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TAX MATTERS

Santa's year-end review from the North Pole Finance Office

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Everyone knows Santa is a Canadian. He lives at the North Pole, and his postal code is HOH oHo. And in 2008, the Minister of Citizenship and Immigration, Jason Kenney at the time, granted Santa honorary Canadian citizenship. Santa belongs here.

The Canada Revenue Agency knows it, too. As a Canadian resident, Santa pays tax here. And so, Santa understands the value of good tax planning.

Last week, I had the privilege of joining a meeting of the North Pole Finance Office – Santa's team that looks after his financial affairs. Here's a summary of the key things that were discussed. Maybe we can all learn from Santa's story.

Elves' collective bargaining

Although the elves aren't unionized, Santa wants to treat them fairly and meets regularly with the Elves Leadership Team to check in. While there's no collective bargaining agreement, the elves asked Santa to make their compensation more tax

efficient by offering non-taxable benefits.

Several benefits that Santa can provide are not taxable to employees: education costs (if generally related to their employment); gifts and awards (an unlimited number of non-cash items may be given tax-free if the total value is \$500 or less annually, or \$1,000 or less in Quebec); and recreational club dues (tax-free if membership is primarily for the employer's advantage).

Other tax-free benefits include personal counselling (for the elves or their families) and employer-provided phones (the device is tax-free and service plans are tax-free to the extent the device is used for work). There's also the benefit of reimbursed losses (if an elf must move for work and qualifies for moving expenses, Santa may reimburse "eligible housing losses;" the first \$15,000 is tax-free and half of any amount above that is taxable).

Magical Sleigh upgrade

As it turns out, Santa is looking to buy a new sleigh this year. The question arose

as to whether the 10-per-cent luxury tax would apply to the sleigh since the cost is more than \$100,000. The good news is that the federal budget tabled on Nov. 4 eliminates the luxury tax for aircraft and vessels.

In addition, Santa was wondering if he might be able to deduct the cost of the sleigh against his income. As it turns out, Santa can claim capital cost allowance (CCA – or depreciation for tax purposes) for his sleigh.

Unfortunately, he won't qualify for the accelerated CCA or immediate expensing of the sleigh provided in the 2025 federal budget. That tax benefit can apply to eligible liquid natural gas equipment and related buildings, or manufacturing buildings.

FHSA education for elves

A number of the elves approached Santa with the idea of moving out of his workshop into homes of their own. I suggested they take advantage of the first-home savings account (FHSA) to allow each elf to save for a down payment on a home.

Santa agreed to educate them on FHSAs and to allow each elf to direct their bonuses into an FHSA if they want. They'll still face tax on the bonuses, but they'll be entitled to a deduction for their eligible contributions to their FHSAs (up to \$8,000 a year), resulting in, effectively, no tax on those bonuses today.

Self-employment for Mrs. Claus

There are few people better at knitting than Mrs. Claus. She was wondering whether starting her own part-time knitting business would be worthwhile.

I told her that self-employment, even part-time, is a great way to make certain costs deductible. These could be costs that she's paying for anyway, like mortgage interest, property taxes, utilities, repairs and maintenance to the home, home insurance, and vehicle expenses, among other things. She's decided to start a business by knitting items and selling them on Etsy. It's a great way to earn extra income in a tax-efficient manner.

Maximizing vehicle expenses

Santa is an employee of his own corporation, Santa Inc., and he chooses to own his sleigh personally as his only mode of transportation. If the corporation owned it, Santa would face annual taxable benefits (a standby charge and operating cost benefit). Because he uses the sleigh mostly for personal purposes, these benefits would be added to his T4 and create significant annual tax.

Since he owns the sleigh personally, his company can instead pay a tax-free allowance to cover maintenance costs, provided it's reasonable (based on work kilometres). If the allowance is insufficient, Santa may include it in income and claim actual vehicle costs on his personal tax return. His corporation needs to issue a Form T2200 each year confirming that he's required to use his personal sleigh for work.

Take a look at your own situation. Maybe there are some ideas here that Santa and Mrs. Claus are using that can apply to your own planning.

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