

**Tax Tip**  
**Week of October 3, 2011**

**Advance from Future Earnings**

From time to time an employee may request an advance from future earnings. The tax consequences will depend upon whether the amount is deemed to be an advance or a loan. If the amount is an advance, it must be included in income when received. However, a loan is not taxable upon receipt. If an advance is repaid in the same calendar year, there should be no problems, but if the loan is outstanding over a year end, it will result in an increase in the employee's income. When the advance is repaid, it is a legitimate deduction for income tax purposes.

A loan, as opposed to an advance, will have the following characteristics:

- the amount of interest will be stated or else there will be an indication the loan is interest free
- there will be a loan agreement
- the loan agreement will contain a repayment schedule

If an employee requires an advance on account of future earnings, both parties should understand the consequences of the classification. It can then be determined if it is advantageous to structure the amount as a loan or an advance.