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Employer-Paid Educational Costs

The Department has reviewed its guidelines on employer-paid educational costs in relation to employment benefits taxed under paragraph 6(1)(a) of the INCOME TAX ACT. This review included consultations with officials of the Department of Finance, industry associations and other interested parties.

The consultations have shown that in our current environment, with rapidly changing technology and a quickly expanding global market, it is necessary for most individuals to constantly upgrade their knowledge and skills in order to remain productive. Employers consider it to be an absolute necessity to encourage and support training of their employees at all organizational levels. They have also advised that most employer-paid training is directly related to job responsibilities; however, some training is clearly for the principal benefit of the employee.

The Department has developed new guidelines that will assist in the determination of whether there is a taxable benefit. When the training is taken primarily for the benefit of the employer there is no taxable benefit, whether or not this training leads to a degree, diploma or

certificate. A taxable benefit arises when the training is primarily for the benefit of the employee.

The new guidelines consider three broad categories of training:

Specific Employer-Related Training

Courses which are taken for maintenance or upgrading of employer-related skills, when it is reasonable to assume that the employee will resume his or her employment for a reasonable period of time after completion of the courses, will generally be considered to primarily benefit the employer and therefore be non-taxable.

For example, fees and other associated costs such as meals, travel and accommodation which are paid for courses leading to a degree, diploma or certificate in a field related to the employee's current or potential future responsibilities in the employer's business will not result in a taxable benefit.

General Employment-Related Training

Other business-related courses, although not directly related to the employer's business, will generally be considered non-taxable. Examples of non-taxable training would include stress management, employment equity, first-aid and language skills. Normally, in-house training will not be considered a taxable benefit.

Personal Interest Training

Employer-paid courses for personal interest or technical skills that are not related to the employer's business continue to be considered of primary benefit to the employee and thus taxable. For example, fees paid for a self-interest carpentry course would result in a taxable benefit.

The new guidelines are effective immediately and, in keeping with our normal policy, will apply to all future assessments and reassessments to determine whether an employee has received a taxable benefit in an arm's length employee-employer relationship. This means that these guidelines will generally apply to:

- (i) all assessments and reassessments of the 1997 and subsequent taxation years, and
- (ii) all future reassessments resulting from an objection or appeal, or from a waiver filed prior to the date of this release.

An employee's request for reassessment must normally be supported by an amended T4 provided by his or her employer. It will be the employer's responsibility to determine whether the reimbursed educational costs should be treated as a non-taxable benefit under the new guidelines.

The new guidelines do not necessarily apply in non-arm's length relationships or in specific examples which evidence that the benefit was in fact primarily for the employee. This will be the case, for example, if the employee and the employer have entered into an arrangement under which the remuneration ordinarily paid to the employee is reduced in recognition of training costs incurred by the employer.

Employees who have their eligible tuition fees paid for or reimbursed by their employer and have not received a taxable benefit are not entitled to claim the tuition tax credit.

In addition, the education amount is not available, in any case, when employees have their eligible tuition fees paid for or reimbursed by their employer or when they receive remuneration while taking training in connection with their duties of employment.