Employee benefits: Taxable or not?

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Does your T4 say you made more than you thought you did? Perhaps you didn't consider your taxable benefits. Find out what is and isn't taxable.

When you get your T4 slip in January or February, you may wonder why the employment income reported in Box 14 is higher than the salary or wages you earned for the year. That's because your employer must report premiums it pays for certain group benefits and the value of some perks as a taxable benefit, and you must pay taxes on those amounts.

In addition, both you and your employer have to make Canada or Quebec Pension Plan contributions on the value of all taxable benefits plus Employment Insurance contributions on taxable benefits you receive in cash.

However, there are valuable company perks, such as a cell phone, tuition reimbursement and service awards, that aren't taxable in certain circumstances. Here is how the Canada Revenue Agency (CRA) treats eight common employee benefits for tax purposes:

1. Group life/health premiums

Employer-paid premiums for group life insurance, dependant life insurance, accident insurance and critical illness insurance are taxable benefits and the amounts paid on your behalf will be added to your taxable income. In Quebec, premiums for health and dental insurance are also considered a taxable benefit. You may also be able to claim health insurance premiums you paid as a tax credit.

2. Group short- or long-term disability

Employer-paid short-term disability (STD) or long-term disability (LTD) premiums are not taxable benefits. However, when your employer pays any amount towards your STD or LTD coverage, any benefits you may collect in future will be taxable.

3. Non-group insurance plans

A non-group insurance plan is a plan for an individual employee. Employer contributions to a non-group insurance plan are a taxable benefit even if the plan is a sickness, accident insurance or disability insurance plan. For example, an executive may negotiate individual paid participation in a comprehensive health/wellness plan with a private facility as part of her total compensation. The annual fee would be taxable.

4. Pension plan/Group Registered Retirement Savings Plan

Your employer's contributions to a registered pension plan on your behalf are not taxable. However, when your employer contributes to or matches your group RRSP contributions, this amount is viewed as taxable earnings that increase your income. If you notify your employer that you have sufficient RRSP contribution room, your employer may deposit the full amount into your RRSP account without any withholding tax being deducted. And as long as you have RRSP contribution room, you can deduct the total amount contributed to your RRSP in the year of contribution or a future year. Be aware, however, that your employer's contribution to your pension reduces your RRSP contribution room the following year, via the "pension adjustment" that is reported on your T4 and that the CRA notifies you about every year.

5. Cellphone

Companies frequently provide employees with smartphones plus a voice and data plan. Even if you use your phone for both work and pleasure, the CRA will generally not consider the payments as a taxable benefit, as long as the cost of the cellphone plan is reasonable and you do not incur costs for personal use (e.g., additional long-distance charges) beyond the basic fee for the plan.

6. Equipment for working from home

Full- or part-time arrangements for working at home are now common in many industries. Computer equipment or other supplies provided by your employer to enable you to do your job are not taxable benefits. Where you must provide your own office space or equipment, you may be able to deduct all or part of these expenses for tax purposes if your employer completes and signs a Form T2200 that you file with your tax return.

7. Tuition reimbursement

Tuition paid by your employer is not a taxable benefit if you require the training to progress in your job. For example, if you are employed by a bank and are working towards a Certified Financial Planner designation, any tuition reimbursed by the bank for this program would not be taxable. Also, if the company gives your son or daughter a bursary or scholarship, neither you nor your child is required to pay taxes on the amount.

8. Gifts and awards

If your employer gives non-cash gifts or awards worth under $500 for outstanding service or for milestones such as a wedding or the birth of a child, the value of the award is not a taxable benefit. Similarly, non-cash awards for long service worth less than $500 are not considered taxable benefits if you have worked for the organization for at least five years and you are not eligible for such an award more often than every five years. Incentive awards and performance bonuses are included in your taxable income, however.

When starting a new job and enrolling in a benefits plan, it’s useful to know how your benefits are taxed so you can structure your choices accordingly. Your employer or benefits provider can give you more information.