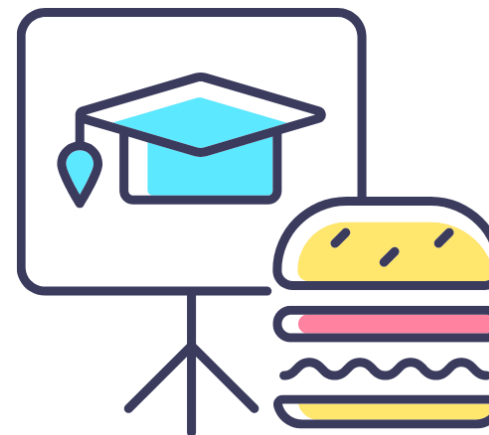




UNDERSTANDING HONORARIUM PAYMENTS *WITH FAST AND CENTRAL PAYROLL SERVICES*

Monthly Lunch & Learn Series presented by the FAST Team

September 2023



UNIVERSITY OF
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AGENDA

- Defining honoraria
- When are honorarium appropriate and not
- Tax and payroll considerations
- Why is the tax treatment important?
- Honorarium payments for Canadian residents vs non-Canadian residents
- Processing honorarium in FIS vs. HRIS



LEARNING OBJECTIVE



The objective of the session is to define honorarium, CRA tax treatment and the appropriate University business process for these types of payments.

NOTE: If honorarium payments are being paid from a research grant, review the granting agency guidelines to determine what the prevailing policy and administrative guidelines are (i.e. restrictive sponsor policies, or university guidelines).

Example: [See Tri-Agency Guidelines](#)

DEFINING HONORARIUM

The term “honorary” is not defined in the *Income Tax Act*.

The definition provided in this session, will rely on the [CRA Charities and giving Glossary](#).



Definition

It is a **voluntary payment made to a person for services for which fees** are not legally or traditionally required.

An honorarium is typically used to help cover costs for volunteers or guest speakers.

IMPORTANT NOTE: We will not be addressing honorarium payments to Indigenous people. Financial Services is currently working with the Office of Indigenous Initiatives to develop guidelines in the context of Indigenous communities, and it will be communicated once developed/finalized.

CHARACTERISTICS OF HONORARIUM



Fee for Service:


- Gesture of appreciation/goodwill or “thank you”
- Should typically be nominal in nature (i.e. less than \$500 for an individual in a calendar year)
- Infrequent or one-time payment
- May be taxable as employment or business income if above the “nominal” threshold (i.e., greater than or equal to \$500 in a calendar year)

Reimbursements:

- Reimbursements may vary depending on out of pockets costs and follows the GTFM/granting agency policy requirements for expense reimbursements.
- Expenses incurred and reimbursed is not taxable

CRA INTERPRETATION

Honorarium are generally taxable as either **employment income** or as **business income**, except for when it is deemed “nominal” (i.e. valued less than \$500 to an individual in a calendar year).

 For help with determining whether someone is an employee vs. independent contractor, visit the [GTFM policy page](#) or review the [“Income Tax Guide – Employee or Independent Contractor”](#) document developed by Central Payroll Services.



WHEN IS AN HONORARIUM APPROPRIATE?

Some examples of when an honorarium is an appropriate form of payment:

- As a “thank you”, gesture of goodwill or appreciation
- Provided to a guest speaker/lecturer
- External party for special classroom lecture or short series of lectures
- Individual for conducting a seminar or workshop
- Payment to volunteer for helping with set-up or supporting a special event



WHY IS TAX TREATMENT OF HONORARIUM IMPORTANT?

Incorrectly coding or processing honorarium payments for income tax purposes could result in:

- damage to the University's reputation
- being in violation of federal and provincial tax regulations that require mandatory deductions from T4 income
- being in violation of the Employment Standards Act (ESA) if the services/work performed is in fact employment in nature
- A reassessment by CRA, and possibly requiring the University to pay employer and employee share of taxes, as well as fines/penalties
- Violating purchasing policy requirements, particularly if an individual being paid is deemed an independent contractor.



WHEN IS AN HONORARIUM INAPPROPRIATE



Honorarium payments are not appropriate when:

- based on an agreed to amount between the individual providing services and the University seeking services. **If the payment is agreed upon, it constitutes a contractual agreement (i.e. employee or independent contractor relationship).**
- Obtaining the services of a professional speaker or consultant who performs the requested service for a living.

IS AN HONORARIUM THE SAME AS A GIFT?



Defining a gift:

- It is bestowed “without expectation of return or compensation”
- It involves a transfer without “consideration” (no exchange of goods/services)
- It is gratuitous (i.e. free of charge)

Example: A prominent dignitary/individual visits the university, without providing any services (i.e. no consideration), and a token/gift is provided for their visit.



See [this Government of Canada resource page](#) for more information on the concept of a gift from an Income Tax Act perspective.

T4A-NR AND WITHHOLDING TAX

When a non-resident **performs a service in Canada**, they are subject to a 15% flat tax deduction from the payment which is reported on the T4A-NR slip.

This 15% tax is withheld from the payment, unless the recipient submits the [R105 – Regulation 105 Waiver](#), **filed/approved by CRA**.

Example: Regulation 105 **waiver** may apply when an applicable tax treaty exists between Canada and another country (e.g., US).



Review the “[FIS/HRIS – Processing T4A/T4A-NR Payment Guidelines](#)” to learn about the scenarios where withholding tax will apply.



RECORDING BUSINESS INCOME

The University is eligible for tax rebates when paying vendor invoices to businesses.

As a result, it is important, regardless of whether the individual is a Canadian resident, to apply the appropriate tax treatment if they are **deemed a business/independent contractor** to ensure that the University applies the correct tax treatment.

In some situations, with non-resident businesses, the University may need to self-assess taxes.

In contrast, if a Canadian resident operates business that [qualifies as a small trader/supplier](#) not taxes are recorded, or rebate remitted.

Review the [“FIS/HRIS – Processing T4A/T4A-NR Payment Guidelines”](#) to learn about the scenarios where withholding tax will apply.



PROCESSING THROUGH FIS VS HRIS/PAYROLL

A common point of confusion is whether an honorarium is to be processed in FIS or HRIS.

Process in FIS	Process in HRIS
Canadian resident, with honorarium payments less than \$500 in a calendar year (i.e., not required to report income tax).	Canadian resident, for payments greater than or equal to \$500 in a calendar year. This must be reported on a T4A slip as T4 income.
Non-Resident who performs work outside Canada . These recipients are not required to report on T4A-NR.	Non-Resident who performs work in Canada and is to be paid in CAD.
Non-Resident, who performs work in Canada but is to be paid in foreign currency . This scenario is subject to T4A-NR (15% withholding tax – unless regulation 105 waiver is filed/approved by CRA). OPTION1: If waiver has been submitted to CRA, but not yet reviewed, departments should NOT process payment until waiver is approved. When waiver is received, department parks document and send waiver and document # to payroll.hr@utoronto.ca . OPTION2: Recipient DOES NOT submit a waiver. Department pays the honorarium less the 15% withholding tax through FIS.	The payment is still subject T4A-NR, so payment will be adjusted for the 15% withholding tax depending on whether a filed/approved Regulation 105 tax waiver is received by the time of payment.



WHO DO I CONTACT?



FAST Team

For question regarding **processing honorarium payments in FIS**, please contact your **FAST Team representative**.

Central Payroll Services

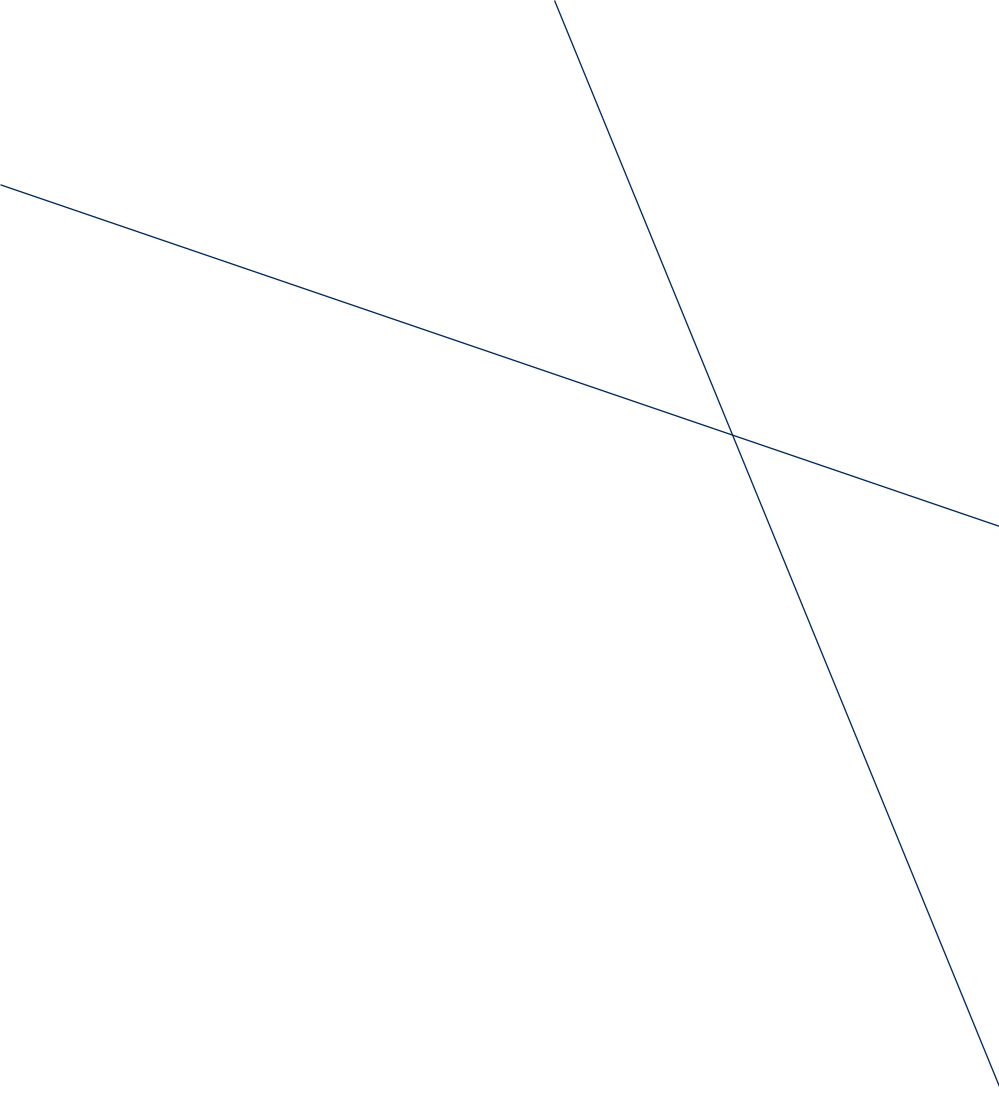
For questions about:

- whether an honorarium is taxable
- T4A-NR (Regulation 105 waiver) and
- how/when to process it as payroll through HRIS

submit a ticket to Central Payroll Services through the HR Service Centre helpdesk (uoft.me/hrsc).

External Tax Expert – PWC

For detailed questions about tax treatment, contact the PWC – CAUBO Tax resource at ca_caubotaxhelpdesk@pwc.com.





THANK YOU!