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Tax

Underreporting taxable benefit can result in CRA scrutiny

By AdvocateDaily.com Staff

Improperly valuing a taxable benefit can bring serious consequences for both employers and employees, Toronto tax litigator Adrienne Woodyard tells *Canadian Payroll Reporter.*

"If the Canada Revenue Agency (CRA) reviews the amount that the employer has ascribed to a benefit in the T4 slip and determines that the amount is either too high or too low, it will not hesitate to challenge the employer's decision. This will result in a tax assessment against the employer, the employees or both," says Woodyard, a partner with DLA Piper.

Employers are required to assess taxable benefits based on fair market value minus any amounts the employee paid for them, not on how much it cost the employer to provide the benefit, says Woodyard.

"The employer may, for example, obtain…gift cards at a discount from one of its customers and distribute [them] to the employees. Even though the employer's cost of the gift card was reduced, the amount to be included in the employee's income for tax purposes is the face value [of] the card," she explains.

A shortfall in the Canada Pension Plan (CPP) and employment insurance (EI) paid by and on behalf of the employee can also create problems for the employer.

"The employer will be required to pay the shortfall on behalf of both the employer and the employee, plus interest, plus a penalty. The employer can sometimes recover the employee portion from the employee's future paycheques, but this is by no means guaranteed, especially if the employee later resigns or is fired," she says in the article.

The value of employer-provided parking is also significant source of controversy.
"… There are a number of (court) cases on the subject, probably because we are talking fairly large numbers, particularly in urban areas where the cost of parking is very high," says Woodyard.

To make sure benefits are correctly valued, Woodyard tells *Canadian Payroll Reporter* that payroll departments should do their homework on benefit value in advance, and be sure to pay attention to CRA policy. They should also keep good records on the benefit valuation in case of an audit.

"If you can demonstrate that practical efforts were made to ascertain the value of the benefit and that can be communicated clearly to an auditor, it's less likely to become a point of controversy," says Woodyard.