

Tax Tip
Week of October 5, 2009

Damages for Racial or Sexual Harassment

Under certain circumstances an individual may leave a position because of sexual or racial harassment. Any payments that relate to a settlement for such harassment can be received tax free. If the employee receives a lump sum payment upon termination, the amount must be pro-rated between non-taxable damages and taxable amounts, such as pay in lieu of notice or vacation pay. If the individual believes his or her human rights have been violated, any amounts awarded by a provincial human rights tribunal would not be taxable. It is CRA's position that in order for the damages to have a non-taxable status, that it must clearly be demonstrated that the damages relate to actions separate from the loss of employment.