during the previous year. The wife had done all the calculations in her accounting spreadsheets but they never wrote the cheques.

Because the owner/operator dealt with customers directly, he had to charge GST/HST on his services. The wife followed my advice and had set up a separate account to keep all the HST in but they drained it to pay for a new pick-up truck after the old one broke down.

I have spent a few hours helping this couple gather up the info they need to file their business and personal returns. We also brainstormed ways to lessen the damage from what they owe CRA. We were making prog-

ress.

Now the owner/operator is calling about a “buddy” who says he doesn't show any wages all year long and instead takes his compensation as a tax-free year-end bonus from his corporation. He and his wife want to do this, too.

I spend a good part of my day educating clients about how to manage their business, and there's no better feeling than seeing them succeed. But every now and then you meet people who have their head in the clouds or up their...

Anyway, I called him back.

The client relayed what his buddy told him and thankfully ended it with the phrase, “but that doesn't make sense.”

Of course it doesn't. Do you really believe that CRA would let self-employed businesspeople take tens of thousands of dollars as a tax-free bonus? Don't you think if it was possible that everyone would know and everyone would do it?

Prior to 2009 an employer could give up to \$500 to employees as in cash or gifts as a bonus or award – ie. your corporation to you, the employee. Since 2010, cash and near-cash gifts or awards are always a taxable benefit for the employee.

A near-cash item is one that functions as cash, like a gift certificate or gift card.

If the gifts or awards are non-cash items like tickets to an event they may be non-taxable but there are conditions. A gift has to be for a special occasion such as a religious holiday, birthday, wedding, or the birth of a child.

An award has to be for an employment-related accomplishment like outstanding service.

Generally, a valid, non-taxable

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award has clearly defined criteria, a nomination and evaluation process, and a limited number of recipients.

At the very bottom CRA throws in this sentence: “The gifts and awards policy does not apply to cash and near-cash items or to gifts or awards given to non-arm's length employees, such as your relatives, shareholders, or people related to them.”

So no, you can't take a tax-free year-end bonus from your company. This is Canada, not Panama.

There are so many misconceptions out there on the owner/operator grapevine, and they crop up around tax time when people are feeling stressed and over their head.

My owner/operator client and his wife have made some costly mistakes along the way but they also learned a lesson: if it sounds too good to be true, CRA has probably closed that loophole. Call for help and get your facts straight instead. ●

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