

Financial assistance payments from your employer or to your employee

Income tax

If an employer makes a financial assistance payment to an employee because of a disaster, is it taxable?

A financial assistance payment that an employer makes to an employee is not taxable if the person received the payment in his or her capacity as an individual and not as an employee. The CRA considers a person to have received a payment in his or her capacity as an individual when all of the following conditions are met:

- The individual was affected by a disaster (for the criteria, go to www.publicsafety.gc.ca/cdd).
- The payment is philanthropic, to compensate the individual for personal losses or damage he or she suffered during a disaster.
- The payment is made within a reasonable time after a disaster.
- The payment is voluntary, reasonable, and bona fide.
- The payment is made to an individual dealing with the company at arm's length (for example, the individual does not control the company or is not related to a person who controls the company). See Income Tax Folio S1-F5-C1: [Related persons and dealing at arm's length](#), for more information.
- The payment is not made to a shareholder, a connected person (for example, a person related to a shareholder or a shareholder of a related corporation), or a person of influence (for example, an executive with power to control company decisions).
- The payment is not based on employment factors such as performance, position, or years of service.
- The payment is not made in exchange for past or future employment services or to compensate for loss of income.
- The payment is not the regular salary paid to an individual who is unable to report to work because of a disaster.
- The employer has not taken a business expense deduction for the payment.

If an employer makes a financial assistance payment to an employee who is a shareholder or an executive, is it taxable?

When a financial assistance payment is received by a shareholder, a connected person, or a person of influence, the facts must be examined to determine whether the payment was received in his or her capacity as an individual (that is, not as an employee or a shareholder). If so, it is not taxable. If the employee received the payment on the same basis as other employees, the payment is likely to be considered to have been received in his or her capacity as an individual, assuming all the other conditions listed above are met.

If an employer makes a financial assistance payment to an employee, is the payment tax-deductible?

If the financial assistance payment is made to an individual in his or her capacity as an employee, the payment is taxable and the employer can deduct it as a business expense if it is reasonable and was incurred to earn business income. The taxable portion of the payment should be reflected in the employee's T4 information slip in Boxes 14 and 40.

If the financial assistance payment is made to an employee in his or her capacity as an individual (see above), the payment is not taxable and the employer cannot deduct it as a business expense.

The employer is not entitled to claim a charitable donation tax credit or a deduction for the payment because it is not a gift made to a registered charity or other qualified donee.

For more information on charitable donations, see [Pamphlet P113, Gifts and Income Tax](#), and go to www.cra.gc.ca/donors.

GST/HST

GST/HST will not apply to financial assistance payments that an employer makes to an employee, including an employee who is a shareholder, when the conditions, as outlined above for income tax purposes, are met and the payments are not taxable for income tax purposes. If the employer's financial assistance payment to an employee is taxable for income tax purposes, the GST/HST does not apply to the payment since the GST/HST does not apply to salaries, wages, commissions, and other remuneration. In either case, the employer cannot claim an input tax credit for the payment.

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