



Canada Revenue  
Agency

Agence du revenu  
du Canada

Employers' Guide

# Payroll Deductions and Remittances

## Is this guide for you?

Use this guide if you are:

- an employer;
- a trustee;
- a payer of other amounts related to employment; or
- an estate executor, a liquidator, an administrator, or a corporate director.

For information on taxi drivers and drivers of other passenger-carrying vehicles, barbers, and hairdressers, see page 41.

Do not use this guide if you are self-employed and need coverage under the Canada Pension Plan (CPP) or employment insurance (EI). For information, see the *General Income Tax and Benefit Guide*.

If you are blind or partially sighted, you can get our publications in braille, large print, etext, or MP3 by going to [www.cra.gc.ca/alternate](http://www.cra.gc.ca/alternate). You can also get our publications and your personalized correspondence in these formats by calling **1-800-959-5525**.

La version française de ce guide est intitulée *Guide de l'employeur – Les retenues sur la paie et les versements*.

## What's new?

### Quarterly remitting for new small employers

Starting in 2016, eligible new small employers who pay remuneration for the first time can choose to remit their payroll deductions quarterly instead of monthly.

For more information, see "Remitter types and due dates" on page 46.

### Online services for businesses

You can now:

- authorize the CRA to withdraw an amount from your bank account on date(s) that you choose; and
- enrol for direct deposit, or update the banking information.

To access our online services, go to:

- [www.cra.gc.ca/mybusinessaccount](http://www.cra.gc.ca/mybusinessaccount), if you are a business owner; or
- [www.cra.gc.ca/representatives](http://www.cra.gc.ca/representatives), if you are an authorized representative or employee.

### Online services for representatives

Representatives can now register for online mail on behalf of their business clients by going to [www.cra.gc.ca/representatives](http://www.cra.gc.ca/representatives).

### PD7A(TM), *Statement of Account for Current Source Deductions*

We are now sending Form PD7A(TM) **quarterly** instead of monthly. The first quarterly statement was in July for the April-to-June 2015 quarter.

For more information, see Form PD7A(TM) on page 49.

### Replying online to the CRA about forms

Since October 2015, business owners registered in My Business Account and representatives with access to Represent a Client have been able to reply online to the Canada Revenue Agency (CRA) about the following forms:

- Form PD7A, *Statement of Account for Current Source Deductions*
- Form PD1114, *Tax Deduction, Canada Pension Plan and Employment Insurance Information Request*
- Form PD4R, *Tax Deduction, Canada Pension Plan and Employment Insurance Discrepancy Notice*
- Form T216, *Accelerated Remitter Notice*
- Form TX14PD, *Request to File Notice*

In the future, if you have registered for online mail, you will receive these forms online instead of in paper format. For more information about this service, see "Receiving your CRA mail online" on page 61.

## Remittance due dates

In Chapter 8, you will find more information on remitting payroll deductions. It talks about the different remitter types and due dates, how to make a remittance, and the forms to use.

If a due date falls on a Saturday, a Sunday, or a public holiday recognized by the CRA, your remittance is due on the next business day. For a list of public holidays, go to [www.cra.gc.ca/duedates](http://www.cra.gc.ca/duedates).

## View remitting requirements

You can view your remitting requirements at:

- [www.cra.gc.ca/mybusinessaccount](http://www.cra.gc.ca/mybusinessaccount), if you are the business owner; or
- [www.cra.gc.ca/representatives](http://www.cra.gc.ca/representatives), if you are an authorized employee or representative.

## Remittance thresholds for employer source deductions

Remitter types	AMWA <sup>1</sup>	Due dates
Regular remitter	Less than \$25,000	We have to <b>receive</b> your deductions on or before the 15th day of the month after the month you paid your employees.
Quarterly remitter	Less than \$1,000 <sup>2</sup> and less than \$3,000	If you are eligible for quarterly remitting, we have to <b>receive</b> your deductions on or before the 15th day of the month immediately following the end of each quarter. The quarters are: <ul style="list-style-type: none"> <li>■ January to March;</li> <li>■ April to June;</li> <li>■ July to September; and</li> <li>■ October to December.</li> </ul> The due dates are April 15, July 15, October 15, and January 15.
Accelerated remitter threshold 1	\$25,000 to \$99,999.99	We have to <b>receive</b> your deductions by the following dates: <ul style="list-style-type: none"> <li>■ For remuneration paid in the first 15 days of the month, remittances are due by the 25th day of the same month.</li> <li>■ For remuneration paid from the 16th to the end of the month, remittances are due by the 10th day of the following month.</li> </ul>
Accelerated remitter threshold 2	\$100,000 or more	You have to remit your deductions through a Canadian financial institution so that we <b>receive</b> them within three working days following the last day of the following pay periods: <ul style="list-style-type: none"> <li>■ the 1st through the 7th day of the month;</li> <li>■ the 8th through the 14th day of the month;</li> <li>■ the 15th through the 21st day of the month; and</li> <li>■ the 22nd through the last day of the month.</li> </ul>

1. Average monthly withholding amount

2. This is a monthly withholding amount (MWA), not an AMWA. For more information, go to Chapter 8 starting on page 46.

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## Chapter 1 – General information

### Do you need to register for a payroll program account?

You need to register for a payroll program account if you:

- pay salaries or wages;
- pay tips or gratuities;
- pay bonuses or vacation pay;
- provide benefits or allowances to employees; or
- need to report, deduct and remit amounts from other types of remuneration (such as pension or superannuation).

If you need a payroll program account and you already have a business number (BN), you only need to add a payroll program account to your existing BN. If you don't have a BN, you must ask for one and register for a payroll program account before the date your first remittance is due.

For information on the BN and Canada Revenue Agency (CRA) accounts or to register online, go to [www.cra.gc.ca/bn](http://www.cra.gc.ca/bn). You can also read Booklet RC2, *The Business Number and Your Canada Revenue Agency Program Accounts*.

Payroll deductions can be complicated. If you are having trouble with them, go to [www.cra.gc.ca/payroll](http://www.cra.gc.ca/payroll) or call 1-800-959-5525.

### Contacts and authorized representatives

As a business owner, partner, director, trustee, or officer of a business, you can authorize representatives, including your employees, an accountant, a bookkeeper, a lawyer, a payroll provider, or a firm, to act on your behalf.

You can authorize a representative (including an employee) using the "Authorize or manage representatives" online service at [www.cra.gc.ca/mybusinessaccount](http://www.cra.gc.ca/mybusinessaccount) or by sending a completed Form RC59, *Business Consent*, to your tax centre.

**Online authorization** gives your representative **immediate access** to your business accounts.

"Authorize or manage representatives" lets you view the representatives we have on record for your business, as well as add, modify or cancel a representative's authorization.

Alternatively, your representative can submit an authorization request or delete an authorization online at [www.cra.gc.ca/representatives](http://www.cra.gc.ca/representatives).

Representatives can access most of the services offered in My Business Account through Represent a Client at [www.cra.gc.ca/representatives](http://www.cra.gc.ca/representatives).

### Employment in Quebec

The Quebec provincial government administers its own provincial pension plan called the Quebec Pension Plan (QPP), its own provincial income tax, and the Quebec Parental Insurance Plan (QPIP), which also is sometimes called the Provincial Parental Insurance Plan (PPIP).

Employers with employees in Quebec have to deduct contributions for the QPP instead of the Canada Pension Plan (CPP), if the employment is pensionable under the QPP. Employers have to take deductions for both the QPIP and employment insurance (EI), if the employment is insurable.

Send the QPP, QPIP, and Quebec provincial income tax deductions to Revenu Québec, and send the EI and federal tax deductions to the CRA.

Visit Revenu Québec

at [www.revenuquebec.ca/en/default.aspx](http://www.revenuquebec.ca/en/default.aspx), get their Guide TP-1015.G-V, *Guide for Employers: Source Deductions and Contributions*, or write to them at, 3800 rue de Marly, Québec QC G1X 4A5, if one of the following situations applies and you need more information:

- the employee has to report to your place of business in Quebec; or
- the employee does not have to report to your place of business, but you pay the employee from your place of business in Quebec.

### Are you an employer?

We generally consider you to be an employer if:

- you pay salaries, wages (including advances), bonuses, vacation pay, or tips to your employees; or
- you provide certain taxable benefits, such as an automobile or allowances to your employees.

An individual is an employee if the worker and the payer have an employer-employee relationship. This relationship is referred to in this guide as employment under a contract of service. Although a written contract might mean that an individual is self-employed (and therefore working under a contract for services), we cannot consider the individual as self-employed if there is evidence of an employer-employee relationship.

#### Note

You may not have to deduct EI premiums if you hire family members or non-related employees. For more information, see page 20.

If you or a person working for you is not sure of the worker's employment status, either one of you can request a ruling to determine the status. If you are a business owner, you can use the "Request a CPP/EI ruling" service in My Business Account. For more information, go to [www.cra.gc.ca/mybusinessaccount](http://www.cra.gc.ca/mybusinessaccount). You can also use Form CPT1, *Request for a Ruling as to the Status of a Worker Under the Canada Pension Plan and/or the Employment Insurance Act*, and send it to your tax services office. For more information on employment status, see Guide RC4110, *Employee or Self-Employed?*

### Employment by a trustee

A trustee includes a liquidator, a receiver, a receiver-manager, a trustee in bankruptcy, an assignee, an executor, an administrator, a sequestrator, or any other person who performs a function similar to the one a trustee performs. A trustee does the following:

- authorizes a payment or causes a payment to be made for another person; and

- administers, manages, distributes, winds up, controls, or otherwise deals with another person's property, business, estate, or income.

The trustee is jointly and severally, or solidarily, liable for deducting and remitting the income tax, CPP, and EI for all payments the trustee makes.

### Trustee in bankruptcy

Under the *Canada Pension Plan* and the *Employment Insurance Act*, the trustee in bankruptcy is the agent of a bankrupt employer in the event of an employer's liquidation, assignment, or bankruptcy.

If a bankrupt employer has deducted CPP contributions, EI premiums, or income tax from amounts employees received before the bankruptcy but has not remitted these amounts to us, the trustee must hold the amounts in trust. These amounts are not part of the estate in bankruptcy and should be kept separate.

If a trustee continues to operate the bankrupt employer's business, the trustee must get a new business number. The trustee has to continue to deduct and remit the necessary CPP contributions, EI premiums, and income tax according to the bankrupt employer's remittance schedule. T4 information returns (slips) should be prepared and filed in the usual way.

#### Note

Amounts a trustee pays to employees of a bankrupt corporation to settle claims for wages that the bankrupt employer did not pay are taxed as "other income." However, this income does not require CPP, EI, and income tax withholdings. The trustee has to report these payments on T4A information returns (slips). For details, see Guide RC4157, *Deducting Income Tax on Pension and Other Income, and Filing the T4A Slip and Summary*.

### All other trustees

If a trustee continues to operate the employer's business, the trustee needs a new business number. The trustee has to continue to deduct and remit the necessary CPP contributions, EI premiums, and income tax according to the employer's remittance schedule. T4 slips should be prepared and filed in the usual way.

Fees paid to executors, liquidators, or administrators are either income from office or employment or business income, depending on whether the executor or administrator acts in this capacity in the regular course of business.

For more information about fees paid to an executor, liquidator, or administrator of an estate and whether they should be included in insurable employment, go to [www.cra.gc.ca/cppeexplained](http://www.cra.gc.ca/cppeexplained) and choose "Tenure of office."

### Payer of other amounts

A payer of other amounts can be an employer, a trustee, an estate executor, a liquidator, an administrator, or a corporate director who pays other types of income related to an employment. This income can include pension or superannuation, lump-sum payments, self-employed commissions, annuities, retiring allowances, or any other

type covered in this guide or in Guide RC4157, *Deducting Income Tax on Pension and Other Income, and Filing the T4A Slip and Summary*. These amounts have to be reported on a T4A slip, with the exception of retiring allowances that are reported on the T4 slip. See Guide RC4120, *Employers' Guide – Filing the T4 Slip and Summary* for more information.

## What are your responsibilities?

You are responsible for deducting, remitting, and reporting payroll deductions. You also have responsibilities in situations such as hiring an employee, when an employee leaves or if the business ceases its operations.

The following are the responsibilities of the employer and, in some circumstances, the trustee and payer:

- Open and maintain a payroll program account. If you meet the conditions on page 6 for opening an account, you must register for one.
- Get your employee's social insurance number (SIN). Every employee must give you his or her SIN to work in Canada. For more information, see "Social insurance number" on page 8.
- Get a completed federal Form TD1, *Personal Tax Credits Return*, and, if applicable, a provincial or territorial Form TD1. New employees or recipients of other amounts such as pension income must fill out this form. For more information, see page 26.
- Deduct CPP contributions, EI premiums, and income tax from remuneration or other amounts, including taxable benefits and allowances, you pay in a pay period. You should hold these amounts in trust for the Receiver General and keep them separate from the operating funds of your business. Make sure these amounts are **not** part of an estate in liquidation, assignment, receivership, or bankruptcy.
- Remit these deductions along with your share of CPP contributions and EI premiums. The CPP and EI chapters of this guide explain how to calculate your share of contributions and premiums. Chapter 8 explains how and when to remit these amounts.
- Report the employee's income and deductions on the appropriate T4 or T4A slip. You must file an information return on or before the last day of February of the following calendar year. For more information, see Guide RC4120, *Employers' Guide – Filing the T4 Slip and Summary*, and Guide RC4157, *Deducting Income Tax on Pension and Other Income, and Filing the T4A Slip and Summary*.
- Prepare a *Record of Employment (ROE)* when an employee stops working and has an interruption of earnings. For more information, see page 24.
- Keep records of what you do because our officers can ask to see them. For more information, see "Keeping records" on page 8.

#### Notes

If you are an employer who is resident outside of Canada **and** you do not have a place of business in Canada, you still have the same responsibilities as Canadian employers, regardless of whether the services

of the Canadian resident employee are performed in Canada or outside Canada. For more information about CPP coverage by an employer resident outside Canada, see page 19.

You have to deduct CPP on a non-resident employee's remuneration in the same way you would for a resident employee unless he or she comes from a country where a social security agreement has been signed with Canada. For more information, see "Non-resident employees who perform services in Canada" on page 29.

## Keeping records

You have to keep your paper and electronic records for at least six years after the year they relate to. If you want to destroy them before the six-year period is over, fill out Form T137, *Request for Destruction of Records*, and send it to your tax services office. For more information, go to [www.cra.gc.ca/records](http://www.cra.gc.ca/records).

## Social insurance number

As an employer, you have to ask your employees for their SIN within three days of when they start to work for you, and record their number. If an employee does not give you his or her SIN, you have to be able to show that you made a reasonable effort to get it. An example of a reasonable effort would be if, after asking your employee for his SIN many times, you decide to contact him in writing to request his SIN. Make note of the dates you asked for the SIN verbally, and keep copies of any written requests. If you do not make a reasonable effort to get a SIN, you may have to pay a penalty of \$100 for each number you don't try to get.

Employees who are in pensionable or insurable employment also have to give you their SIN within three days of starting to work for you and they can be penalized \$100 for each time they don't provide it.

Under the *Department of Employment and Social Development Act*, an employee who does not have a SIN when they start working for you has to apply for one and give it to you within three days after they receive it. As an employer, you must inform Service Canada within six days of your employee starting to work for you that this individual did not give you his or her SIN. If your employee needs a SIN, refer them to their **Service Canada Centre**. To find the nearest Service Canada Centre, visit [www.servicecanada.gc.ca](http://www.servicecanada.gc.ca).

Make sure the employee gives you their correct name and SIN. You may ask for other types of identification, such as a birth certificate or a certificate of citizenship or permanent residence, before finalizing their employment documents. **An incorrect SIN can affect an employee's future Canada Pension Plan benefits if their record of earnings is not accurate.** Also, if you report an incorrect SIN on a T4 slip that has a pension adjustment amount, the employee may receive an inaccurate registered retirement savings plan (RRSP) deduction limit statement and the related information on the employee's notice of assessment will be inaccurate.

When an employee has an interruption of earnings, you have to record the correct SIN on a *Record of Employment* for employment insurance purposes (for details on the record of employment, see page 24). **If you don't provide a correct**

**record of employment, you could be fined up to \$2,000, imprisoned for up to six months, or both.**

### Notes

Even if you have not received your employee's SIN, you still have to make deductions and remit them, and file your information returns on or before the last day of February of the following calendar year. If you don't, you might get a penalty for late filing.

If you filed a T4 slip without a SIN but received it after, file an amended T4 slip and include the SIN. See Guide RC4120, *Employers' Guide – Filing the T4 Slip and Summary* for instructions on how to amend a T4 slip.

For more information, see the current version of Information Circular IC82-2, *Social Insurance Number Legislation that Relates to the Preparation of Information Slips* or visit Service Canada at [www.servicecanada.gc.ca](http://www.servicecanada.gc.ca).

## SIN beginning with the number 9

An eligible person who is not a Canadian citizen or a permanent resident of Canada and who applies for a SIN will get one beginning with the number 9.

If you hire a person whom you know is not a Canadian citizen or permanent resident, make sure that:

- the person's SIN begins with 9;
- the SIN has not expired; and
- the person has a valid work permit issued by Citizenship and Immigration Canada.

### Notes

Social insurance numbers beginning with a 9 are valid only until the expiry date shown on the Citizenship and Immigration Canada document authorizing the person to work in Canada. You must see the employee's existing immigration document authorizing him or her to work in Canada (for example, work permit, study permit) and verify that it has not expired.

If the immigration document has expired, ask the employee to contact Citizenship and Immigration Canada to get a valid document.

If the person has a SIN that begins with the number 9 and it does not have an expiry date, the SIN is not valid. Refer the person to the nearest Service Canada Centre.

Your employees have to inform you of any new expiry date for their SIN within three days after they receive it.

If the eligible person then becomes a Canadian citizen or permanent resident of Canada, they will receive a permanent SIN.

## Payroll deductions tables

The payroll deductions tables help you calculate CPP contributions, EI premiums, and the amount of federal, provincial (except Quebec), and territorial income tax that you have to deduct from amounts you pay each pay period.

### Note

A pay period means the period for which you pay earnings or other remuneration to an employee.



The CRA encourages employers to take advantage of our electronic payroll deductions services:

- **Payroll Deductions Online Calculator (PDOC)** – You can use this application to calculate payroll deductions for all provinces and territories except Quebec. It calculates payroll deductions for the most common pay periods (such as weekly or biweekly), based on exact salary figures. You will find the PDOC at [www.cra.gc.ca/pdoc](http://www.cra.gc.ca/pdoc).
- **Payroll Deductions Tables (T4032)** – Use these tables to calculate payroll deductions for the most common pay periods. They are available at [www.cra.gc.ca/payroll](http://www.cra.gc.ca/payroll).
- **Payroll Deductions Supplementary Tables (T4008)** – Use these tables to calculate payroll deductions for irregular pay periods (for example, 10 times per year or daily). They are available at [www.cra.gc.ca/payroll](http://www.cra.gc.ca/payroll).
- **Payroll Deductions Formulas for Computer Programs (T4127)** – You may want to use these formulas instead of the tables to calculate your employees' payroll deductions. This guide contains formulas to calculate CPP contributions, EI premiums, and federal, provincial (except Quebec), and territorial income tax. They are available at [www.cra.gc.ca/payroll](http://www.cra.gc.ca/payroll).

All the payroll deductions tables are available for each province and territory (except Quebec) and for employees working in Canada beyond the limits of any province, or outside Canada.

## Which tax tables should you use?

### Employment income

When you pay employment income such as salaries, wages, or commissions, you have to determine your employee's province or territory of employment so you can withhold the proper deductions. This depends on whether your employee physically reports for work at your establishment or "place of business."

For income tax, CPP and EI withholding purposes, an "establishment of the employer" is any place or premises in Canada that is owned, leased or rented by you **and** where one or more employees report to work **or** from which one or more employees are paid.

This does not have to be a permanent physical location. For example, the place of business for a construction company can be one or more construction sites or the place of business for a carnival can include a shopping mall parking lot. In these examples, the employee's province or territory of employment would be the one in which the field office or shopping mall is located.

For more information on which tax tables to use, see Appendix 1 on page 53.

### Employee reports to your establishment

If your employee reports to your establishment in person, the employee's province or territory of employment is the one in which it is located. There is no minimum amount of time the employee has to report to that place.

### Example 1

Your head office is in Ontario, but you need your employee to report to your place of business in Manitoba. In this case, use the *Manitoba Payroll Deductions Tables*.

### Example 2

Your employee lives in Quebec, but you need your employee to report to your place of business in New Brunswick. In this case, use the *New Brunswick Payroll Deductions Tables*.

### Example 3

Your employee works from a home office in Alberta, but occasionally has to report to your Alberta office. You pay your employee from your head office in Ontario. Use the *Alberta Payroll Deductions Tables* since the employee sometimes reports to your Alberta office.

### Employee does not report to your establishment

If your employee does not have to report to your establishment in person (for example, the employment contract says the employee works from a home office), the employee's province or territory of employment is the one from where your employee's salary and wages are paid. This will normally be the location of your payroll department or payroll records.

### Example 4

Your employee does not have to report to any of your places of business, but you pay the employee from your office in Quebec. In this case, use the *Quebec Payroll Deductions Tables*. The employee does not have to pay CPP contributions, but may have to pay Quebec Pension Plan (QPP) contributions.

### No establishment in Canada

If your employees are working in Canada but you do not have a place of business or an employer's establishment in Canada, use the *Payroll Deductions Tables for In Canada beyond the limits of any province/territory or outside Canada* when deducting income tax at source.

### Example 5

Your Canadian resident employees work as salespeople in Ontario and British Columbia. They work from their home offices and report directly to your business located outside Canada. In this case, use the *Payroll Deductions Tables for In Canada beyond the limits of any province/territory or outside Canada*.

### Special situations

- a) If an employee reports to your place of business for part of a pay period in one province or territory and part in another, use the tables for where the employee spent the most time.
- b) An employee who lives in one province or territory but reports to your place of business in another might have too much tax deducted. If so, he or she can ask you to reduce tax deductions by getting a letter of authority from any tax services office. For more information, see "Letter of authority" on page 28.

The opposite could also occur: an employee might not have enough tax deducted. In these situations, the employee should ask you to deduct more tax by filling in the “Additional tax to be deducted” section of a new Form TD1, *Personal Tax Credits Return* and giving it to you.

### Non-employment income

If you pay amounts other than employment income, such as pension income, retiring allowance, or RRSP, use the provincial or territorial table of the recipient’s province or territory of residence. For more information on which tax tables to use, see Appendix 1 on page 53.

### If an employee leaves

If an employee leaves, we suggest you calculate the employee’s earnings for the year to date and give the employee a T4 slip. Keep our copy of the slip and include it with your T4 Summary when you file it on or before the last day of February of the following year.

In addition, you have to prepare and give a *Record of Employment* (ROE) to each former employee. Generally, you have to send it to them within five calendar days of either the employee’s interruption of earnings, or the date you become aware of the interruption of earnings, but special rules may apply. For more information, visit Service Canada at [www.servicecanada.gc.ca/roeweb](http://www.servicecanada.gc.ca/roeweb), or get the publication called *How to Complete the Record of Employment Form*, on their website at [www.servicecanada.gc.ca/eng/services/ei/employers/roe/resources/roe\\_guide/index.shtml](http://www.servicecanada.gc.ca/eng/services/ei/employers/roe/resources/roe_guide/index.shtml) or by calling Service Canada at 1-800-622-6232.

### If you do not have any employees for a period of time

Inform us by using the “Provide a nil remittance” service at [www.cra.gc.ca/mybusinessaccount](http://www.cra.gc.ca/mybusinessaccount) or [www.cra.gc.ca/representatives](http://www.cra.gc.ca/representatives), by calling our TeleReply service, or by sending us your completed remittance form and indicating when you expect to make deductions next. To find out how to use our TeleReply service, see page 50.

### Changes to your business entity

#### If your business stops operating or the partner or proprietor dies

If your business stops operating or the partner or proprietor dies, you should do the following:

- Remit all CPP contributions, EI premiums, and income tax deductions withheld for the former employees to your tax centre within seven days of the day your business ends.
- Calculate the pension adjustment (PA) that applies to your former employees who accrued benefits for the year under your registered pension plan (RPP) or deferred profit sharing plan (DPSP). For information on how to calculate pension adjustments, see Guide T4084, *Pension Adjustment Guide*.
- Fill out and file all T4 or T4A slips and summaries using electronic filing methods or on paper, and send them to the Ottawa Technology Centre (at the address located at the end of this guide) within 30 days from the date your

business ends (or 90 days from the date a partner or the sole proprietor dies). If you have to prepare more than 50 slips for a calendar year, you **must** file the return electronically over the Internet in eXtensible mark-up language (XML) or with Web Forms. For more information, go to [www.cra.gc.ca/iref](http://www.cra.gc.ca/iref).

- Give copies of the T4 or T4A slips to your former employees.
- Prepare and give a ROE to each former employee, generally, within five calendar days. For more information, see “Record of employment (ROE)” on page 24.
- When the owner of a sole proprietorship dies, a final income tax and benefit return has to be filed. This return is due by June 15 of the year following death, unless the date of death is between December 16 and December 31, in which case the final return is due six months after the date of death. For more information, see Guide T4011, *Preparing Returns for Deceased Persons*.

- Close the business number and all CRA business accounts after all the final returns and all the amounts owing have been processed.

To close your payroll program account, you can use the “Request to close payroll account” service in My Business Account at [www.cra.gc.ca/mybusinessaccount](http://www.cra.gc.ca/mybusinessaccount). An authorized representative can use this service through “Represent a Client” at [www.cra.gc.ca/representatives](http://www.cra.gc.ca/representatives).

To find out how to fill out and file the T4 or T4A slips and summary, you can:

- go to [www.cra.gc.ca/payroll](http://www.cra.gc.ca/payroll);
- go to [www.cra.gc.ca/tx/bsnss/tpcs/pyrll/vds-eng.html](http://www.cra.gc.ca/tx/bsnss/tpcs/pyrll/vds-eng.html);
- see Guide RC4120, *Employers’ Guide – Filing the T4 Slip and Summary*; or
- see Guide RC4157, *Deducting Income Tax on Pension and Other Income, and Filing the T4A Slip and Summary*.

For more information, call 1-800-959-5525.

#### If you change your legal status, restructure, or reorganize

If you change your legal status, restructure, or reorganize, we consider you to be a **new employer**. You may need a new business number (BN) and a new payroll program account. Call 1-800-959-5525 to let us know if your business status has changed or will change in the near future.

##### Note

Amalgamations have different rules. For more information, see the next section, “If your business amalgamates.”

The following are examples of changes to a business status:

- You are the sole proprietor of a business and you decide to incorporate.
- You and a partner own a business. Your partner leaves the business and sells his half interest to you, making you a sole proprietor.

- A corporation sells its property division to another corporation.
- One corporation transfers all of its employees to another corporation.

When a change happens, a new (successor) employer is created. A successor employer who has acquired all or part of a business, and who has immediately succeeded the former (predecessor) employer as the new employer of an employee, may, under certain circumstances, take into consideration the CPP/QPP, EI, and PPIP deductions already withheld by the previous employer and continue withholding and remitting those deductions as if there were no change in employer. If employees have already paid the maximum deductions, take no further deductions for the year.

If the situation just described does not apply, you must continue to deduct CPP/QPP, EI, and PPIP. You cannot take into consideration any deductions taken by the previous employer.

As stated in the previous section called “If your business stops operating or the partner or proprietor dies,” the predecessor company has to do the following:

- send us their final remittances;
- calculate any pension adjustment;
- fill out and file all slips and summaries;
- give employees their copies of T4 or T4A slips;
- prepare and give their employees a record of employment;
- deregister their business number; and
- close all program accounts.

For more information about legal status, restructure, or reorganization, go to [www.cra.gc.ca/cppeexplained](http://www.cra.gc.ca/cppeexplained) and choose “Employer restructuring/Succession of employers.”

### If your business amalgamates

If your business amalgamates with another, special rules apply. In this case, you, as the successor employer, can keep the business number (BN) of one of the corporations, or you can apply for a new one. If one of the corporations is non-resident, however, you **have to** apply for a new BN.

Since no new employer exists for CPP and EI purposes, continue deducting normally, taking into account the deductions and remittances that occurred before the amalgamation. These remittances will be reported under the payroll program account of the successor BN.

If you had previously been granted a reduced employer’s EI premium rate, you will need to contact Employment and Social Development Canada to make sure you are still eligible for the reduced rate.

With an amalgamation, the predecessor corporations do not have to file T4 returns for the period leading up to the amalgamation. The successor corporation files the T4 returns for the entire year.

## Filing information returns

You have to file a T4 or T4A information return, as applicable, and give information slips to your employees each year, on or before the **last day of February of the following calendar year that the information return applies to**. If the last day of February is a Saturday or a Sunday, your information return is due the **next business day**.

For information on how to report the employees’ income and deductions on the appropriate slips and summary, go to [www.cra.gc.ca/slips](http://www.cra.gc.ca/slips) or see Guide RC4120, *Employers’ Guide – Filing the T4 Slip and Summary* or Guide RC4157, *Deducting Income Tax on Pension and Other Income, and Filing the T4A Slip and Summary*.

## Penalties and interest

### Failure to deduct

We can assess a penalty of **10%** of the amount of CPP, EI, and income tax you did not deduct.

If you are assessed this penalty more than once in a calendar year, we **will** apply a **20%** penalty to the second or later failures if they were made knowingly or under circumstances of gross negligence.

### Failure to remit and remitting late

We can assess a penalty when:

- you deduct the amounts, but do not send them to us; or
- you deduct the amounts, but send them to us late.

If the remittance due date is a Saturday, a Sunday, or a public holiday recognized by the CRA, your remittance is due on the next business day.

The penalty is:

- 3% if the amount is one to three days late;
- 5% if it is four or five days late;
- 7% if it is six or seven days late; and
- 10% if it is more than seven days late, or if no amount is remitted.

Generally, we only apply this penalty to the part of the amount you failed to remit that is more than \$500.

However, we will apply the penalty to the total amount if the failure was made knowingly or under circumstances of gross negligence.

In addition, if you are assessed this penalty more than once in a calendar year, we may apply a 20% penalty on the second or later failures if they were made knowingly or under circumstances of gross negligence.

#### Note

We will charge you a fee for any payment that your financial institution refuses to process. If your payment is late, we can also charge you a penalty and interest on any amount you owe.

## Interest

If you do not pay an amount, we may apply interest from the day your payment was due. The interest rate we use is determined every three months, based on prescribed interest rates. Interest is compounded daily. We also apply interest to unpaid penalties. For the prescribed interest rates we use, go to [www.cra.gc.ca/interestrates](http://www.cra.gc.ca/interestrates).

For due dates, see pages 4 and 46.

## Obligations and liabilities

### Offences and punishment

If you do not comply with the deducting, remitting, and reporting requirements, you may be prosecuted. You could be fined from \$1,000 to \$25,000, or you could be fined and imprisoned for a term of up to 12 months.

### Director's liability

If a corporation (including for-profit or non-profit) does not deduct, remit, or pay amounts held in trust for the Receiver General (CPP, EI, and income tax), the directors of the corporation at the time of the failure are jointly and severally, or solidarily, liable along with the corporation, to pay the amount due. This amount includes penalties and interest.

However, if the directors take action to ensure the corporation makes the necessary deductions or remittances, we will not hold the directors personally responsible. For more information, see the current version of Information Circular IC89-2, *Directors' Liability*.

### Cancel or waive penalties or interest

The CRA administers legislation, commonly called the taxpayer relief provisions, that gives the CRA discretion to cancel or waive penalties or interest when taxpayers are unable to meet their tax obligations due to circumstances beyond their control.

The CRA's discretion to grant relief is limited to any period that ended within 10 years before the calendar year in which a request is submitted.

For penalties, the CRA will consider your request only if it relates to a tax year ending in any of the 10 calendar years before the year in which you make your request. For example, your request made in 2016 must relate to a penalty for a tax year ending in 2006 or later.

For interest on a balance owing for any tax year, the CRA will consider only the amounts that accrued during the 10 calendar years before the year in which you make your request. For example, your request made in 2016 must relate to interest that accrued in 2006 or later.

For more information about relief from penalties or interest, go to [www.cra.gc.ca/taxpayerrelief](http://www.cra.gc.ca/taxpayerrelief). To submit your request for relief, use Form RC4288, *Request for Taxpayer Relief – Cancel or Waive Penalties or Interest*.

## How to appeal a payroll assessment or a CPP/EI ruling

If you receive a payroll assessment because your payment was not applied to your account correctly, before you file an appeal, we recommend that you first call or write to the tax services office or tax centre to discuss it. Many disputes are resolved this way and can save you the time and trouble of appealing.

If you receive a payroll assessment for CPP contributions, EI premiums, or income tax that you do not agree with, or you have received a ruling letter and you disagree with the decision, you have 90 days after the date of the notice of assessment or notification of the ruling to appeal.

To appeal a **CPP/EI ruling decision or payroll deductions assessment**, you can:

- access My Business Account at [www.cra.gc.ca/mybusinessaccount](http://www.cra.gc.ca/mybusinessaccount), if you are a business, and select “Register a formal dispute (Appeal)” for your payroll account;
- access Represent a Client, at [www.cra.gc.ca/representatives](http://www.cra.gc.ca/representatives). If you represent a business, select “Register a formal dispute (Appeal)” for a payroll account. If you represent an individual, select “Register my formal dispute,” and then choose “CPP/EI ruling” in the subject area;
- access My Account at [www.cra.gc.ca/myaccount](http://www.cra.gc.ca/myaccount), if you are an individual, select “Register my formal dispute,” and choose “CPP/EI ruling” in the subject area;
- use Form T400A, *Objection – Income Tax Act* (income tax only);
- use Form CPT100, *Appeal of a Ruling Under the Canada Pension Plan and/or Employment Insurance Act*, to appeal a CPP/EI ruling;
- use Form CPT101, *Appeal of an Assessment Under the Canada Pension Plan and/or Employment Insurance Act*, to appeal a payroll deductions assessment; or
- write to the chief of appeals at your tax services office or tax centre explaining why you do not agree with the ruling or payroll deductions assessment and provide all relevant facts. Include a copy of the CPP/EI ruling letter or payroll notice of assessment. The addresses of our tax services offices and tax centres are available at [www.cra.gc.ca/tso](http://www.cra.gc.ca/tso). The addresses of our tax centres are also listed at the end of this guide.

For more information on how to appeal a payroll deductions assessment of income tax, see Booklet P148, *Resolving Your Dispute: Objection and Appeal Rights Under the Income Tax Act*.

For more information on how to appeal a CPP/EI ruling decision or a payroll deductions assessment of CPP or EI, see Booklet P133, *Your Appeal Rights – Canada Pension Plan and Employment Insurance Coverage*.

## Chapter 2 – Canada Pension Plan contributions

For Canada Pension Plan (CPP) purposes, contributions are not calculated from the first dollar of pensionable earnings. Instead, they are calculated using the amount of pensionable earnings minus an exempt amount that is based on the period of employment.

### Impact of contribution errors

If used improperly, some payroll software programs, in-house payroll programs, and bookkeeping methods can calculate unwarranted or incorrect refunds of CPP contributions for both employees and employers. The improper calculations treat all employment as if it were full-year employment, which incorrectly reduces both the employee's and employer's contributions.

For example, when a part-year employee does not qualify for the full annual exemption, a program may indicate that the employer should report a CPP overdeduction in box 22, "Income tax deducted," of the T4 slip. This may result in an unwarranted refund of tax to the employee when the employee files his or her income tax and benefit return.

When employees receive refunds for CPP overdeductions, their pensionable service is adversely affected. This could affect their CPP income when they retire. In addition, employers who report such overdeductions receive a credit they are not entitled to because the employee worked for them for less than 12 months.

### When to deduct CPP contributions

You have to deduct CPP contributions from an employee's pensionable earnings if that employee:

- is in pensionable employment during the year; and
- is **not** considered to be disabled under the CPP or the Quebec Pension Plan (QPP); **and**
- is 18 to 70 years old even if the employee is receiving a CPP or QPP retirement pension. Exception: do not deduct CPP if the employee is 65 to 70 years old, and gives you Form CPT30, *Election to Stop Contributing to the Canada Pension Plan, or Revocation of a prior Election* with parts A, B and C completed.

#### Notes

For more information, see "Starting and stopping CPP deductions" on page 15.

For more information about pensionable earnings, go to [www.cra.gc.ca/cppeexplained](http://www.cra.gc.ca/cppeexplained) and choose "Pensionable and insurable earnings."

### Employment in Quebec

Quebec employers deduct QPP contributions instead of CPP contributions.

The contribution rates for QPP are higher than those for CPP. Although the year's maximum pensionable earnings (\$53,600 for 2015) and annual basic exemption (\$3,500) for both plans are the same, an employee paying into the QPP

will pay contributions at a higher rate (5.25% for 2015) compared to the rate for an employee who pays into the CPP (4.95% for 2015).

For more information on deducting and remitting the QPP, see Guide TP-1015.G-V, *Guide for Employers: Source Deductions and Contributions*, which you can get from Revenu Québec at [www.revenuquebec.ca/en/default.aspx](http://www.revenuquebec.ca/en/default.aspx).

You may have a place of business in Quebec and in another province or territory. If you transfer an employee from Quebec to another province or territory, you can take into account the QPP contributions you deducted from that employee throughout the year when calculating the maximum CPP contributions to deduct. In addition to deducting CPP/QPP contributions and EI/QPIP premiums you will also have to prepare **two** T4 slips. It is important that you calculate and report the proper deductions and insurable/pensionable earnings on both T4 slips. For more information, see Guide RC4120, *Employers' Guide – Filing the T4 Slip and Summary*.

### Amounts and benefits from which you have to deduct CPP contributions

You generally deduct CPP contributions from the following amounts and benefits:

- salary, wages, bonuses, commissions, or other remuneration (including payroll advances or earnings advances), and wages in lieu of termination notice;
- cash and non-cash taxable benefits and allowances, except certain housing and utility benefits paid to the clergy. The personal use of an employer's automobile and employer-provided parking are examples of taxable benefits. For more information, see Guide T4130, *Employers' Guide – Taxable Benefits and Allowances*;
- honorariums from employment or office, a share of profit that an employer paid, incentive payments, director's fees, management fees, fees paid to board or committee members, and executor's, liquidator's, or administrator's fees earned to administer an estate (as long as the executor, liquidator, or administrator **does not act in this capacity** in the regular course of business). For more information on whether employment of an individual who is in tenure of office is pensionable, go to [www.cra.gc.ca/cppeexplained](http://www.cra.gc.ca/cppeexplained) and choose "Tenure of office;"
- certain tips and gratuities received for services performed. For more information on when you have to deduct CPP contributions on tips and gratuities, go to [www.cra.gc.ca/cppeexplained](http://www.cra.gc.ca/cppeexplained) and choose "Tips and gratuities;"
- payments received from a supplementary unemployment benefit plan (SUBP) that **does not** qualify as a SUBP under the *Income Tax Act*, even if the plan is registered with Service Canada;
- benefits received from certain wage-loss replacement plans; for more information, see page 38;
- benefits derived from security option plans; and

- the salary you continue to pay to an employee before or after a workers' compensation board claim is decided, as well as:
  - any advance or loan you make that is more than the amount awarded under the claim;
  - any advance or loan not repaid to you; or
  - a top-up amount you pay your employee, **after** a claim is decided, that is in addition to the benefits paid by a workers' compensation board.

## Employment, benefits, and payments from which you do not deduct CPP contributions

### Employment

Do **not** deduct CPP contributions from payments for the following types of employment:

- employment in agriculture, or an agricultural enterprise, horticulture, fishing, hunting, trapping, forestry, logging, or lumbering, when you:
  - pay your employee less than \$250 in cash remuneration in a calendar year; **or**
  - employ your employee for a period of less than 25 working days in the same year on terms providing for cash remuneration—the working days do not have to be consecutive;

#### Notes

In a calendar year, if your employee reaches both minimums—\$250 or more in cash remuneration and works 25 days or more—the employment is pensionable starting from the first day of work. Deduct CPP contributions if your employee's pensionable earnings are more than the CPP basic exemption for the same period.

For more information on when these types of employment are pensionable, go to [www.cra.gc.ca/cppeexplained](http://www.cra.gc.ca/cppeexplained) and choose "Agriculture and horticulture."

- casual employment if it is for a purpose other than your usual trade or business;
- employment as a teacher on exchange from a foreign country;
- employment of a spouse or common-law partner if you cannot deduct the remuneration paid as an expense under the *Income Tax Act*;
- employment of your child or a person whom you maintain if no cash remuneration is paid;
- employment of a person in a rescue or disaster operation, as long as you do not regularly employ that person for that purpose. For more information, see "Emergency services volunteers" on page 42;
- employment of a person at a circus, fair, parade, carnival, exposition, exhibition, or other similar activity, **except for entertainers**, if that person:
  - is not your regular employee; **and**
  - works for less than seven days in the year.

### Notes

If your employee works seven days or more, the employment is pensionable from the first day of work. Deduct CPP contributions if your employee's pensionable earnings are more than the CPP basic exemption for the same period.

For more information on when these types of employment are pensionable, go to [www.cra.gc.ca/cppeexplained](http://www.cra.gc.ca/cppeexplained) and choose "Circus and fair."

- employment by a government body as an election worker if the worker:
  - is not a regular employee of the government body; **and**
  - works for less than 35 hours in a calendar year.

#### Note

If your employee works 35 hours or more, the employment is pensionable from the first hour of work. Deduct CPP contributions if your employee's pensionable earnings are more than the CPP basic exemption for the same period.

- employment of a member of a religious order who has taken a vow of perpetual poverty. This applies whether the remuneration is paid directly to the order, or the member pays it to the order.
- employment in Canada by a foreign government or an international organization, **except** when the foreign government or international organization enters into an agreement with the government of Canada.

### Benefits and payments

Do **not** deduct CPP contributions from:

- pension payments, lump-sum payments from a pension plan, death benefits, amounts that a trustee allocated under a profit sharing plan or that a trustee paid under a deferred profit sharing plan, and benefits received under a registered supplementary unemployment benefit plan (SUBP) that qualifies as a SUBP under the *Income Tax Act*;
- payments you make after an employee dies, except for amounts the employee earned and was owed before the date of death;
- an advance or loan you pay to an employee, before or after a workers' compensation board claim is decided that is **equal** to the benefits awarded under the claim. For information on situations when CPP contributions are required, see "Amounts and benefits from which you have to deduct CPP contributions" on page 13; for information on workers' compensation claims, see page 39;
- benefits received from certain wage-loss replacement plans; for more information, see page 38;
- amounts for the residence of a clergy member if he or she receives a tax deduction for the residence; and
- amounts received on account of an earnings loss benefit, supplementary retirement benefit or permanent impairment allowance payable to the taxpayer under Part 2 of the *Canadian Forces Members and Veterans Re-establishment and Compensation Act*.

## CPP contribution rate and maximum

You have to deduct CPP contributions from your employee's pensionable earnings. As an employer, you must contribute an **amount equal** to the CPP contributions that you deduct from your employees' remuneration.

Each year, we determine:

- the **maximum pensionable earnings** from which you deduct CPP (\$53,600 for 2015);
- the **year's basic exemption**, which is a base amount from which you do not deduct CPP contributions (\$3,500 for 2015 – see Appendix 2); and
- the **rate** you use to calculate the amount of CPP contributions to deduct from your employees' remuneration (4.95% for 2015).

### Note

Different rates apply for employees working in Quebec. See "Employment in Quebec" on page 13.

### Example

CPP contributions you deducted from your employee's salary in the month .....	\$240.40
Your share of CPP contributions .....	\$240.40
Total amount you remit for CPP contributions .....	<u>\$480.80</u>

You stop deducting CPP contributions when the employee's annual earnings reach the maximum pensionable earnings or the maximum employee contribution for the year (\$2,479.95 for 2015)

The annual maximum pensionable earning (\$53,600 for 2015) applies to **each job** the employee holds with **different employers** (different business numbers). If an employee leaves one employer during the year to start work with another employer, the new employer also has to deduct CPP contributions without taking into account what the previous employer paid. This is the case even if the employee has contributed the maximum amount during the previous employment. If your business went through a restructure or reorganization, see page 10.

The employee's contribution rate for the next year can be found in the *Payroll Deductions Tables*, which are usually available in mid-December or at [www.cra.gc.ca/payroll](http://www.cra.gc.ca/payroll) under "All rates."

### Notes

If you pay an amount to a former employee and you have to deduct CPP contributions, use the current rate in effect when you make the payment.

Any overpayments will be refunded to employees when they file their income tax and benefit returns. However, there is no provision in the CPP that would allow us to refund or credit the employer for his or her contributions in those circumstances.

## Calculating the CPP deductions

To determine the amount of CPP contributions to deduct, use one of the following tools:

- the Payroll Deductions Online Calculator (PDOC);

- the *Payroll Deductions Tables* (T4032);
- the *Payroll Deductions Supplementary Tables* (T4008); or
- the *Payroll Deductions Formulas for Computer Programs* (T4127).

### Note

The payroll deductions tables break the CPP basic yearly exemption down by pay periods.

To find out which method is best for you, see "Payroll deductions tables" on page 8.

You can also use a manual method to calculate your employee's CPP deductions. For a single pay period, use the calculation in Appendix 2 on page 54. For multiple pay periods, or to verify the CPP contributions deducted at the end of the year before filling out the T4 slip, use the calculation in Appendix 3 on page 55.

### Notes

A pay period means the period for which you pay earnings or other remuneration to an employee.

Once you have established your type of pay period, the pay-period exemption (see Appendix 2) must remain the same, even when an unpaid leave of absence occurs, or when earnings are paid for part of a pay period.

## Starting and stopping CPP deductions

There might be special situations where you may have to start or stop deducting CPP in the year for a particular employee. In these situations, you also have to prorate the maximum CPP contribution for the year to make sure you have not under or over deducted.

### Note

In some cases, the requirements are different for the Quebec Pension Plan. For information, see Guide TP-1015.G-V, *Guide for Employers: Source Deductions and Contributions*, which you can get from Revenu Québec (see page 6).

## Special situations

### Your employee turns 18 in the year

Start deducting CPP contributions in the first pay dated in the month after the employee turns 18. When you prorate, use the number of months after the month the employee turns 18 (see example 1);

### Your employee turns 70 in the year

Deduct CPP contributions up to and including the last pay dated in the month in which the employee turns 70. When you prorate, use the number of months up to and including the month the employee turns 70 (see example 2);

### Your employee gives you a completed Form CPT30

By filling out this form and giving it to an employer, the employee can either stop or restart their CPP contributions.

### Stopping CPP contributions

An employee is eligible to stop his or her CPP contributions under the following conditions:

- the employee is 65 to 70 years of age;

- the employee receives a CPP or QPP retirement pension;
- the employee is receiving, or will receive pensionable employment earnings that require CPP contributions; and
- the employee gives you a copy of Form CPT30 with parts A, B and C completed. By filling out the form in this manner, the employee is making an “election.”

This “election” is effective the first day of the month following when you receive the completed form. You will deduct CPP contributions, up to and including the last pay dated in the month the employee gives you the form. When you prorate, use the number of months up to and including the month before the election becomes effective (see example 3).

#### Note

The election to stop contributing to the CPP does not affect the salary or wages of an employee working in Quebec or an employee who is considered to be disabled under the CPP or QPP, nor do they affect the salary and wages of a person who has reached 70 years of age. Do not deduct CPP contributions from the salary and wages that you pay these employees.

#### Restarting CPP contributions

An employee is eligible to restart his or her CPP contributions under the following conditions:

- the employee filed a Form CPT30 “election” with an employer in a prior year;
- the employee is receiving, or will receive pensionable employment earnings that require CPP contributions; and
- the employee gives you a copy of Form CPT30 with parts A, B and D completed. By filling out the form in this manner, the employee is “revoking their election.”

This “revocation” is effective the first day of the month following when you receive the completed form. You will restart CPP contributions in the first pay dated in the month after the employee gives you the form. When you prorate, use the number of months that includes the month the revocation becomes effective.

Go to [www.cra.gc.ca/cppchanges-employers](http://www.cra.gc.ca/cppchanges-employers), to find detailed information such as:

- what to do if you receive a form that is dated in the past or is post-dated;
- what to do if you have deducted CPP contributions after the “election” became effective; and
- what to do when filling in boxes 16 and 26 of the employee’s T4 slip.

#### Note

For more information on benefit entitlement, contact Service Canada or go to [www.esdc.gc.ca/en/cpp/index.page](http://www.esdc.gc.ca/en/cpp/index.page).

#### Your employee is considered to be disabled under the CPP

An employee who is considered to be disabled under the CPP does not have to contribute to the CPP. Deduct

CPP contributions up to and including the last pay dated in the month in which the employee becomes or is considered to be disabled according to the letter issued to the employee by Service Canada. When prorating, use the number of months up to and including the month the employee was considered to be disabled.

#### Note

If the employee is no longer considered disabled under the CPP, start deducting CPP contributions on the first pay dated in the month after the employee is no longer considered disabled. When prorating, use the number of months after the month the employee ceased to be disabled.

#### Your employee dies in the year

Deduct CPP contributions up to and including the last pay dated in the month in which the employee dies. Also deduct CPP contributions from any amounts and benefits that are earned or owed to the employee on the date of death. When prorating, use the number of months up to and including the month of death.

#### Checking the amount of CPP you deducted

- 1) Prorate the maximum CPP contribution for the year by following these steps:

**Step 1:** Deduct the year’s basic exemption (\$3,500 for 2015) from the year’s maximum pensionable earnings (\$53,600 for 2015).

**Step 2:** Multiply the result of Step 1 by the number of pensionable months.

**Step 3:** Divide the result of Step 2 by 12 (months).

**Step 4:** Multiply the result of Step 3 by the CPP rate that applies for the year (4.95% for 2015).

To find out about the previous and current exemptions, maximums, and rates, go to [www.cra-arc.gc.ca/tx/bsnss/tpcs/pyrll/clctng/cpp-rpc/cnt-chrt-pf-eng.html](http://www.cra-arc.gc.ca/tx/bsnss/tpcs/pyrll/clctng/cpp-rpc/cnt-chrt-pf-eng.html).

- 2) Calculate the CPP contribution per pay period using Appendix 2, and withhold the amount calculated until one of the following happens:

- the maximum prorated contribution for the year is reached; or
- the last pay period for which deductions are required is completed.

- 3) The correct amount of CPP contributions will be 1) or 2), whichever is the lowest.

#### Example 1

Brent turned 18 on June 15, 2015. He receives \$1,000 every two weeks (\$26,000 a year). This amount is less than the maximum pensionable earnings (\$53,600 for 2015) that requires CPP contributions.

#### Prorated maximum contribution for 2015:

$(\$53,600 - 3,500) \times 6/12 \times 4.95\% = \$1,239.98$

(6/12 represents the number of pensionable months divided by 12).

Brent’s maximum CPP contribution for 2015 is \$1,239.98.



### Pay period calculation:

#### January to June 2015

No CPP contributions

#### July to December 2015

■ Pay period: biweekly

■ Earnings: \$1,000

■ Brent's first pay in July is July 3, for the period June 20 to July 3.

Using the calculation in Appendix 2, Brent's CPP contributions for each pay are calculated as follows:

**Step 1:** Brent's pensionable earnings ..... = \$1,000.00

**Step 2:** Basic exemption for the period from the table in Appendix 2 ..... = \$134.61

**Step 3:** Pensionable earnings minus basic exemption ..... = \$865.39

**Step 4:** CPP contribution rate for 2015 ..... = 4.95%

**Step 5:** CPP contribution per pay period ..... = \$42.84

You will have to start deducting \$42.84 from each of Brent's pays, beginning with the one dated July 3 (the month after Brent turns 18). His actual contributions for the year will be  $\$42.84 \times 13$  (biweekly pay periods) = \$556.92.

This does not exceed the prorated maximum contribution of \$1,239.98; therefore, the correct amount of CPP has been deducted.

When you fill out Brent's T4 slip at the end of the year, report \$26,000 in box 14, \$556.92 in box 16, and \$13,000 in box 26. Fill in the rest of his T4 slip in the usual way.

#### Example 2

Maria turned 70 on February 15, 2015. She receives \$1,076.92 per week (\$56,000 per year). This amount is more than the maximum pensionable earnings (\$53,600 for 2015) that requires CPP contributions.

#### Prorated maximum contribution for 2015:

$(\$53,600 - 3,500) \times 2/12 \times 4.95\% = \$413.33$  (2/12 represents the number of pensionable months divided by 12).

Maria's CPP contributions for 2015 should not be more than \$413.33.

### Pay period calculation:

#### January to February 2015

■ Pay period: weekly

■ Earnings: \$1,076.92

■ Maria's last pay in February is February 27, covering the period February 21 to February 27

#### March to December 2015

No CPP contributions

Using the calculation in Appendix 2, Maria's CPP contributions for each pay are calculated as follows:

**Step 1:** Maria's pensionable earnings ..... = \$1,076.92

**Step 2:** Basic exemption for the period from the table in Appendix 2 ..... = \$67.30

**Step 3:** Pensionable earnings minus basic exemption ..... = \$1,009.62

**Step 4:** CPP contribution rate for 2015 ..... = 4.95%

**Step 5:** CPP contribution per pay period ..... = \$49.98

Maria's CPP contributions will be \$49.98 each pay, up to and including her pay dated February 27 (the month in which she turns 70). Her actual contributions for the year will be  $\$49.98 \times 9$  (weekly pay periods) = \$449.82.

Since this is more than the prorated maximum CPP contribution of \$413.33, you should stop deducting when the maximum contribution is reached. If you deducted \$449.82, you will have to reimburse your employee for the difference. For more information, see "CPP overpayment" on page 18.

When you fill out Maria's T4 slip at the end of the year, report \$56,000 in box 14, \$413.33\* in box 16, and \$8,933.33\* ( $53,600 \times 2/12$ ) in box 26. Fill in the rest of her T4 slip in the usual way.

\* These were calculated using the maximum pensionable earnings of \$53,600 for 2015.

#### Example 3

Catherine is 64 years old and receives a CPP retirement pension. On July 23, 2015, she turned 65 and elected to stop paying CPP contributions. She gave you a signed and completed Form CPT30, *Election to Stop Contributing to the Canada Pension Plan, or Revocation of a Prior Election*, that same day.

Catherine receives \$1,000 every two weeks (\$26,000 a year). This amount is less than the maximum pensionable earnings (\$53,600 for 2015) that requires CPP contributions.

#### Prorated maximum contribution for 2015:

$(\$53,600 - 3,500) \times 7/12 \times 4.95\% = \$1,446.64$  (7/12 represents the number of pensionable months divided by 12).

Catherine's maximum CPP contribution for 2015 is \$1,446.64.

### Pay period calculation:

#### January to July 2015

■ Pay period: biweekly

■ Earnings: \$1,000

■ Catherine's last pay in July has a pay date of July 31, covering the period July 4 to July 17.

#### August to December 2015

No CPP contributions

Using the calculation in Appendix 2, Catherine's CPP contributions for each pay are calculated as follows:

**Step 1:** Catherine's pensionable earnings ..... = \$1,000.00

**Step 2:** Basic exemption for the period from the table in Appendix 2 ..... = \$134.61

**Step 3:** Pensionable earnings minus basic exemption ..... = \$865.39

**Step 4:** CPP contribution rate ..... = 4.95%

**Step 5:** CPP contribution per pay period ..... = \$42.84

You have to deduct CPP contributions from each of Catherine's pays, up to and including the last pay dated in the month she gives the election to you. Her actual contributions for the year will be  $\$42.84 \times 16$  (biweekly pay periods) =  $\$685.44$ .

This does not exceed the prorated maximum contribution of  $\$1,446.64$ ; therefore, the correct amount of CPP has been deducted.

When you fill out Catherine's T4 slip at the end of the year, report  $\$26,000$  in box 14,  $\$685.44$  in box 16, and  $\$16,000$  in box 26. Fill in the rest of her T4 slip in the usual way.

For more information about the new CPP rules, go to [www.cra.gc.ca/cppchanges-employers](http://www.cra.gc.ca/cppchanges-employers).

## Commissions paid at irregular intervals

If an employee always gets paid on commission and is paid only after selling something (which does not occur regularly), you have to prorate the annual basic exemption amount for the number of days in the year between the commission payments to determine the maximum contribution amount.

### Example

Sylvie, your employee, works on commission. You pay her only when she sells something. On June 1, 2015, you paid her a  $\$1,800$  commission. The last time you paid her a commission was March 16, 2015. There are 76 days between these two payments.

Calculate the required contribution for 2015 as follows:

- Prorate the basic yearly exemption:  
 $76 \div 365$  (days)  $\times$   $\$3,500$  =  $\$728.76$
- You have to deduct CPP contributions of:  
 $\$1,800 - \$728.76$  =  $\$1,071.24$
- $\$1,071.24 \times 4.95\%$  =  $\$53.03$

## CPP overpayment

If, during a year, you have overdeducted CPP contributions from your employee's remuneration (for example, the maximum amount of pensionable earnings was reached, or the employee was not employed in pensionable employment), you should reimburse the employee the amount deducted in error and adjust your payroll records to reflect the reduced deduction. This will result in a credit on your CRA payroll program account equal to the employee and employer part of the overdeduction. You may then reduce a future remittance in the same calendar year.

Do not include the reimbursed amount on the T4 slip. If you cannot reimburse the overpayment, show the total CPP contributions deducted and the correct pensionable earnings on the employee's T4 slip. If you reported the employee's overpayment on the T4 slip, you can ask for a refund by filling out Form PD24, *Application for a Refund of Overdeducted CPP Contributions or EI Premiums*. Make your

request no later than four years from the end of the year in which the overpayment occurred.

## Recovering CPP contributions

If you receive a notice of assessment or if you discover that you have underdeducted CPP contributions, you are responsible for remitting the balance due (both the employer's and employee's shares).

You can recover the employee's contributions from later payments to the employee. The recovered contribution can be equal to, but not more than, the amount you should have deducted from each payment. However, you **cannot** recover a contribution amount that has been outstanding for more than 12 months. As well, you cannot adjust the employee's income tax deduction to cover the CPP shortfall.

If you should have made a deduction in a previous year and you recover it through an additional deduction in the current year, do **not** report the recovered contributions on the current year's T4 slip. You may have to amend your employee's T4 slip. For more information on how to amend a T4 slip, see Guide RC4120, *Employers' Guide – Filing the T4 Slip and Summary*.

The recovered amount does not affect the current year-to-date CPP contributions.

### Example

- a) You did not deduct or remit CPP contributions that should have been deducted as follows:

Month	CPP
September	\$23.40
October	\$23.40
November	\$24.10
December	<u>\$24.70</u>
<b>Total</b>	<b>\$95.60</b>

- b) After auditing the records, we issue a notice of assessment as follows:

	Employee	Employer	Total
CPP contributions	\$95.60	\$95.60	\$191.20
Penalties and interest are added to the total.			

- c) The following year, you can recover the employee's contribution of  $\$95.60$  as follows:

Current contribution	Recovered contribution	Employee's deduction
April \$24.70	+ \$23.40 (for September)	= \$48.10
May \$24.70	+ \$23.40 (for October)	= \$48.10
June \$25.10	+ \$24.10 (for November)	= \$49.20
July \$25.10	+ <u>\$24.70</u> (for December)	= \$49.80
<b>Total</b>	<b>\$95.60</b>	

For more information on the pensionable and insurable earnings review (PIER), see Chapter 4.

## CPP coverage by an employer resident outside Canada

If you are an employer who does not have a place of business in Canada, you can apply to have employment that you provide in Canada (for resident or non-resident employees) covered under the CPP. This coverage is optional. Even if your country does not have a social security agreement with Canada, you can apply for coverage by filling out Form CPT13, *Application for an Employer Resident Outside Canada to Cover Employment in Canada Under the Canada Pension Plan*.

## Canada's social security agreements with other countries

Canada has reciprocal social security agreements with other countries. These agreements ensure that only one plan covers an employee—the CPP or a foreign social security plan.

To find out which country has CPP coverage provisions with Canada and to get the specific CPT application form number, see Appendix 4 on page 56.

You can get an application form for coverage or for extending coverage under the CPP by going to [www.cra.gc.ca/forms](http://www.cra.gc.ca/forms).

For additional information, go to [www.cra.gc.ca/cppeexplained](http://www.cra.gc.ca/cppeexplained) then “Employment outside Canada” and choose “Canada’s international social security agreements.”

### Note

If you have questions about coverage under the QPP in other countries, send them to the following address:

Bureau des ententes de sécurité sociale  
Régie des rentes du Québec  
1055 René-Lévesque Blvd. East, 13th Floor  
Montréal QC H2L 4S5

## Chapter 3 – Employment insurance premiums

You have to deduct employment insurance (EI) premiums from each dollar of insurable earnings up to the yearly maximum. After you have deducted the maximum for the year, do not deduct any more premiums, even though the excess remuneration is still considered insurable. For 2015, the maximum annual insurable earnings are \$49,500.

### When to deduct EI premiums

You have to deduct EI premiums from an employee’s insurable earnings if that employee is in insurable employment during the year.

Insurable employment includes most employment in Canada under a contract of service (see “Are you an employer?” on page 6). There is **no age limit** for deducting

EI premiums. Some employment outside Canada is also insurable (see page 43).

### Notes

If the employee is a student, you will have to deduct EI premiums for each type of remuneration that is insurable, as you would for any other employee.

Certain workers who are not employees might be considered to be in insurable employment. Examples are taxi drivers and drivers of other passenger-carrying vehicles, barbers and hairdressers, and fishers (see Chapter 7 for those special situations).

For more information about insurable earnings, go to [www.cra.gc.ca/cppeexplained](http://www.cra.gc.ca/cppeexplained) and choose “Pensionable and insurable earnings.”

## Amounts and benefits from which you have to deduct EI premiums

You generally deduct EI premiums from the following amounts and benefits:

- salary, wages, bonuses, commissions, or other remuneration (including payroll advances or earnings advances), and wages in lieu of termination notice;
- most cash taxable benefits and allowances, including certain rent-free and low-rent housing if paid as cash or a subsidy, the value of board and lodging if cash earnings are also paid in the pay period (other than an exempt allowance paid to an employee at a special work site or remote work location);
- employer contributions to an employee’s registered retirement savings plan (RRSP) except where employees cannot withdraw amounts from a group RRSP until they retire or cease to be employed, or if the RRSP agreement allows the employee to withdraw an amount from the RRSP under the Home Buyer’s Plan (HBP) or the Lifelong Learning Plan (LLP);
- gifts, prizes, and awards paid in cash;
- honorariums, a share of profit that an employer paid, incentive payments, management fees, and other fees if paid in the course of insurable employment;
- stipends, fees or remuneration paid to elected or appointed officials who hold an office in a union or an association of unions or who hold a position within a federal, provincial, or territorial government or agency. For more information on whether employment of an individual who is in tenure of office is insurable, go to [www.cra.gc.ca/cppeexplained](http://www.cra.gc.ca/cppeexplained) and choose “Tenure of office;”
- certain tips and gratuities received for services performed. For more information on when EI premiums have to be deducted on tips and gratuities, go to [www.cra.gc.ca/cppeexplained](http://www.cra.gc.ca/cppeexplained) and choose “Tips and gratuities;”
- remuneration received while on vacation, furlough, sabbatical, sick leave, or for vacation pay;
- benefits received from certain wage-loss replacement plans; for more information, see page 38; and

- the salary you continue to pay to an employee before or after a workers' compensation board claim is decided, as well as:
  - any advance or loan you make that is more than the amount awarded under the claim; and
  - any advance or loan not repaid to you.

#### Note

If you pay any of these amounts to a former employee and you have to deduct EI premiums, use the current rate in effect when you make the payment.

## Employment, benefits, and payments from which you do not deduct EI premiums

### Employment

Even if there is a contract of service, payments for the following types of employment are **not insurable** and EI premiums are not required to be deducted:

- casual employment if it is for a purpose other than your usual trade or business. For more information about casual employment, go to [www.cra.gc.ca/cppeexplained](http://www.cra.gc.ca/cppeexplained) and choose "Casual employment;"
- employment when you and your employee do **not** deal with each other at arm's length. There are two main categories of employees who could be affected:
  - related persons: individuals connected by a blood relationship, marriage, common-law relationship, or adoption. In cases where the employer is a corporation, the employee is considered related to the corporation when he or she is related to a person who either controls the corporation or is a member of a related group that controls the corporation. However, these individuals can be in insurable employment if you would have negotiated a similar contract with a person whom you deal with at arm's length.
  - non-related persons: an employment contract between you and a non-related employee can be non-insurable if it is apparent from the circumstances of employment that you were not dealing with each other in the way arm's length parties normally would.

For more information, go to [www.cra.gc.ca/cppeexplained](http://www.cra.gc.ca/cppeexplained) and choose "Meaning of "not dealing at arm's length" for purposes of the *Employment Insurance Act* (EIA)."

If you are not sure whether you should deduct EI premiums when employing related persons (family members) or non-related employees whose circumstances of employment are unusual, we suggest you use our "Request a CPP/EI ruling" service at [www.cra.gc.ca/mybusinessaccount](http://www.cra.gc.ca/mybusinessaccount) or [www.cra.gc.ca/representatives](http://www.cra.gc.ca/representatives) to request a ruling, or you fill out Form CPT1, *Request for a Ruling as to the Status of a Worker Under the Canada Pension Plan and/or the Employment Insurance Act* and send it to the CPP/EI Rulings Division of your tax services office.

#### Note

If you deducted EI premiums and don't think you should have, you can ask for a refund of the

EI premiums. Normally we have to complete a ruling to confirm the employee's working relationship with you first.

- when a corporation employs a person who controls more than 40% of the corporation's voting shares. This includes employment of a person who entered into an agreement or registered with Service Canada to receive employment insurance special benefits. Go to [www.servicecanada.gc.ca](http://www.servicecanada.gc.ca) for more information about applying for these special benefits.
- employment of an individual holding an office in the private, municipal, or academic sectors. This includes mayors, municipal councillors, school commissioners, chiefs of Indian bands, band councillors, executors, liquidators, or administrators for settling estates, corporation directors, or any other position when a person is elected or appointed to that office. For more information about whether employment of an individual who is in tenure of office is insurable, go to [www.cra.gc.ca/cppeexplained](http://www.cra.gc.ca/cppeexplained) and choose "Tenure of office;"
- employment that is an exchange of work or services;
- employment in agriculture, horticulture, or an agricultural enterprise when:
  - the person receives no cash remuneration; **or**
  - works less than seven days with the same employer during the year;

#### Notes

If the employee works seven days or more, the employment is insurable from the first day of work.

For more information on when these types of employment are insurable, go to [www.cra.gc.ca/cppeexplained](http://www.cra.gc.ca/cppeexplained) and choose "Agriculture and horticulture."

- employment of a person in connection with a circus, fair, parade, carnival, exposition, exhibition, or other similar activity, **except for entertainers**, if that person:
  - is not your regular employee; **and**
  - works for less than seven days in the year.

#### Notes

If the employee works seven days or more, the employment is insurable from the first day of work.

For more information on when these types of employment are insurable, go to [www.cra.gc.ca/cppeexplained](http://www.cra.gc.ca/cppeexplained) and choose "Circus and fair."

- employment of a person in a rescue or disaster operation, as long as you do not regularly employ that person for that purpose. For more information, see "Emergency services volunteers" on page 42;
- employment by a government body as an election worker if the worker:
  - is not a regular employee of the government body; **and**
  - works for less than 35 hours in a calendar year;

**Note**

If the employee works 35 hours or more, the employment is insurable from the first hour of work.

- employment in Canada under an exchange program if the employer paying the remuneration is not resident in Canada;
- employment of a member of a religious order who has taken a vow of poverty. This applies whether the remuneration is paid directly to the order, or the member pays it to the order;
- any employment when premiums have to be paid according to the unemployment insurance laws of any state of the United States, the District of Columbia, Puerto Rico, or the U.S. Virgin Islands, or according to the *Railroad Unemployment Insurance Act* of the United States;
- employment in Canada of a non-resident person if the unemployment insurance laws of any foreign country require premiums to be paid for that employment;
- employment in Canada by a foreign government or an international organization, **except** when the foreign government or international organization agrees to cover its Canadian employees under Canada’s EI legislation (in this case, the employment is insurable if Employment and Social Development Canada agrees); or
- employment under the “Self-employment assistance” and “Job creation partnerships” benefits established by the Canada Employment Insurance Commission under section 59 of the *Employment Insurance Act*, or under a similar benefit that a provincial or territorial government or other organization provides and is the subject of an agreement under section 63 of the *Employment Insurance Act*.

**Benefits and payments**

Do **not** deduct EI premiums from:

- a payment made under a registered supplementary unemployment benefit plan that qualifies as a SUBP under the *Income Tax Act* or is registered with Service Canada, and covering periods of unemployment resulting from a temporary stoppage of work, training, sickness, injury, or quarantine;
- any non-cash benefit, except the value of board and lodging when cash remuneration is also paid in a pay period;
- monies earned (such as salary, banked overtime, bonus, vacation, etc.) before the death of an employee and not yet paid at the time of death;
- employer contributions to an employee’s group RRSP where access is restricted and does not permit employees to withdraw the amounts until they retire or cease to be employed or if the RRSP agreement allows the employee to withdraw an amount from the RRSP under the Home Buyers’ Plan (HBP) or the Lifelong Learning Plan (LLP);
- amounts received on account of an earnings loss benefit, supplementary retirement benefit, or permanent impairment allowance payable to the taxpayer under

Part 2 of the *Canadian Forces Members and Veterans Re-establishment and Compensation Act*;

- any amount excluded as income under paragraph 6(1)(a) or 6(1)(b) or subsection 6(6) or (16) of the *Income Tax Act*;
- a retiring allowance (for information on what a retiring allowance includes, see page 35);
- amounts you pay to an employee to cover the waiting period or to increase the maternity, parental, or compassionate care benefits if the following two conditions are met:
  - the total amount of your payment and the EI weekly benefits combined do not exceed the employee’s normal weekly gross salary; and
  - your payment does not reduce any other accumulated employment benefits such as banked sick leave, vacation leave credits, or retiring allowance;
- an advance or loan you pay to employees before or after a workers’ compensation board claim is decided that is **equal** to the benefits awarded under the claim (see page 40);
- a top-up amount you pay to your employee, **after** the claim is decided, that is in addition to the benefits paid by a workers’ compensation (see page 39);
- top-ups to wage-loss replacement plan benefits from which you do not have to deduct EI premiums (see page 38).
- benefits received from certain wage-loss replacement plans; for more information, see page 38;
- amounts that a trustee allocated under a profit sharing plan or that a trustee paid under a deferred profit sharing plan.

**EI premium rate and maximum**

You have to deduct EI premiums from your employee’s insurable earnings. As an employer, you must **contribute 1.4 times\*** the amount of the EI premiums that you deduct from your employee’s remuneration.

\* The rate may be less than 1.4 (see page 22).

Each year, we determine:

- the **maximum annual insurable earnings** from which you deduct EI (\$49,500 for 2015); and
- a **premium rate** that you use to calculate the amount to deduct from your employees (1.88% for 2015—for Quebec, use 1.54%).

**Note**

Different EI rates apply for employees working in Quebec because of the Quebec Parental Insurance Plan (QPIP). See “Employment in Quebec” on page 22.

**Example**

EI premiums you deducted from your employees	
in the month.....	\$195.50
Your share of EI premiums (× 1.4).....	<u>\$273.70</u>
Total amount you remit for EI premiums.....	<u>\$469.20</u>

You stop deducting EI premiums when the employee's annual earnings reach the maximum insurable earnings or the maximum employee premium for the year (\$930.60 for 2015).

The annual maximum for insurable earnings (\$49,500 for 2015) applies to **each job** the employee holds with **different employers** (different business numbers). If an employee leaves one employer during the year to start work with another employer, the new employer also has to deduct EI premiums without taking into account what the previous employer paid. This is the case even if the employee has paid the maximum premium amount during the previous employment. If your business went through a restructure or reorganization, see page 10.

The employee's EI premium rate for the next year can be found in the *Payroll Deductions Tables*, which are usually available in mid-December at [www.cra.gc.ca/payroll](http://www.cra.gc.ca/payroll).

**Notes**

If you pay an amount to a former employee and you have to deduct EI premiums, use the current rate in effect when you make the payment.

Any overpayments will be refunded to employees when they file their income tax and benefit returns. There is no provision in the *Employment Insurance Act* that provides a credit or refund to the employer in such circumstances.

**Example**

Hassan makes \$30,000 of insurable earnings in Ontario, and after changes his province of employment to Quebec. He then makes an additional \$40,000 with the same employer.

Hassan's maximum premium is calculated as follows:

<b>Total insurable earnings</b> .....	<b>\$49,500.00</b>
In Ontario:.....	\$30,000 × 1.88% = \$564.00
In Quebec:.....	\$19,500 × 1.54% = \$300.30
<b>Total premiums</b> .....	<b><u>\$864.30</u></b>

**Employment in Quebec**

Maternity, parental, and adoption benefits for residents of Quebec are administered by the province of Quebec under the Quebec Parental Insurance Plan (QPIP). QPIP replaces similar benefits that Quebec residents previously received under the *Employment Insurance Act*. Because of this, all employers who have employees working in Quebec (regardless of the employee's province or territory of residence) have to deduct a reduced EI premium using a reduced EI premium rate (1.54% for 2015) as well as QPIP premiums.

The maximum annual EI premium that an employee working in Quebec will pay on insurable earnings in 2015 is \$762.30.

For information on deducting and remitting the QPIP, see Guide TP-1015.G-V, *Guide for Employers: Source Deductions and Contributions*, which you can get from Revenu Québec at [www.revenuquebec.ca/en/default.aspx](http://www.revenuquebec.ca/en/default.aspx).

You may have a place of business in Quebec and in another province or territory. If you transfer an employee from Quebec to another province or territory, in addition to

deducting CPP/QPP contributions and EI/QPIP premiums you will also have to prepare **two** T4 slips. It is important that you calculate and report the proper deductions and insurable/pensionable earnings on both T4 slips. For more information, see Guide RC4120, *Employers' Guide – Filing the T4 Slip and Summary*.

**Reducing the rate of your EI premiums if you have a short-term disability plan**

Some employers provide a wage-loss replacement plan for short-term disability to their employees. If the plan meets certain standards established by the *Employment Insurance Regulations*, the employer's EI premiums could be paid at a reduced rate (less than 1.4 times the employee's premiums).

To benefit from a reduced employer premium rate, you have to register with the EI Premium Reduction Program by submitting:

- an initial application, which you can find in Service Canada's publication called *Reducing Your Employment Insurance (EI) Premiums*; and
- a copy of the short-term disability plan provided to your employees.

You can get the guide at your Service Canada Centre or by contacting:

Service Canada  
EI Premium Reduction Program  
P.O. Box 11000  
Bathurst NB E2A 4T5

Telephone: **1-800-561-7923**  
Fax: **506-548-7473**

Website: [www.servicecanada.gc.ca/prp](http://www.servicecanada.gc.ca/prp)

The employer's EI premiums are reduced only in respect of employees covered by the approved plan (this includes employees serving an eligibility period under the plan of three months or less). These employees will continue to be reported under the current payroll program account, which will be set at a reduced rate. An officer of the EI Premium Reduction Program will ask you to open an additional payroll program account under your business number (BN) to make a separate remittance for employees not covered by the plan.

You have to file a separate T4 information return for each payroll program account under your BN:

- For employees covered under an approved plan, report their income and deductions using your payroll program account at the reduced EI premium rate (for example, RP0001).
- For employees who are **not** covered by the plan, report their income and deductions using your payroll program account at the standard rate of 1.4 times the employees' premiums (for example, RP0002).

Where an employee was transferred between both accounts in the same calendar year, file a separate T4 slip for each account.

## Calculating EI deductions

To determine the amount of EI premiums to deduct, use one of the following tools:

- the Payroll Deductions Online Calculator (PDOC);
- the *Payroll Deductions Tables* (T4032);
- the *Payroll Deductions Supplementary Tables* (T4008); or
- the *Payroll Deductions Formulas Computer Programs* (T4127).

To find out which method is best for you, see “Payroll deductions tables” on page 8.

You can also use a manual method to calculate your employee’s EI deductions if you pay your employees more than the maximum amount that appears in Section C of the Guide T4032, *Payroll Deductions Tables*.

## EI overpayment

If, during a year, you overdeducted EI premiums from your employee (for example, the maximum amount of insurable earnings was exceeded, or the employee was not employed in insurable employment), reimburse the employee the amount deducted in error and adjust your payroll records in the same year the overpayment was made to reflect the reduced deduction. This will result in a credit on your payroll program account equal to the employee and employer portion of the overdeduction. You may reduce a future remittance in the same calendar year by that amount.

Do not include the reimbursed amount on the T4 slip. If you cannot refund the overpayment, show the total EI premiums deducted and the correct insurable earnings on the employee’s T4 slip.

If you reported the employee’s overpayment on the T4 slip, you can ask us for a refund by filling out Form PD24, *Application for a Refund of Overdeducted CPP Contributions or EI Premiums*. Make your request no later than three years from the end of the year in which the overpayment occurred.

## Recovering EI premiums

If you receive a notice of assessment or discover that you have underdeducted EI premiums, you are responsible for remitting the balance due (both the employer’s and employee’s shares).

You can recover the employee’s premiums from later payments to the employee. The recovered premium can be equal to, but not more than the premium you should have deducted from each payment of remuneration.

However, you **cannot** recover a premium that has been outstanding for more than 12 months. As well, you cannot adjust the employee’s income tax deduction to cover the EI premium shortfall.

If you should have made a deduction in a previous year and you recover it through an additional deduction in the current year, do **not** report the recovered premium on the current year’s T4 slip. You may have to amend your employee’s T4 slip. For information on how to amend a

T4 slip, see Guide RC4120, *Employers’ Guide – Filing the T4 Slip and Summary*.

The recovered amount does not affect the current year-to-date EI premiums.

### Example

- a) You did not deduct or remit EI premiums that you should have deducted as follows:

Month	EI
September	\$74.00
October	\$74.00
November	\$78.00
December	<u>\$75.00</u>
<b>Total</b>	<b>\$301.00</b>

- b) After auditing the records, we issue a notice of assessment as follows:

	Employee	Employer	Total
EI premiums	\$301.00	\$421.40	\$722.40

The employer premiums are 1.4 times the employee premiums.  
Penalty and interest are added to the total.

- c) The following year, you can recover the employee’s premiums of \$301.00 as follows:

Current premium	Recovered premium	Employee’s deduction
April \$74.00	+ \$74.00 (for September)	= \$148.00
May \$78.00	+ \$74.00 (for October)	= \$152.00
June \$80.00	+ \$78.00 (for November)	= \$158.00
July \$80.00	+ <u>\$75.00</u> (for December)	= \$155.00
<b>Total</b>	<b>\$301.00</b>	

### Note

Details on the pensionable and insurable earnings review (PIER) are in Chapter 4.

## Establishing the number of insurable hours

Hours of work are used to determine if workers are entitled to benefits and for how long. Employers have to keep records.

### Note

For information on how to report the total hours of insurable employment, contact your Service Canada Centre or visit [www.servicecanada.gc.ca](http://www.servicecanada.gc.ca).

The number of insurable hours is determined as follows:

- **For an employee who is paid hourly** – The number of insurable hours is the number of hours actually worked and paid.
- **For an employee who is not paid hourly** – If the employer knows the number of hours that the employee actually worked and for which he or she was paid, we consider the employee to have that number of insurable hours. For example, an employee who is paid on an annual basis, but whose employment contract specifies

32 hours as the usual hours of work per week, would be credited with 32 insurable hours.

#### Note

If the employer does not know the actual number of hours worked, the employer and the employee can agree on the number of insurable hours of work for which he or she is paid. For example, an agreement on hours on the value of piecework would determine the number of insurable hours. However, if no contract or agreement on hours exists or can be reached, we determine the number of insurable hours by dividing the insurable earnings by the minimum wage. The result cannot be more than seven hours per day or 35 hours per week.

- **Hours limited by federal or provincial statutes** – Full-time employees who are limited by law to less than 35 hours per week will be credited 35 insurable hours per week. Part-time employees in these circumstances are credited with a proportionate number of hours.
- **Military and police** – Full-time members of the Canadian Forces or a police force will be credited 35 insurable hours per week, unless the employer keeps and provides the actual number of hours worked.
- **Overtime hours accumulated and paid at a later date or paid on termination of employment** – One hour of overtime work equals one hour of insurable employment, even if the rate of pay is higher. Overtime hours accumulated and paid at a later date, or paid on termination of employment, are equally insurable when the parties can establish the effective hours worked. The insurable hours will be the hours actually worked and not the hours accumulated at a rate greater than the regular one.

#### Example

An employee works 20 hours of overtime, so he accumulates 30 hours (1.5 times the number of hours worked). At the end of the year, the worker asks his employer to be paid for his accumulated hours. The number of insurable hours will correspond to the actual hours worked, which is 20 hours in this case.

- **Worker called in to work** – The number of insurable hours equals the number of hours paid.
- **Stand-by hours** – Stand-by hours are insurable if:
  - the stand-by hours are paid at a rate equal to or above the rate paid for the hours the employee would have worked; or
  - the employee is present at the employer’s premises, waiting for the employer to request his services, as required under a contract of employment, and these hours are paid, regardless of the rate paid.
- **Public holiday** – One hour of work on a public holiday equals one hour of insurable employment, even if the rate of pay is higher. When a public holiday is paid in straight time and a person doesn’t work on the holiday, the insurable hours will be the hours the person would have normally worked.

- **Paid leave** – One hour of vacation time taken, paid sick leave, or compensatory time off is considered to be one insurable hour.
- **Remuneration paid with no hours attached** – An employee who receives vacation pay without actually taking any leave does not generate any insurable hours. This also applies to such remuneration as bonuses, gratuities, and lieu-of-notice payments.

For more information on how to determine hours of insurable employment, go to [www.cra.gc.ca/cppeexplained](http://www.cra.gc.ca/cppeexplained) and choose “Insurable hours.”

## Record of employment (ROE)

Generally, you have to prepare and give an ROE to your employee within five days after the employee’s interruption of earnings or the day you become aware of the interruption or the date he or she stops working for you. This is considered an interruption of service and includes situations where employment ends or the employee leaves because of pregnancy, injury, illness, adoption leave, layoff, leave without pay, or dismissal. For more information, see page 10.

#### Note

A different deadline may apply if you file your ROE electronically.

The employee needs the ROE to file a claim for employment insurance (EI) benefits. It is used to determine if he or she is entitled to EI benefits, and for how long.

When filling out the ROE you will have to determine the number of insurable hours. Also, there are consequences for not filing the ROE.

To create a ROE for your employee, you can use Service Canada’s online ROE web service, your payroll provider’s ROE Secure Automated Transmission, or fill out a paper *Record of Employment (ROE)*.

For more information on the ROE, go to Service Canada at [www.servicecanada.gc.ca/eng/services/ei/employers/roe/index.shtml](http://www.servicecanada.gc.ca/eng/services/ei/employers/roe/index.shtml) or call 1-800-622-6232.

## Chapter 4 – Pensionable and insurable earnings review (PIER)

Each year, we check the calculations you made on the T4 slips that you filed with your T4 Summary. We do this to make sure the pensionable and insurable earnings you reported agree with the deductions you withheld and remitted.

We check the calculations by matching the pensionable and insurable earnings you reported with the required Canada Pension Plan (CPP) contributions or employment insurance (EI) premiums shown in the Guide T4032, *Payroll Deductions Tables*. We then compare these required amounts with the CPP contributions and EI premiums reported on the T4 slips.

If there is a deficiency between the CPP contributions or EI premiums required and those you reported, we print the



figures on a PIER listing. If you file electronically and report an employee number on your T4 slips, we will display the employee number on the PIER listing.

We will send you the listing showing the name of the affected employees and the figures we used in the calculations. We will also include a PIER summary that shows any balance due.

#### Notes

You are responsible for remitting the balance due, including your employee's share.

If you agree with our calculations and are remitting the exact amount shown on the PIER summary (either by mail or at your financial institution), do not send the PIER listing back. We only need the listing if you are correcting the figures or a social insurance number (SIN), or are submitting information we should update on our file.

If a payment or a reply is not received by the reply date noted on the PIER report, we may issue a notice of assessment that includes applicable penalties or interest, or both.

## Why is a review important?

We verify these calculations so that your employees or their beneficiaries will receive the proper:

- CPP benefits if the employees retire, become disabled, or die; and
- EI benefits if the employees become unemployed, take maternity, parental, adoption, or compassionate care leave, leave to care for or support their critically ill or injured child, or are injured, ill, or on leave without pay.

#### Note

If you report insufficient amounts, it could reduce an employee's benefits.

## CPP deficiency calculations

If your employee has 52 pensionable weeks during the year, calculate the required CPP contributions as follows:

**Step 1:** Subtract the CPP basic exemption for the year from the CPP pensionable earnings shown in box 26 on the employee's T4 slip.

**Step 2:** Multiply the result of Step 1 by the current year's CPP contribution rate.

The yearly CPP basic exemption appears in Appendix 2 and the CPP contribution rate appears on page 15.

The result is the employee's yearly CPP contributions, which you report in box 16 of the T4 slip.

There may be cases when you have to either start deducting CPP, or stop deducting CPP, for your employee during the year. For more information, see "Starting and stopping CPP deductions" on page 15. In these cases, to verify the employee's CPP contributions before you file the T4 slip, use the calculation in Appendix 3 on page 55.

If you put an "X" or a check mark in box 28 (CPP/QPP, EI and PPIP exempt) on the T4 slip and you reported amounts

in boxes 16 or 17, or 26 for CPP/QPP, our processing system ignores the "X" or check mark. For more information, see "Box 28 – Exempt (CPP/QPP, EI, and PPIP)" in Guide RC4120, *Employers' Guide – Filing the T4 Slip and Summary*.

If you issue more than one T4 slip to the same employee, report the pensionable earnings amount for each period of employment in box 26 on each T4 slip. Reporting these amounts correctly can reduce the number of unnecessary PIER reports for CPP deficiency calculations, especially if the employee worked both inside and outside Quebec.

## EI deficiency calculations

To calculate the required EI premiums, multiply the EI insurable earnings shown in box 24 of the employee's T4 slip by the current year's EI premium rate.

See the yearly EI premium rate on page 21 or in the Guide T4032, *Payroll Deductions Tables*.

The result is the employee's yearly EI premiums, which you report in box 18 of the T4 slip.

To verify the employee's EI premiums before you file the T4 slip, fill out "Appendix 5 – Calculation of employee EI premiums (2015)" on page 57.

If you put an "X" or a check mark in box 28 (CPP/QPP, EI, and PPIP exempt) on the T4 slip and you reported amounts in boxes 18 or 24 for EI, our processing system ignores the "X" or check mark. For more information, see "Box 28 – Exempt (CPP/QPP, EI, and PPIP)" in Guide RC4120, *Employers' Guide – Filing the T4 Slip and Summary*.

If you issue more than one T4 slip to the same employee, report the insurable earnings amount for each period of employment in box 24 on each T4 slip. Reporting these amounts correctly can reduce the number of unnecessary PIER reports for EI deficiency calculations, especially if the employee worked both inside and outside Quebec.

## Security options on PIER listings

The PIER program checks security options reported as a non-cash taxable benefit in box 38 (Security options) and box 14 (Employment income) on T4 slips because such a benefit is pensionable but not insurable. If this type of benefit is the only amount reported on a T4 slip, enter an "X" or a check mark in box 28 (Exempt) under EI. Do **not** place an "X" or a check mark in the CPP exempt box 28. This benefit is pensionable and CPP contributions are required.

## Multiple T4 returns

If you are an employer with a business number (BN) that has **multiple** payroll program account extensions, we will not send you a PIER report if we detect deficiencies when your return is processed. At a later date we will compare all T4 returns for your BN to verify the PIER information and contact you if we confirm there are deficiencies. If we do not find any deficiencies, we will cancel the PIER. If you have any questions, contact the PIER unit in your tax centre.

## Chapter 5 – Deducting income tax

As an employer or payer, you are responsible for deducting income tax from the remuneration or other income you pay. There is **no age limit** for deducting income tax and there is no employer contribution required.

We have forms to help you determine how much income tax to deduct:

- Most employees and recipients fill out Form TD1, *Personal Tax Credits Return*.
- Employees who are paid commissions and who claim expenses may choose to fill out Form TD1X, *Statement of Commission Income and Expenses for Payroll Tax Deductions*, instead of Form TD1.
- Fishers fill out Form TD3F, *Fisher's Election to Have Tax Deducted at Source*.

### Form TD1, Personal Tax Credits Return

There are two types of Form TD1, *Personal Tax Credits Return*—federal **and** provincial or territorial. Both forms, once completed, are used to determine the amount of federal and provincial or territorial tax to deduct from the income an individual receives in a year.

Individuals who will receive salary, wages, commissions, employment insurance benefits, pensions, or other remuneration **must** fill out a federal Form TD1 **and**, if more than the basic personal amount is claimed, a provincial or territorial Form TD1. For Quebec, see “Employment in Quebec” on this page.

An employee must fill out a Form TD1 and give it to the employer when the employee starts work. The employee should fill out a new Form TD1 within seven days of any change that may result in a change to their personal tax credits for the year.

#### Note

If your employee has more than one employer or payer at the same time and has already claimed personal tax credit amounts on another TD1 form, the employee **cannot claim them again**. If the employee's total income from all sources will be **more** than the personal tax credits claimed on another TD1 form, he or she must check the box “More than one employer or payer at the same time” on the back of the TD1 form, enter “0” on line 13 on the front page and not fill in lines 2 to 12.

Employees who do not fill out new forms may be penalized \$25 for each day the form is late. The minimum penalty is \$100, and increases by \$25 per day to the maximum of \$2,500.

Employees do not have to fill out new TD1 forms if their personal tax credit amounts have not changed for the year.

The provincial or territorial Form TD1 the employee fills out should be the form for the province or territory of employment. The section “Which tax tables should you use?” on page 9, explains how to determine the province or

territory of employment. It also explains what to do if the employee lives in one province or territory and works in another. If the income is not employment income (for example, it is pension, retiring allowance, or RRSP income), use the Form TD1 for the recipient's province or territory of residence.

It is a serious offence to knowingly accept a Form TD1 that contains false or deceptive statements. If you think a Form TD1 contains incorrect information, call **1-800-959-5525**.

Have a completed Form TD1 on file for **each** of your employees or recipients. We may ask to see it.

#### Note

You may create a federal and/or provincial or territorial Form TD1 and have your employee send it to you electronically. For more information, go to [www.cra.gc.ca/payroll](http://www.cra.gc.ca/payroll), choose the letter “T” for the payroll topics and select “TD1, Electronic.”

### Employment in Quebec

Individuals who work or receive other income (such as pension income) in the province of Quebec have to fill out a federal Form TD1, *Personal Tax Credits Return*, **and** a provincial Form TP-1015.3-V, *Source Deductions Return*.

Individuals who incur expenses related to earning commissions have to fill out a federal Form TD1X, *Statement of Commission Income and Expenses for Payroll Tax Deductions*, **and** a provincial Form TP-1015.R.13.1, *Statement of Commissions and Expenses for Source Deduction Purposes*.

You can get Quebec forms from Revenu Québec at [www.revenuquebec.ca/en/default.aspx](http://www.revenuquebec.ca/en/default.aspx).

### Claim codes

The total amount of personal tax credits an employee claims on Form TD1 will determine which claim code to use. An explanation of the claim codes is in the *Payroll Deductions Tables* (T4032).

In some cases, you will use one claim code for the federal Form TD1 and another claim code for the provincial or territorial Form TD1.

If your employee does not fill out a Form TD1, use the code that corresponds to the basic personal amount.

A non-resident employee may not have a claim amount on Form TD1. For more information, see the back of Form TD1.

### Request for more tax deductions from employment income

Employees can choose to have more tax deducted from the remuneration they receive in a year. To do this, they have to give a new federal Form TD1 to their employer that shows how much more tax they want deducted. This amount stays the same until they give their employer a new Form TD1.

You should advise part-time employees that it could be beneficial to have more income tax deducted from the remuneration they receive. In this way, they can avoid

having to pay a large amount of tax when they file their income tax and benefit returns, especially if they have worked part-time for different employers during the year.

## Deduction for living in a prescribed zone

Employees who live in a prescribed zone during a continuous period of at least six months (that begins or ends in the tax year) may be entitled to claim a residency deduction when they file their income tax and benefit return. Employees may claim a deduction for this on Form TD1. The deduction will reduce the remuneration on which you withhold income tax.

If you provide housing and travel assistance benefits, see the following:

- Guide T4130, *Employers' Guide – Taxable Benefits and Allowances*;
- Guide RC4054, *Ceiling Amounts for Housing Benefits Paid in Prescribed Zones*; and
- [www.cra.gc.ca/northernresidents](http://www.cra.gc.ca/northernresidents).

## Form TD1X, Statement of Commission Income and Expenses for Payroll Tax Deductions

Employees who are paid in whole or in part by commission and who claim expenses may choose to fill out this form in addition to Form TD1. They can estimate their income and expenses by using one of the following two figures:

- their previous year's figures, if they were paid by commission in that year; or
- the current year's estimated figures.

Employees who choose to fill out Form TD1X have to give you the form by one of the following dates:

- on or before January 31 if they worked for you last year;
- within one month of the date their employment starts;
- within one month of the date their personal tax credits have changed; or
- within one month of the date any change occurs that will substantially change the estimated remuneration or expenses previously reported.

### Note

An employee may choose, at any time during the year, to revoke in writing the election he or she made on Form TD1X. If so, use the total claim amount from the employee's Form TD1 instead.

There is **only one** Form TD1X for federal, provincial, and territorial tax purposes. For an employee in Quebec, see "Employment in Quebec" on page 26.

## Tax deductions from commission remuneration

If an employee is paid on commission or receives a salary plus commission, you can deduct tax in one of the following ways:

### Employees who earn commissions without expenses

If you pay commissions at the same time you pay salary, add this amount to the salary, then use the Payroll Deductions Online Calculator (PDOC), the computer formulas (T4127), or the manual calculation method found in Section A of the *Payroll Deductions Tables* (T4032). If you pay commissions periodically or the amounts fluctuate, you may want to use the bonus method to determine the tax to deduct from the commission payment. See "Bonuses, retroactive pay increases, or irregular amounts" on page 30 to find out how to do this.

### Employees who earn commissions with expenses

To calculate the amount of tax to deduct, you can use the Payroll Deductions Online Calculator (PDOC), the computer formulas (T4127), or the manual calculation method found in Section A of the *Payroll Deductions Tables* (T4032).

### Note

Employees who claim employment expenses on their income tax and benefit return must have their employer fill out Form T2200, *Declaration of Conditions of Employment*.

## Form TD3F, Fisher's Election to Have Tax Deducted at Source

When a fisher sells a catch, the fisher can choose to have the buyer, also known as the designated employer, deduct income tax at a rate of 20% from the proceeds of the sale. To do this, the fisher must fill out Form TD3F with the designated employer. The designated employer is then responsible to deduct, remit and report the amounts withheld.

## Remuneration from which you have to deduct income tax

You have to deduct income tax **at source** from the following types of remuneration in the pay periods in which the employee receives or enjoys them:

- salary, wages, bonuses, commissions, overtime, wages in lieu of termination notice, or other remuneration (including payroll advances or earnings advances);
- most cash and non-cash taxable benefits and allowances including taxable stock option benefits, certain rent-free and low-rent housing, the value of board and lodging (other than an exempt allowance paid to an employee at a special work site or remote work location), interest-free and low-interest loans, personal use of an automobile that you as the employer own or lease, allowances you pay to employees to use his or her own vehicle, holiday trips, gifts, subsidized meals, or any other taxable benefit you pay for or provide to your employee. For more information, see Guide T4130, *Employers' Guide – Taxable Benefits and Allowances*;
- honorariums from employment or office, a share of profit that an employer paid, incentive payments, director's fees, management fees, fees paid to board or committee members, and executor's, liquidator's, or administrator's fees earned to administer an estate (as long as the

executor, liquidator, or administrator **does not act in this capacity** in the regular course of business);

- remuneration paid after an employee dies. To find out which payments you have to withhold income tax on, see “Death of an employee” in the next chapter;
- remuneration paid to a member of a religious order who has taken a vow of perpetual poverty, unless you pay the remuneration to the order or the employee gives you a letter of authority approved by a tax services office;
- certain tips and gratuities received for services performed;
- remuneration received while on vacation, furlough, sabbatical, or sick leave, or for lost-time pay from a union, vacation pay, payments received under a supplementary unemployment benefit plan (SUBP) that does **not** qualify as a SUBP under the *Income Tax Act* (for example, employer paid maternity and parental top-up amounts), and payments for sick leave credits and accrued vacation;
- wage-loss replacement plans benefits. For more information, see page 38;
- pensions, retiring allowances (also called severance pay), certain amounts received for wrongful dismissal, and death benefits;
- distributions from a retirement compensation arrangement (RCA);
- additional amounts that you as an employer pay while participating in a job creation project that Service Canada has approved;
- benefits under the *Employment Insurance Act*;
- benefits under the *Act* respecting parental insurance; and
- amounts received from a current or former employee life and health trust other than a payment of a “designated employee benefit.”

## Reducing remuneration on which you have to deduct income tax

Certain amounts that you deduct from the remuneration you pay an employee, as well as other authorized or claimed amounts, can reduce the amount of remuneration from which you deduct tax for the pay period. Reduce the remuneration by the following amounts before you calculate tax:

- a deduction for living in a prescribed zone;
- an amount that a tax services office has authorized;
- employee’s contributions to a registered pension plan (RPP)—for details on how to determine the exact amount of these contributions, see the section called “Contributions to an RPP” on page 29;
- union dues;

### Note

The Quebec provincial rules for reducing remuneration for union dues are different—see Guide TP-1015.G-V, *Guide for*

*Employers: Source Deductions and Contributions*, which you can get from Revenu Québec (see page 6).

- employee’s contributions to a retirement compensation arrangement (RCA) or certain pension plans. For more information on determining whether an employee can deduct contributions to an RCA, see Guide T4041, *Retirement Compensation Arrangements*;
- employee’s and employer’s contributions to a registered retirement savings plan (RRSP) provided you have reasonable grounds to believe the employee can deduct the contribution for the year (see the section called “RRSP contributions you withhold from remuneration” on page 29);
- employee’s contributions to a pooled registered pension plan (PRPP), or a similar provincial pension plan, as long as the plan is registered with the Minister of National Revenue and you have reasonable grounds to believe the employee can deduct the contribution for the year. For more information, go to [www.cra.gc.ca/prpp](http://www.cra.gc.ca/prpp).

**Do not subtract** CPP contributions and EI premiums to determine the remuneration that requires tax deductions.

### Example

David is paid weekly (52 pay periods per year).

Basic salary .....	\$500.00
<b>Plus:</b> taxable benefits .....	<u>\$50.00</u>
Gross remuneration .....	\$550.00
<b>Minus:</b> weekly deductions for:	
RPP contributions .....	\$25.00
Union dues .....	\$5.50
Living in a prescribed zone ( $\$8.25$ per day $\times$ 7 days) .....	<u>\$57.75</u>
Total of: .....	\$88.25
Remuneration that requires tax deductions at source .....	<u>\$461.75</u>

### Letter of authority

In situations other than those described in the preceding section, your employee will have to give you a letter of authority from a tax services office in order for you to reduce remuneration on which you have to deduct tax. For example, this would be the case if an employee makes deductible RRSP contributions himself during the year, or if an employee lives in one province or territory but works in another and will have too much tax deducted.

To get a letter of authority, the employee has to send a completed Form T1213, *Request to Reduce Tax Deductions at Source*, or a written request to any tax services office. The employee should include documents that support his or her position why less tax should be deducted at source. For example, if the employee regularly contributes to an RRSP in the year, he or she should provide documents to show the amounts he or she contributes.

It takes us about four to six weeks to process a request of this type. We usually issue a letter of authority for a specific tax year. If an employee has a balance owing or has not filed outstanding income tax and benefit returns, we will not usually issue a letter of authority.

Keep all letters of authority with your payroll records so our officers can examine them.

#### Note

Non-resident employees who perform services in Canada and non-resident directors should **not** use Form T1213. See relevant topics below and in Chapters 5 and 6 for details.

## RRSP contributions you withhold from remuneration

A registered retirement savings plan (RRSP) contribution you withhold from the remuneration you pay an employee in a year automatically reduces the remuneration on which you have to deduct tax if you make the contribution on behalf of the employee. This applies to an RRSP contribution you withhold from remuneration on which you have to deduct tax, regardless of the amount of the payment or whether it is paid periodically or in a lump-sum.

However, you have to have reasonable grounds to believe that the employee can deduct the contribution for the year.

#### Note

The total amount the employee contributes to his or her RRSP or to his or her spouse's or common-law partner's RRSP cannot be more than the employee's available RRSP deduction limit for the year.

Generally, we consider you to have reasonable grounds when your employee has given you confirmation that the contribution can be deducted for the year or you have a copy of the employee's RRSP deduction limit statement from his or her notice of assessment.

You do not need confirmation of the employee's RRSP deduction limit when you directly transfer the eligible part of a retiring allowance to his or her RRSP. This is because a special deduction under paragraph 60(j.1) of the *Income Tax Act* applies to this amount. For information on how to calculate the eligible part of a retiring allowance, see page 36.

#### Note

The employee is not allowed to transfer the eligible part of a retiring allowance to his or her spouse's or common-law partner's RRSP.

## Contributions to an RPP

If the registered pension plan (RPP) requires or permits employees to make contributions, you have to determine the amount of contributions that your employee can deduct on his or her income tax and benefit return. You have to do this before you can calculate the amount of tax to deduct. In addition to contributions for current service, make sure you consider any contributions for past service.

For information on contributions to an RPP for current or past service, see archived Interpretation Bulletin IT-167, *Registered Pension Plans – Employee's Contributions*, and Guide T4040, *RRSPs and Other Registered Plans for Retirement*.

You have to report these contributions on a T4 slip. For information on how to report RPP contributions on a T4 slip, see "Box 20 – RPP contributions" in Guide RC4120, *Employers' Guide – Filing the T4 Slip and Summary*.

## Calculating income tax deductions

To determine the amount of income tax to deduct, use one of the following tools:

- the Payroll Deductions Online Calculator (PDOC);
- the *Payroll Deductions Tables* (T4032);
- the *Payroll Deductions Supplementary Tables* (T4008); or
- the *Payroll Deductions Formulas Computer Programs* (T4127).

To find out which method is best for you, see "Payroll deductions tables," on page 8.

You can also use a manual method to calculate your employee's income tax deductions. For more information, see the instructions in the section called "Step-by-step calculation of tax deductions" in Section A of the Guide T4032, *Payroll Deductions Tables*.

You have to deduct tax according to the claim code that corresponds to the total personal amount the employee claims on Form TD1. If an employee states that his or her total expected income from all sources will be less than the total amount claimed, do **not** deduct any federal, provincial or territorial tax. However, if you know this statement is false, you have to deduct tax on the amounts you pay. For more information, see "Claim codes" on page 26. If you need advice, call 1-800-959-5525.

## Tax deductions on other types of income

For tax deductions on other types of income, such as bonuses, director's fees, and retiring allowances, see Chapter 6.

## Labour-sponsored funds tax credits

Tax deductions at source can be reduced by the tax credit that applies to the purchase by the employee of approved shares of capital stock in a labour-sponsored venture capital corporation. For information on the labour-sponsored funds tax credit, see Guide T4127, *Payroll Deductions Formulas for Computer Programs*.

In 2015, the labour-sponsored funds tax credit is being phased out. After 2016, it will not be available.

## Non-resident employees who perform services in Canada

Employers have to deduct income tax from remuneration they pay to non-resident employees who are in regular and continuous employment in Canada in the same way they do for employees who are resident in Canada. This applies whether or not the employer is a resident of Canada. A tax treaty between Canada and the country of residence of a non-resident employee providing services in Canada **may** provide relief from Canadian tax deductions.

#### Note

For information about employment in Canada by certified non-resident employers, see page 43.

## Application for a waiver of tax withholding

A non-resident employee who wants less tax to be withheld based on a tax treaty can send a letter or a waiver application with supporting documents to the applicable tax services office. For more information on which tax services office to send the application, go to [www.cra.gc.ca/tx/nnrstdnts/cmmn/rndr/menu-eng.html](http://www.cra.gc.ca/tx/nnrstdnts/cmmn/rndr/menu-eng.html).

### Notes

You also have to deduct tax from payments you make to non-resident individuals, partnerships, or corporations for services rendered in Canada that they did not perform in the ordinary course of an office or employment. For more information about payments for services other than in the course of employment, see Guide RC4445, *T4A-NR – Payments to Non-Residents for Services Provided in Canada*.

In addition, tax withholding may apply, if you pay or credit an amount, such as interest, a dividend, rental income, a royalty, pension income, a retiring allowance, or other similar types of income to a non-resident of Canada, or if you pay, credit, or provide an amount as a benefit for film or video acting services rendered in Canada. See Guide T4061, *NR4 – Non-Resident Tax Withholding, Remitting, and Reporting*.

## Chapter 6 – Special payments

For all your deductions, use the rates in force on the date you make your payment. For a summary of the deductions you should make for special payments, see Appendix 6 on page 58.

### Advances

If you pay part of your employee's salary before the usual payday, you have to deduct Canada Pension Plan (CPP), employment insurance (EI), and income tax from the total advance. To determine the amounts to deduct, use the regular pay period and reconcile the income and deductions when the regular payday occurs.

### Bonuses, retroactive pay increases, or irregular amounts

If you paid bonuses, retroactive pay increases or any other additional or unusual amounts to your employees, you have to deduct the following amounts:

- CPP contributions (without taking into consideration the annual basic exemption amount if the payment is made separately from their regular pay);
- EI premiums; and
- income tax.

#### Note

Certain retroactive payments related to previous years that are paid in the current year, are eligible for a special tax calculation when the employee files his or her income tax and benefit return. See page 34 for

information about qualifying retroactive lump-sum payments.

### CPP contributions

If you have already deducted the yearly maximum CPP contributions from an employee's income, do **not** deduct more contributions.

Do not take into account any contributions that a previous employer deducted in the same year.

#### Example

Joseph receives a retroactive pay increase of \$450 on June 29. His payroll record for the year indicates that, to date, you have deducted \$300 in CPP contributions.

Maximum CPP contribution for the year (2015) .....	\$2,479.95
Contributions to date for the year .....	\$300.00
Maximum that you can deduct for Joseph for the rest of the year .....	\$2,179.95
Multiply the retroactive pay increase of \$450 × the CPP rate of 4.95% .....	\$22.28

You should deduct CPP contributions of \$22.28 from Joseph's retroactive pay increase up to the maximum for the year.

#### Note

The Payroll Deductions Online Calculator (PDOC) calculates the CPP contributions, EI premiums, and income tax on bonuses and retroactive pay increases. You can use the PDOC by going to [www.cra.gc.ca/pdoc](http://www.cra.gc.ca/pdoc).

### EI premiums

You have to deduct EI premiums from bonuses and retroactive pay increases. Do **not** deduct more than the maximum for the year.

Do not take into account any premiums that a previous employer deducted in the same year.

### Income tax

Certain qualifying retroactive lump-sum payments are eligible for a special tax calculation when an individual files his or her income tax and benefits return. For more information, see page 34.

To determine how much income tax to deduct from bonuses or retroactive pay increases, take the total remuneration for the year (including the bonus or increase) and subtract the following amounts:

- a deduction for living in a prescribed zone;
- an amount that a tax services office has authorized;
- registered pension plan (RPP) contributions;
- union dues;
- employee's contributions to a retirement compensation arrangement (RCA) or certain pension plans;
- contributions to a registered retirement savings plan (RRSP) provided you have reasonable grounds to believe the contribution can be deducted by the employee for the year.

After subtracting these amounts, if the total remuneration for the year (including the bonus or increase) is **\$5,000 or less**, deduct 15% tax (10% in Quebec) from the bonus or retroactive pay increase.

After subtracting the above amounts, if the total remuneration for the year (including the bonus or increase) is **more than \$5,000**, the amount you deduct depends on whether the bonus is paid once a year or more than once a year. Examples 1 and 2 show you how to manually calculate the amount to deduct in the case of a bonus. Example 3 shows you how to manually calculate this amount in the case of a retroactive pay increase.

#### Example 1 – First or once-a-year bonus payment

Donna earns a salary of \$400 per week. In September, you gave her a bonus of \$300. Her province of employment is British Columbia. The claim code that applies to her TD1 and TD1BC forms is “1.”

**Step 1:** Divide the bonus by the number of pay periods in the year ( $\$300 \div 52 = \$5.77$ ).

**Step 2:** Add the \$5.77 to the current pay rate of \$400. As a result, the adjusted pay rate for the year is \$405.77 per week.

**Step 3:** In the T4032, *Payroll Deductions Tables*, go to Section D, “Federal tax deductions,” and Section E, “Provincial tax deductions.” Choose the weekly (52 pay periods a year) table to find the increased weekly tax you should deduct on the additional \$5.77 per week.

#### Calculate as follows:

- Find the federal and provincial tax that you deduct on \$405.77 per week.
- Subtract the federal and provincial tax that you deduct on \$400 per week.

The result is the tax you have to deduct on the additional \$5.77 per week.

**Step 4:** Multiply the additional tax that you deduct per week by 52 (the number of pay periods in the year). This gives you the amount of income tax to deduct from the bonus of \$300.

#### Example 2 – More than one bonus payment a year

Mario earns a salary of \$400 per week (**amount 1**). You paid him bonuses of \$300 in January and \$780 in February. His province of employment is Alberta. The claim code that applies to his TD1 and TD1AB forms is “1.”

The calculation must take into account **all** bonuses you paid during the year. You have to calculate the amount of tax to deduct for the entire year, regardless of when you paid the bonus.

**Step 1:** Divide the bonus that you paid in January by the number of pay periods in the year ( $\$300 \div 52 = \$5.77$ ) (**amount 2**). Add the \$5.77 to the weekly salary of \$400 to determine the adjusted weekly pay before the February bonus ( $\$400 + \$5.77 = \$405.77$ ).

**Step 2:** Divide the **last** bonus that you paid to Mario by the number of pay periods in the year ( $\$780 \div 52 = \$15$ )

(**amount 3**). Add amounts 1, 2, and 3 to determine the adjusted weekly pay for the year of \$420.77 ( $\$400 + \$5.77 + \$15$ ).

**Step 3:** In the T4032 *Payroll Deductions Tables* go to Section D “Federal tax deductions” and Section E “Provincial tax deductions.” Choose the weekly (52 pay periods a year) table to find the increased weekly tax that you should deduct on the additional \$15 per week.

#### Calculate as follows:

- Find the federal and provincial tax that you deduct on \$420.77 per week.
- Subtract the federal and provincial tax that you deduct on \$405.77 per week.

The result is the tax you have to deduct on the additional \$15.

**Step 4:** Multiply the additional tax per week by 52 to determine the amount to deduct on the bonus of \$780.

To calculate tax on additional bonuses, **repeat steps 1 to 4**.

#### Example 3 – Retroactive pay increase

Irene’s pay increased from \$440 to \$460 per week. The increase was retroactive to 12 weeks, which gives her a total retroactive payment of \$240 ( $12 \times \$20$ ). Her province of employment is Nova Scotia. The claim code that applies to her TD1 and TD1NS forms is “6.”

**Step 1:** In the T4032, *Payroll Deductions Tables*, go to Section D, “Federal tax deductions,” and Section E, “Provincial tax deductions.” Choose the weekly (52 pay periods a year) table to find the increase in the weekly tax that you should deduct because of the increased pay rate.

#### Calculate as follows:

- Find the federal and provincial tax that you deduct on \$460 per week.
- Subtract the federal and provincial tax that you deduct on \$440 per week.

The result is the tax you have to deduct on the additional \$20 per week.

**Step 2:** Multiply the increase in the weekly tax that you deduct by the number of weeks to which the retroactive pay increase applies. This amount is the tax that you must deduct from the retroactive payment.

## Death of an employee

Salary, wages, accumulated vacation pay, taxable benefits, and other amounts owed to an employee by his or her employer, for work performed up to the date of the employee’s death, is employment income in the year in which the amount is paid. This includes any retroactive pay adjustments, when a collective agreement or other authorizing instrument was signed **before** the date of death.

A payment made to a deceased employee to recognize the employee's service to the company may qualify as a death benefit. For more information, see archived Interpretation Bulletin IT-508, *Death Benefits*. For information about payroll deductions and reporting a death, see Guide RC4157, *Deducting Income Tax on Pension and Other Income, and Filing the T4A Slip and Summary*.

### CPP contributions

Deduct Canada Pension Plan (CPP) contributions up to and including the last pay in the month in which the employee died. Also, deduct CPP contributions from monies earned before the death of an employee and not yet paid at the time of death. When prorating the maximum CPP contributions for the year, use the number of months up to and including the month of death.

In some cases, the requirements are different for Quebec Pension Plan (QPP) contributions. For information, see Guide TP-1015.G-V, *Guide for Employers: Source Deductions and Contributions*, which you can get from Revenu Québec.

Do **not** deduct CPP contributions from payments you make after an employee died, except for amounts the employee earned and was owed before the date of death.

### EI premiums

Do **not** deduct employment insurance (EI) premiums from monies earned before the death of an employee (such as salary, banked overtime, a bonus, or vacation pay) and not yet paid at the time of death.

### Income tax

Deduct income tax from the following amounts:

- salary and wages, accumulated vacation pay, taxable benefits, and any other amounts that were earned by and owed to the employee up to the date of death even if they are paid in the year after death; and
- payments for retroactive adjustments to employment income when a collective agreement or other authorizing instrument has been signed **before** the date of death.

Do **not** deduct income tax from the following amounts:

- salary, wages, or other pay accumulated after the date of death; and
- payments for retroactive adjustments to employment income when a collective agreement or other authorizing instrument has been signed **after** the date of death.

Employment income and retroactive pay adjustments that you pay to a deceased employee, or to the employee's estate, have to be reported on a T4 slip in the year in which the amounts are paid even if they were earned by or owed to the employee in a different tax year.

Although the deceased employee, or his or her estate, may not have to include retroactive payments made because of a collective agreement or authorizing instrument that was signed **after** the employee's death, you still have to report these payments on the deceased employee's T4 slip.

#### Note

A retroactive adjustment may **not** have to be included on the deceased employee's final income tax and benefit

return if the collective agreement or authorizing instrument was signed **after** the employee's death. For more information, see Guide T4011, *Preparing Returns for Deceased Persons*.

## Director's fees

### Employment income

Director's fees paid to a corporate director are employment income, whether they are paid to a non-resident for services rendered in Canada or to a Canadian resident. Report director's fees on a T4 slip.

### You only pay director's fees

#### CPP contributions

You have to deduct CPP contributions from payments issued to board or committee members (directors) of a corporation employed in Canada. This applies to resident and non-resident directors.

For non-resident directors, deduct CPP only if the meetings or duties are performed wholly in Canada. Do **not** deduct CPP contributions from a corporate director if the employment duties are performed wholly or partly outside Canada.

Whether CPP contributions are required when there is an employment relationship between a director and a corporation will be based on the director's employment status. If in doubt, you can ask for a ruling. For more information, see "Are you an employer?" on page 6.

To determine the CPP contributions to deduct on director's fees, prorate the basic CPP exemption over the number of times you pay the fees during the year.

#### Example

Alan is a director of your corporation. He is resident in Canada. He does not receive remuneration as an employee. You pay him a director's fee of \$4,050 every three months. Calculate the contribution in the following way:

- Prorate the basic yearly CPP exemption to get the quarterly amount:  $\$3,500 \div 4 = \$875$ .
- The amount from which you deduct contributions is \$3,175 ( $\$4,050 - \$875$ ).
- The amount of CPP contributions you remit is:

Director's contribution ( $\$3,175 \times 4.95\%$ ) .....	\$157.16
Employer's contribution.....	<u>\$157.16</u>
<b>Total</b> .....	<u><b>\$314.32</b></u>

### EI premiums

Do **not** deduct EI premiums from payments to board or committee members (directors) of a corporation who are resident or non-resident of Canada.

Whether EI premiums are required when there is an employment relationship between a director and a corporation will be based on the director's employment status. If in doubt, you can ask for a ruling. For more information, see "Are you an employer?" on page 6.



## Note

To find out if EI premiums have to be deducted from director's fees paid to administrators of government entities, go to [www.cra.gc.ca/cppeexplained](http://www.cra.gc.ca/cppeexplained) and choose "Tenure of office."

## Income tax

A non-resident director is not considered to be employed in Canada if he or she does not attend any meeting or perform any other functions in Canada. Director's fees paid to a non-resident director for attending a meeting from outside Canada through electronic means, such as a teleconference, are not taxable in Canada.

If the services rendered are only partly performed in Canada, the employer is responsible for apportioning that part of the annual fee paid to the non-resident director to the services performed in Canada. For example, if you held 10 meetings during the year and the non-resident director attended five meetings in Canada, you would deduct income tax at source on one half of the flat annual amount paid to the non-resident director.

If you only pay director's fees and you estimate that the total of these fees will not be more than the amount claimed on Form TD1 (or the basic personal amount if a person does not file Form TD1), do **not** deduct income tax.

If you estimate that director's fees will be more than the amount claimed on Form TD1, you have to deduct income tax. A non-resident director may not have claimed any amount on Form TD1. For more information, see the back of Form TD1.

## Calculation

To calculate the amount to deduct, use the monthly federal tax deductions and the monthly provincial tax deductions tables in Sections D and E of the *Payroll Deductions Tables* (T4032) and calculate as follows:

- Divide the fees by the number of months that have passed since the last payment or since the first day of the year, whichever is later.
- Using the claim amount from Form TD1 and the amount determined above, find the monthly deduction and multiply it by the number of months that have passed since the last payment or since the first day of the year, whichever is later.
- If CPP contributions and/or EI premiums do not have to be deducted from the director's fees, add an extra amount to the income tax deduction calculated above. See, "Deducting tax from income not subject to CPP contributions or EI premiums" in Section A of Guide T4032.

The result is the income tax to deduct from the director's fees.

## You pay director's fees as well as a salary

### CPP contributions

If you pay both a salary **and** director's fees, add the fees to the salary for that pay period to calculate the amount of tax to deduct.

Whether CPP contributions are required on the salary portion will be based on the employment status of the director. If you are still in doubt after analyzing the facts relating to the director's employment, you can ask for a ruling. For more information, see "Are you an employer?" on page 6.

## EI premiums

If you pay both a salary **and** director's fees to a resident or non-resident director, only deduct EI premiums from the salary portion.

Whether EI premiums are required on the salary portion will be based on the employment status of the director. If you are still in doubt after analyzing the facts relating to the director's employment, you can ask for a ruling. For more information, see "Are you an employer?" on page 6.

## Note

To find out if EI premiums have to be deducted from director's fees paid to administrators of government entities, go to [www.cra.gc.ca/cppeexplained](http://www.cra.gc.ca/cppeexplained) and choose "Tenure of office."

## Income tax

Use the calculation in "Bonuses, retroactive pay increases, or irregular amounts" to determine the amount of tax to withhold for the director's fees.

## Application for a waiver of tax withholding

A non-resident director of a corporation requesting a reduction of the tax withholding on employment income based on a tax treaty can send a letter or a waiver application with supporting documents to the applicable tax services office. For more information on which tax services office to send the application, go to [www.cra.gc.ca/tx/nrsdnts/cmmn/rndr/menu-eng.html](http://www.cra.gc.ca/tx/nrsdnts/cmmn/rndr/menu-eng.html).

## Director's fees paid to a corporation or partnership

Where an individual is acting on behalf of or representing a corporation as a director **and** the fees relating to these services are paid directly, or are turned over by the individual to the corporation, those fees are considered to be income of the corporation **and not** of the individual. This is also the case if an individual is acting on behalf of or representing a partnership.

## Note

If the fees are directly or indirectly given back to the individual for his or her personal benefit, the fees have to be included in that individual's income as employment income. In such a case, follow the instructions under "Employment income" on page 32.

## Resident corporation or partnership

You do not have to deduct CPP, EI, or income tax on the fees you pay a **resident** corporation or partnership.

## Non-resident corporation or partnership

You have to deduct 15% tax on the fees you pay a **non-resident** corporation or partnership. Report these payments on a T4A-NR slip.

If the corporation or partnership can show the tax withholding is more than their potential tax liability in Canada, either due to treaty protection or income and expenses, they can send a letter or waiver application with supporting documents to the applicable tax services office. For more information on which tax services office to send the application, go to [www.cra.gc.ca/tx/nrdsnts/cmmn/rndr/menu-eng.html](http://www.cra.gc.ca/tx/nrdsnts/cmmn/rndr/menu-eng.html).

For more information, see the following:

- RC4445, T4A-NR – *Payments to Non-Residents for Services Provided in Canada*; and
- the current version of Information Circular IC75-6, *Required Withholding from Amounts Paid to Non-Residents Providing Services in Canada*.

## Employees profit sharing plan

An employees profit sharing plan (EPSP) is an arrangement that allows an employer to share profits with all or a designated group of employees. Under an EPSP, amounts are paid to a trustee to be held and invested for the benefit of the employees who are beneficiaries of the plan.

Each year, the trustee is required to allocate to such beneficiaries all employer contributions, profits from trust property, capital gains and losses, and certain amounts in respect of forfeitures.

Report payments from EPSPs on a T4PS slip instead of a T4 slip. You must show on the T4PS slip if the employee is a specified employee: one who is dealing with the employer in a non-arm's length relationship, or who has a significant equity interest (10% or more of any class of shares) in their employer or a company related to their employer. If the amount paid to the specified employee is more than 20% of that employee's total income for the year from employment with the employer, a tax will apply to the exceeding amount.

For more information, go to [www.cra.gc.ca/tx/bsnss/tpcs/pyrll/clctng/spcl/shrng-eng.html](http://www.cra.gc.ca/tx/bsnss/tpcs/pyrll/clctng/spcl/shrng-eng.html).

## Overtime pay

### CPP contributions, EI premiums, and income tax

You have to deduct CPP contributions, EI premiums, and income tax from overtime pay. When the overtime pay is paid in the same pay period that it is earned in, add the overtime pay to the employee's regular pay and make the deductions from the total amount in the usual way. When the overtime pay is paid in a later pay period, treat the overtime pay as a bonus and make the deductions using the method outlined in the section called "Bonuses, retroactive pay increases, or irregular amounts" on page 30.

## Qualifying retroactive lump-sum payments

Certain retroactive lump-sum payments totalling \$3,000 or more (not including interest) are eligible for a special tax calculation when an individual files his or her income tax and benefit return, regardless of the amount of tax you withhold from the payment.

To qualify for a special tax calculation, the payments described on Form T1198, *Statement of Qualifying Retroactive Lump-Sum Payment*, must have been paid to an individual for one or more preceding years throughout which the individual was a resident of Canada. The payments must have been paid after 1994 and relate to years 1978 and later.

Eligible sources of income are:

- income from an office or employment received under the terms of an order or judgment of a competent tribunal, an arbitration award, or an agreement to terminate a legal proceeding (including amounts received as damages).
- wage-loss replacement benefits.

### Notes

An amount paid under normal collective bargaining, such as negotiated back pay, is not a qualifying amount.

A different tax treatment may apply if the employee is deceased. In such a situation, call **1-800-959-5525**.

The payer has to fill out Form T1198 or provide the following information in writing to the employee:

- The year in which the lump-sum payment was made to the employee.
- A complete description of the lump-sum payment and the circumstances that required it to be paid.
- The total amount of the lump-sum payment, including a breakdown between the principal and the interest element, if any, of the payment.
- The principal amount of the lump-sum payment that relates to the current year and each of the preceding years covered by the payment.

The employee has to send Form T1198 to his or her tax services office and request the special tax calculation be applied to his or her income tax and benefit return.

### CPP contributions, EI premiums, and income tax

Deduct CPP, EI, and income tax from lump-sum payments that are income from an office or employment. Calculate these deductions using the instructions under the heading "Bonuses, retroactive pay increases, or irregular amounts" on page 30.

## Retirement compensation arrangements

A retirement compensation arrangement (RCA) is a plan or arrangement between an employer and an employee under which:

- the employer or employee makes contributions to a custodian of the RCA trust; and
- the custodian may be required to make distributions to the employee or another person on, after, or in view of the employee's retirement, the loss of an office or employment, or any substantial change in the services the employee provides.

## Withholding and remitting

If you are an employer and you set up a retirement compensation arrangement, you have to deduct a 50% refundable tax on any contributions you make to a custodian of the arrangement and remit the amount of refundable tax you collect to the Receiver General on or before the 15th day of the month following the month during which it was withheld.

Before you make any contributions to the custodian, you have to file Form T733, *Application for a Retirement Compensation Arrangement (RCA) Account Number*, to apply for account numbers for both the employer and the custodian of the RCA.

The custodian has to deduct income tax from any distributions (periodic or lump-sum payments) made out of the RCA and remit the amount of income tax collected to the Receiver General.

Before the custodian makes any distributions out of the RCA, he or she has to file Form T735, *Application for a Remittance Number for Tax Withheld from a Retirement Compensation Arrangement (RCA)*, to apply for a remittance account number.

To report the distributions, the custodian has to file a T4A-RCA Summary and the related T4A-RCA slips. The custodian has to send them to the RCA Unit, Winnipeg Tax Centre on or before the last day of February of the year following the calendar year that the information return applies to.

For more information on this type of plan or arrangement, your responsibilities, and the forms you have to file, see Guide T4041, *Retirement Compensation Arrangements Guide* or contact the RCA Unit at the Winnipeg Tax Centre.

## Retiring allowances

Retiring allowances are reported on the T4 slip. For more information, see “Chapter 6 – Special situations” in Guide RC4120, *Employers’ Guide – Filing the T4 Slip and Summary*.

A retiring allowance (also called severance pay) is an amount paid to officers or employees when or after they retire from an office or employment in recognition of long service or for the loss of office or employment.

A retiring allowance **includes**:

- payments for unused sick-leave credits on termination; and
- amounts individuals receive when their office or employment is terminated, even if the amount is for damages (wrongful dismissal when the employee does not return to work).

A retiring allowance **does not include**:

- salary, wages, bonuses, overtime, and legal fees;
- a superannuation or pension benefit;
- an amount an individual receives as a result of an employee’s death (these payments may be treated as death benefits). For more information, see archived Interpretation Bulletin IT-508, *Death Benefits*;

- a benefit derived from certain counselling services;
- payments for accumulated vacation leave not taken before retirement;
- wages in lieu of termination notice (see page 38); and
- damages for violations or alleged violations of an employee’s applicable human rights awarded under the human rights legislation, to the extent these amounts are not taxable. For more information, see archived Interpretation Bulletin IT-337R4 – CONSOLID, *Retiring Allowances*.

If you pay a retiring allowance to a **resident** of Canada, deduct income tax from any part you pay directly to the recipient using the lump-sum withholding rates.

### Note

Retiring allowances must be taxed even if a recipient’s total earnings received or receivable during the calendar year, including the lump-sum payment, are less than the total amount claimed on his or her Form TD1, *Personal Tax Credits Return*.

Combine all retiring allowance payments that you have paid or expect to pay in the calendar year when determining the rate to use from the next section.

### Income tax

Use the following lump-sum withholding rates to deduct income tax:

- 10% (5% for Quebec) on amounts up to and including \$5,000;
- 20% (10% for Quebec) on amounts over \$5,000 up to and including \$15,000; and
- 30% (15% for Quebec) on amounts over \$15,000.

### Note

The above rates are a blend of federal and provincial. The Quebec rates shown are only federal. For more information on Quebec’s rates, see Guide TP-1015.G-V, *Guide for Employers: Source Deductions and Contributions*.

Recipients may have to pay extra tax on these amounts when they file their income tax and benefit returns. To avoid this situation, if a recipient requests it, you can:

- calculate the annual tax to deduct from the recipient’s yearly remuneration, **including** the lump-sum payment. For more information, see the “Step-by-step-calculation of tax deductions” section in Guide T4032, *Payroll Deductions Tables* of your province or territory;
- calculate the annual tax to deduct from the recipient’s yearly remuneration, **not including** the lump-sum payment; and
- **subtract** the second amount from the first amount.

The result is the amount you deduct from the lump-sum payment if the recipient requests it.

If you pay a retiring allowance to a **non-resident** of Canada, withhold 25% of the retiring allowance (the withholding rate may vary depending on the applicable tax convention or agreement). Send this amount to the Receiver General on the non-resident’s behalf. For more

information, see Guide T4061, NR4 – Non-Resident Tax Withholding, Remitting, and Reporting.

### CPP contributions and EI premiums

Do not deduct CPP contributions or EI premiums from retiring allowances.

### Transfer of a retiring allowance

Individuals with years of service before 1996 may be able to **directly transfer** all or part of a retiring allowance to a registered pension plan (RPP) or a registered retirement savings plan (RRSP). This part is commonly referred to as the **eligible portion** or the **amount eligible for transfer**. A retiring allowance may include an eligible portion and a non-eligible portion.

A retiring allowance may be paid over one or more years. The amounts paid in any particular year may be transferred to an RRSP or an RPP. The amounts transferred cannot exceed the employee's eligible portion of the retiring allowance minus the eligible portion you transferred in a prior year.

For example, if an employee receives \$60,000 payable in instalments of \$10,000 over 6 years and has an eligible amount of \$40,000, the employee can choose how they want the eligible and non-eligible portions applied to the instalment payments in each year.

The amount that is eligible for transfer under paragraph 60(j.1) of the *Income Tax Act* (the Act) is limited to:

- \$2,000 for each year or part of a year before 1996 that the employee or former employee worked for you (or a person related to you); **plus**
- \$1,500 for each year or part of a year before 1989 of that employment in which none of your contributions to the RPP or deferred profit sharing plan (DPSP) were vested in the employee's name when you paid the retiring allowance. To determine the equivalent number of years of vesting, refer to the terms of the particular plan. The number can be a fraction.

A rollover of a retiring allowance under subsection 60(j.1) of the *Income Tax Act* involves amounts an employee receives for services rendered before 1996. The amount the employee can rollover, tax free, cannot be more than the amount shown on their T4 slip in code 66 "Eligible retiring allowance." Only the eligible portion of a retiring allowance can be contributed to an RRSP if the contributor is also the annuitant. In this case, the rollover is completed regardless of the RRSP room available to the person receiving the retiring allowance.

#### Note

If you transfer the amount to an RPP, you may have to report a pension adjustment. For more information, contact your plan administrator.

For example, Samuel will receive a retiring allowance of \$5,000 that is eligible for rollover to his RRSP. His employer will report \$5,000 on his T4 slip in code 66. Although Samuel's available RRSP contribution room is \$2,000, he can rollover the full \$5,000 into his RRSP tax free.

Your employee may also ask you to transfer some or all of the **non-eligible** portion of the retiring allowance to his or her RRSP, or to a spousal or common-law partner's RRSP. The part that you transfer cannot be more than the employee's available RRSP deduction limit for the year.

You do not have to deduct income tax on the amount of the eligible retiring allowance that is transferred directly to an employee's RRSP or to an RPP on behalf of the employee. You also do not have to deduct income tax on any part of the retiring allowance that your employee transfers to a spousal or common-law partner's RRSP if you have reasonable grounds to believe your employee can deduct the RRSP contribution when filing his or her income tax and benefit return. For more information, see "RRSP contributions you withhold from remuneration" on page 29.

#### Example 1

In November 2015, you pay Bruno, your ex-employee, a retiring allowance of \$50,000. He worked for you from 1986 to 2015 (29 years, including part-years of service). According to the terms of the pension plan, his contributions are not vested in the pension plan. Therefore, you can only reimburse his contributions to the plan.

Calculate the amount of retiring allowance eligible for transfer as follows:

■ \$2,000 × 10 years (from 1986 to 1995, including part-years) .....	\$20,000
<b>plus</b>	
■ \$1,500 × 3 years (from 1986 to 1988, including part-years) .....	\$ 4,500
Total eligible for transfer .....	<u>\$24,500</u>

#### Note

You can no longer transfer \$2,000 per year of service to an RPP or RRSP for 1996 and later years.

Bruno is allowed to transfer \$24,500 directly into an RPP or RRSP with no tax deductions required.

The difference of the non-eligible amount of \$25,500 (\$50,000 – \$24,500) between the allowance paid and the maximum eligible for transfer could be transferred directly to Bruno's RRSP without tax deductions if he gives you a written statement saying that the amount is within his RRSP deduction limit.

#### Example 2

Colette is retiring. She is paid a retiring allowance of \$35,000 in recognition of long service, of which \$12,000 is **eligible** for transfer to her RRSP under paragraph 60(j.1) of the *Income Tax Act*. Colette wants you to transfer the total amount of the eligible retiring allowance (\$12,000) to her RRSP. She also requests that you transfer an additional \$11,000 to her RRSP and gives you a written statement indicating that her RRSP deduction limit is \$11,000.

You have to calculate the amount of remuneration that requires tax deductions at source as follows:

Retiring allowance..... \$35,000

**Minus:**

- eligible amount of retiring allowance for transfer to an RRSP..... \$12,000
- transfer to the RRSP based on Colette's deduction limit: non-eligible amount of retiring allowance for transfer to an RRSP \$11,000..... \$23,000

Remuneration that requires tax deductions at source ..... \$12,000

You do **not** need a letter of authority from the CRA to reduce the tax withheld from the amounts of the payment that were transferred to Colette's RRSP because she gave you a written statement.

For more information about what qualifies as a retiring allowance, the codes to use to report them on a T4 slip and what you should do if you pay it to a non-resident of Canada, see the following publications:

- Archived Interpretation Bulletin IT-337R4 – CONSOLID, *Retiring Allowances*;
- Guide RC4120, *Employers' Guide – Filing the T4 Slip and Summary*;
- Guide T4061, *NR4 – Non-Resident Tax Withholding, Remitting, and Reporting*;
- Booklet T4145, *Electing Under Section 217 of the Income Tax Act*.

## Salary deferrals

A salary deferral is a plan or arrangement made between an employee and an employer. Under such an arrangement, an employee postpones receiving salary and wages to a later year. The amount postponed is called the "deferred amount."

## Non-prescribed plans or arrangements

If the arrangement is not a prescribed plan (see the following section), treat the deferred salary and wages as employment income in the year in which the employee **earns** the amount. Report it on the employee's T4 slip for the year earned. Deduct CPP contributions, EI premiums and income tax in the usual way.

## Prescribed plans or arrangements

Salary and wages that are deferred under prescribed plans or arrangements are not covered by the preceding salary-deferral rules. Treat the deferred amounts in these cases as employment income in the year in which the employee **receives** them. Report it on the employee's T4 slip for the year it is received.

To find out how to report pension adjustments under these circumstances, see Guide T4084, *Pension Adjustment Guide*.

If you have employees who participate in a prescribed plan, deduct CPP contributions, EI premiums, and income tax as noted below.

**Note**

You have to deduct both CPP and EI from the interest income earned under these plans or arrangements.

## CPP contributions

Deduct CPP contributions from:

- the participant's **net** salary (the salary minus the deferred amounts) while the person is working; **and**
- the deferred amounts when you pay them to the participant during the leave period.

## EI premiums

■ **Deduct** EI premiums from the participant's **gross** salary (including deferred amounts) while the person is working. Do not deduct more than the yearly maximum.

■ **Do not deduct** EI premiums when you pay these to the participant during the leave period.

## ■ Box 24 – EI insurable earnings

Enter the amount of insurable earnings on which you calculated the employee's EI premiums.

The EI premium for this income is based on the gross amount, while the amount reported in box 14 is the net amount. The insurable earnings cannot be the same as the amount in box 14.

## Income tax

Deduct income tax from the following amounts:

- the participant's **net** salary (the salary minus the deferred amounts) while the person is working; **and**
- the deferred amounts when you pay them to the participant during the leave period.

The interest income and other amounts earned by the deferred amount are employment income paid to the participant and must be reported in box 14 on the T4 slip.

## Withdrawal from the prescribed plan

When a participant withdraws from the plan because he or she ceases to be employed, you have to consider the withdrawal as employment income. Deduct CPP contributions and income tax, but not EI premiums.

**Note**

Custodians and trustees who administer prescribed plans have the same responsibilities as an employer for deducting, remitting, and reporting deductions.

## Vacation pay and public holidays

When you pay vacation pay, how you calculate deductions will depend on whether your employee takes holidays. When part of the pay period includes a public holiday (such as Christmas day) calculate deductions as you normally would.

## The employee takes holidays

The following procedures apply when you pay vacation pay and your employee takes holidays.

### Note

If your employee takes holidays but does not receive vacation pay at that time, see the next section, "The employee does not take holidays."

### CPP contributions

Deduct CPP contributions from vacation pay in the same way as you would from regular pay. Do not change the pay period table you normally use. Do not deduct more than the maximum employee contribution for the year.

### EI premiums

Deduct EI premiums from vacation pay in the same way you would from regular pay. Do not deduct more than the maximum employee premium for the year.

### Income tax

When you calculate the amount of income tax to deduct, use the tax table that applies to the period of vacation. For example, for one week of paid vacation, use the weekly tax deduction table. If your payroll is biweekly and the employee is paid one week of vacation pay and one week of regular pay, use the biweekly tables. If the employee is paid one week of vacation pay and the second week is unpaid, also use the biweekly tables.

## The employee does not take holidays

The following procedures apply when you pay vacation pay and your employee does **not** take holidays.

### CPP contributions

To deduct CPP contributions, use the bonus method we explained earlier in this chapter under the heading "Bonuses, retroactive pay increases, or irregular amounts" on page 30. Do not deduct more than the maximum employee contribution for the year.

### EI premiums

Deduct EI premiums from vacation pay the same way you would as from regular pay. Do not deduct more than the maximum employee premium for the year.

### Income tax

Use the bonus method we explained in "Bonuses, retroactive pay increases, or irregular amounts" on page 30.

## Vacation pay trust

Include in the employee's income any contributions you make to a trust for vacation credits that an employee earns in the year. Deduct CPP/QPP contributions, EI/QPIP premiums, and income tax from this amount as if you had paid the amount directly to the employee.

## Wages in lieu of termination notice

When you pay an employee an amount in lieu of termination notice under the terms of an employment contract or federal, provincial or territorial employment

labour standards, the amount is considered employment income, whether or not it is paid on termination of the employment.

Deduct CPP contributions, EI premiums, and income tax. To determine the amounts to deduct, include the wages in lieu of termination notice with the regular income, if any, for the pay period.

Use the bonus method that we explained on page 30 under "Bonuses, retroactive pay increases, or irregular amounts" to determine the amount of tax to deduct from the wages in lieu of termination notice.

For more information, see archived Interpretation Bulletin IT-365, *Damages, Settlements and Similar Receipts*.

## Wage-loss replacement plans

A wage-loss replacement plan (WLRP) is an arrangement between an employer and employees, or an employer and a group or association of employees. A WLRP may provide short-term disability (STD), long-term disability (LTD) or weekly indemnity (WI) benefits. The benefits may be paid by the employer, or by an insurance company, trustee, board of trustees or other independent organization.

A plan is a wage-loss replacement plan when **all** of the following conditions are met:

- It is a group plan, in that it covers more than one employee.
- The plan is funded, in whole, or in part, by the employer.
- The purpose of the plan is to indemnify employees against a loss of employment income as a result of sickness, accident or maternity.
- Benefits are paid on a periodic basis, not as a lump-sum.
- It follows insurance principles, that is funds are accumulated, normally in the hands of a trustee or in a trust account, and are calculated to be sufficient to meet anticipated claims.

If the plan is not a group plan (that is it is for a single employee), or if the plan is funded entirely by employee contributions (an employee-pay-all plan), it is not a WLRP. Any premiums you pay **may** be a taxable benefit. For more information, see the following:

- Guide T4130, *Employers' Guide – Taxable Benefits and Allowances*;
- the archived Interpretation Bulletin IT-428, *Wage-loss Replacement Plans*; or
- go to [www.cra.gc.ca/tx/bsnss/tpcs/pyrll/bnfts/hlth/wg-eng.html](http://www.cra.gc.ca/tx/bsnss/tpcs/pyrll/bnfts/hlth/wg-eng.html).

### CPP contributions and EI premiums

Deduct CPP contributions and EI premiums from wage-loss replacement plan benefit payments when:

- the employer pays benefits directly to an employee from a wage-loss replacement plan where the employer funds any part of the plan; or

- a trustee, board of trustees or an insurance company pays benefits on behalf of the employer to an employee through a wage-loss replacement plan, when the employer:
  - funds any part of the plan; **and**
  - exercises a degree of control over the plan; **and**
  - directly or indirectly determines the eligibility for benefits.

Do not deduct CPP contributions and EI premiums from wage-loss replacement plan benefit payments when the employer:

- does not exercise a degree of control over the plan; **or**
- does not directly or indirectly determine the eligibility for benefits.

#### Note

For more information, including an explanation of what is meant by “funds any part of the plan,” “exercises a degree of control over the plan” and “directly or indirectly determines the eligibility for benefits,” go to [www.cra.gc.ca/cppeexplained](http://www.cra.gc.ca/cppeexplained) and choose “Wage-loss replacement plans.”

### Income tax and reporting

You have to withhold income tax from all wage-loss replacement plan benefits. If you also have to deduct CPP and EI, report the income and deductions on a T4 slip. If you do not have to deduct CPP and EI, report the income and deductions on a T4A slip.

### Workers’ compensation claims

When an employee cannot work because of an employment-related injury, a workers’ compensation board (WCB) may award benefits as compensation for lost wages. An employer may continue to pay an employee their regular wages or an advance or loan, before or after a claim is adjudicated. There are two withholding and reporting policies for these types of payments. The one you choose will depend on the wording in the employee’s collective agreement or employment contract and how you manage the payments you make to your employee.

The two policies are:

- regular salary paid to an employee; and
- advances or loans paid to an employee.

Both policies apply to:

- **self-insured employers** who are directly liable for the cost of amounts that the workers’ compensation board awards to employees; and
- **regular employers** who are not directly liable for the cost of amounts that the workers’ compensation board awards to employees.

### Approved claims

#### Regular salary paid to an employee

An employer may continue to pay an injured employee who is on a work-related leave of absence. If the employee’s

agreement or contract does not refer to a workers’ compensation board, then the employer should treat the payments as regular salary. The employer would deduct CPP contributions, EI premiums and income tax as applicable. The earnings and deductions would be reported on the employee’s T4 slip at the end of the year in the usual way.

An employer who continues to pay an employee’s regular salary before and after a workers’ compensation board claim is decided **cannot** retroactively reduce earnings in the current year or amend a previous-year T4 slip and call the earnings workers’ compensation benefits. As a result, the employee has to report, in the year it is received, the salary he or she receives before and after a workers’ compensation board claim is decided.

#### Note

An employer cannot recover his or her share of the CPP and EI contributions since he or she cannot change the T4 slips or current-year payroll records.

#### Example

John is injured at work on July 11, 2014. He continues to be paid his regular wages until February 3, 2016, when the workers’ compensation board reimburses the employer the amount of his claim.

#### Results

- All wages paid in 2014, 2015, and 2016, along with the CPP contributions, EI premiums, and income tax withheld, have to be reported on a T4 slip for each of the years. John will report the T4 amounts on his income tax and benefit return for each year.
- In 2016, the year the claim was paid, the employer **cannot** adjust box 14, “Employment income,” on the T4 slip or reduce the CPP contributions, EI premiums, and income tax withheld in 2014, 2015, or 2016.
- When filling out the T4 slip for 2016, the employer will enter code 77 in the “Other information” area at the bottom of the slip, and report the total amount reimbursed to the employer by the workers’ compensation board for the three years.
- When John files his 2016 income tax and benefit return, he will claim the amount reported under code 77 as a deduction for other employment expenses (repayment of salary or wages).
- If there is any unused amount and John does not have other types of income in 2016, this amount may become a **non-capital loss**.

#### Top-up amount

A top-up is an amount you pay your employee after a claim is decided that is **in addition to** the benefits paid by a workers’ compensation board.

Exclude a top-up amount (even if it is paid as sick leave) from insurable earnings if you pay it after the worker’s compensation board accepts the claim. However, you must deduct CPP contributions and income tax from the top-up amount, and you have to report it on a T4 slip at year-end.

An amount you pay in addition to an advance or loan is not a top-up amount if you pay it while waiting for a decision

on a workers' compensation board claim. This amount is considered to be employment income, and you have to deduct CPP contributions, EI premiums, and income tax.

#### **The T4 slip and T5007 slip, Statement of Benefits**

In the year that the workers' compensation claim is paid, the employee receives a T5007 slip from the workers' compensation board. The employee has to report the amount shown on the T5007 slip as income on his or her income tax and benefit return for that year and claim the corresponding deduction.

For the employee to claim the other employment expenses deduction on his or her income tax and benefit return, you have to fill out a T4 slip for the year in which you receive the reimbursement. Enter the amount of the reimbursed workers' compensation in the "Other information" area, under code 77. Code 77 can only be used in situations where the employee previously received salary, it was reported on their T4 slip, and part of the salary has now been reimbursed by the WCB. This will allow the employee to deduct this amount against the previously paid salary.

If the award is used only to offset loans and advances, **do not** report this amount on the employee's T4 slip.

#### **Note**

The amount of reimbursement that a self-insured employer should enter under code 77 will be the amount of approved WCB benefits shown in the letter or statement the employer received from the WCB.

#### **Advances or loans paid to an employee**

An employer may continue to pay an injured employee while the employee is off work. If there is wording in the employee's collective agreement that link the payments to a workers' compensation board decision, then the employer can treat them as an advance or loan. For example, an agreement may say an employee shall be granted injury-on-duty leave with pay for the time approved by the provincial workers' compensation board.

Advances or loans made to an employee that are equivalent to an anticipated workers' compensation award will not be treated as employment income. As a result, you do not have to deduct CPP contributions, EI premiums, or income tax on this amount. It is not reported on a T4 slip at year-end, and code 77 does not apply.

#### **Note**

We do not consider interest that accumulates on advances or loans while waiting for a claim decision to be a taxable benefit.

#### **Example**

Mary is injured on April 2, 2015, and is away from work until June 6, 2016. Her employment contract states that her employer will pay an amount equal to her regular net pay. This amount will be in the form of advances equal to the anticipated benefits that will be awarded by the workers' compensation board and is paid in addition to this advance.

#### **Results**

- The amount of the advance that is equal to the benefits awarded by the workers' compensation board is not

employment income. As a result, Mary's employer will not have to deduct CPP contributions, EI premiums, or income tax from this amount.

- However, the amount Mary's employer pays in addition to the advance, while waiting for a decision, is employment income in the year it is paid and the employer has to deduct CPP contributions, EI premiums, and income tax.
- In 2016, when the claim is paid, Mary's employer has to offset the amount reimbursed by the workers' compensation board against the advances made to her. The employer does this in the following way:
  - If the amounts are equal, no amount will be recorded in the "Other information" area of the T4 slip.
  - If the advances are more than the amount reimbursed, the difference is employment income. Mary's employer has to report this income on a T4 slip with CPP contributions, EI premiums, and income tax withheld. No entry is needed in the "Other information" area.
  - If, after the claim is paid by the workers' compensation board, Mary's employer continues to pay an amount in addition to the workers' compensation benefit, this amount is considered to be a top-up amount and the employer has to deduct CPP contributions and income tax but **no** EI premiums. It will be reported on a T4 slip in the year paid.
  - If the claim is denied, the part of the advance that Mary does not repay becomes employment income in the year the claim is denied. Mary's employer has to report the amount of the advance on a T4 slip with CPP contributions, EI premiums, and income tax withheld. If Mary repays the advance, her employer does not have to report the amount on a T4 slip. The amount of the advance is not reported in the "Other information" area under code 77 of the T4 slip, because it was never included in income.

#### **Adjustment period for new workers' compensation claims**

In many cases, an employer prepares payroll cheques in advance. As a result, it may not always be possible to place an employee on a loan or advance system right after he or she files a claim. If this happens, we allow you a reasonable period (normally one pay period) to adjust the payroll records to an advance or a loan basis.

#### **Denied claims**

##### **Regular salary paid to an employee**

Normally, salary is offset or repaid when a claim is approved by the workers' compensation board. Report the amount reimbursed by WCB under code 77 on the employee's T4 slip. However, if the claim is denied and your employee does not have to repay the salary to you, **do not** enter any amount under code 77. As long as the salary was reported on the employee's T4 slip in the year they received it, there are no more withholding or reporting actions to make.



If, on the other hand, the employee has to repay the employer when the claim is denied, then any repayments should be handled in the way discussed under “Employee did not perform duties” under the section “Salary overpayments” in chapter 6 of Guide RC4120, *Employers’ Guide Filing the T4 Slip and Summary*.

### Advances or loans paid to an employee

Normally, advances or loans are offset or repaid when a claim is paid by the workers’ compensation board. You do not have to report the advances or loans paid to the employee on their T4 slip. However, if the workers’ compensation board denies a claim, and the advance or loan is not repaid in the year the claim is settled, we consider the employee to have received a benefit from employment in the year that the claim is denied. The amount of the loan or advance has to be reported on a T4 slip with CPP contributions, EI premiums, and income tax withheld.

If the claim is refused and you use the employee’s sick leave credits to repay the loan, this amount has to be reported on a T4 slip with CPP contributions, EI premiums, and income tax withheld.

If income tax deductions cause undue hardship to the employee, he or she can contact any tax services office to ask for a letter of authority. The letter will let you deduct less tax.

### Advances by a third party

If an insurance company pays an employee an amount equivalent to his or her regular salary, the insurer will issue a T4A slip. If the payments are later repaid by the workers’ compensation board or by the employee to the insurance company, the insurance company will issue, for the year of the repayment, a receipt or a letter to the employee. This will let the employee claim a deduction for the repayment of this amount on his or her income tax and benefit return.

### Commission de la santé et de la sécurité du travail (CSST)

In Quebec, workers’ compensation benefits are administered by the CSST. Employers in Quebec still have to follow the instructions for the federal requirements. For more information on Quebec’s requirements for the CSST, see Guide TP-1015.G-V, *Guide for Employers: Source Deductions and Contributions*, which you can get from Revenu Québec (see page 6).

## Chapter 7 – Special situations

### Barbers and hairdressers, taxi drivers and drivers of other passenger-carrying vehicles

If these workers **are your employees**, you have to deduct Canada Pension Plan (CPP) contributions, employment insurance (EI) premiums, and income tax as you would for regular employees.

When the workers have an interruption in earnings, you have to fill out a *Record of Employment (ROE)* within five days of the last day worked.

#### Note

A different deadline may apply if you file your ROE electronically.

If these workers **are not your employees**, the following special rules apply and you have to report the gross earnings of barbers and hairdressers, taxi drivers, and drivers of other passenger-carrying vehicles on their T4 slip. For reporting instructions, see Guide RC4120, *Employers’ Guide – Filing the T4 Slip and Summary*.

### Barbers and hairdressers

This class of workers is restricted to barbers or hairdressers who provide their services in an establishment that offers barbering and hairdressing services.

#### CPP contributions and income tax

For CPP and income tax purposes, we consider individuals who are not employed under a contract of service to be self-employed. They are responsible for paying their CPP contributions and income tax when they file their income tax and benefit returns. Do not deduct CPP or income tax from these workers.

#### EI premiums

Under a special EI regulation, the owner, proprietor, or operator of the barbershop or hairdressing business is considered to be the employer of the individuals who perform services as a barber or hairdresser in connection with the establishment, even if the individuals are not employed under a contract of service.

If you own or operate the business, you have to pay both the worker’s share and your share of EI premiums. The worker’s insurable earnings are calculated based on the net revenue. The worker’s insurable earnings are used to determine the worker’s share of EI premiums.

There are two ways to determine the insurable earnings for a week, depending on whether you know the worker’s actual weekly earnings and expenses:

- a) If you **know** how much the worker earned in a pay period and the expenses incurred in generating revenue from the worker’s operation in the establishment, the amount of the individual’s insurable earnings is the total actual earnings (net revenue) from the individual’s employment for the pay period up to the maximum annual insurable earnings.
- b) If you **do not know** how much the worker earned and/or the expenses the worker incurred in generating revenue from his or her operation in the establishment during a pay period, the amount of insurable earnings is the lesser of:
  - the number of days worked in the week multiplied by 1/390 of the maximum of the annual insurable earnings; or
  - 1/78 of the maximum of the annual insurable earnings.

For more information, go to [www.cra.gc.ca/cppeexplained](http://www.cra.gc.ca/cppeexplained) and choose "Barbers and Hairdressers."

## Taxi drivers and drivers of other passenger-carrying vehicles

Drivers who are not employed under a contract of service may be in insurable employment. At the taxi industry's request, a special EI regulation was created to protect taxi and passenger-carrying vehicle drivers who are not employees.

The regulation was created because these workers often go through periods without work. The regulation applies to drivers who:

- do not own more than 50% of the vehicle; and
- do not own or operate a business.

The earnings of these workers are insurable even though they are not employees. We consider the company for which the drivers are providing driving services to be a deemed employer for EI purposes. Drivers who do not satisfy these conditions do not qualify under this regulation, so their employment is **not** insurable.

A driver is considered to be the owner/operator if he or she meets **both** of the following conditions:

- the driver is in a position to gain a profit or risk a loss from operating the taxi business; and
- the driver has the right to operate a taxicab.

## CPP contributions and income tax

For CPP and income tax purposes, we consider individuals who are not employed under a contract of service to be self-employed. They are responsible for paying their CPP contributions and income tax when they file their income tax and benefit returns.

Do not deduct CPP or income tax from these workers.

## EI premiums

If you are the deemed employer, you have to pay both the driver's share and your share of EI premiums. The driver's insurable earnings are calculated based on the net revenue.

There are two ways to determine the insurable earnings for a week, depending on whether or not you know the driver's actual earnings and expenses:

- If you **know** how much the driver earned in a week and the expenses the driver incurred while operating the vehicle, calculate the insurable earnings as the difference between the two amounts up to the maximum annual insurable earnings.
- If you **do not know** how much the driver earned in a week and/or the expenses the driver incurred while operating the vehicle, the amount of insurable earnings is the lesser of:
  - the number of days worked in the week multiplied by 1/390 of the maximum of the annual insurable earnings; or
  - 1/78 of the maximum of the annual insurable earnings.

## Emergency services volunteers

Under the *Income Tax Act*, a government, municipality, or public authority may exclude up to \$1,000 from amounts paid to:

- volunteer firefighters;
- volunteer ambulance technicians; and
- emergency service volunteers who help in the search or rescue of individuals, or in other emergency situations and disasters.

The \$1,000 exemption only applies if the amount paid for the duties that the individual performs is a nominal amount compared with what it would have cost in the same circumstances to have the same duties performed by a regular full-time or part-time individual.

The \$1,000 exemption does not apply if the individual was employed in the year by the **same** public authority for the same or similar duties (such as a full-time firefighter who, from time to time, acts as a volunteer firefighter or rescue worker for his employer).

Report the exempt amount (up to \$1,000) using code 87 in the "Other information" area of the T4 slip. Do **not** report the exempt amount in box 14.

### Note

Individuals who receive a T4 slip with an exempt amount reported under code 87 may also qualify for the volunteer firefighters' tax credit or the search and rescue volunteers' tax credit. When eligible individuals file their income tax and benefit return they can choose to either receive an income exemption or claim a tax credit. For more information, go to [www.cra.gc.ca/firefighter](http://www.cra.gc.ca/firefighter).

## Rules for CPP contributions, EI premiums, and income tax deductions

Amounts received by volunteers are treated differently under the *Canada Pension Plan*, the *Employment Insurance Act*, and the *Income Tax Act*.

### CPP contributions

The EI conditions below also apply for CPP purposes. However, if the individual qualifies for the exemption for income tax purposes, the employer should deduct CPP contributions only on the amount that is more than \$1,000. If the individual does not qualify for the exemption, deduct CPP contributions on the **total** amount paid.

### EI premiums

Even if an individual is considered to be a volunteer for income tax purposes, the amount received (including the amount of the exemption up to the maximum of \$1,000) **is insurable** if the individual meets **all** of the following conditions:

- receives an hourly wage, salary, or other fixed amount of remuneration;
- adheres to a regular work schedule; and
- is available and obligated to intervene when an emergency (such as a fire) occurs during the schedule his or her employer set. However, if the individual must be

available during the fixed work schedule, but he or she is not obligated to intervene when the emergency occurs, the amount the individual receives is not insurable.

For more information on when employment of a person who participates in rescue operations or abating a disaster is pensionable or insurable, go to [www.cra.gc.ca/cppeexplained](http://www.cra.gc.ca/cppeexplained) and choose “Rescue operations and/or abating a disaster.”

### Income tax

If the individual qualifies for the exemption, there is no income tax to pay on the first \$1,000 that he or she receives. Deduct income tax only on the amount that is more than \$1,000. However, if the individual does not qualify for the exemption, deduct income tax on the **total** amount paid.

## Employees of a temporary-help service firm

You may be the proprietor of a temporary-help service firm. Temporary-help service firms are service contractors who provide their employees to clients for assignments. The assignments may be temporary, depending on the clients’ needs.

Workers of these firms are usually employees of the firms. As a result, you have to deduct CPP contributions, EI premiums, and income tax. You also have to remit these amounts and report them on a T4 slip.

If you or a person working for you is not sure of the worker’s employment status, either one of you can request a ruling to determine the status. If you are a business owner, you can use the “Request a CPP/EI ruling” service in My Business Account. For more information, go to [www.cra.gc.ca/mybusinessaccount](http://www.cra.gc.ca/mybusinessaccount). You can also use Form CPT1, *Request for a Ruling as to the Status of a Worker under the Canada Pension Plan and/or the Employment Insurance Act*, and send it to your tax services office. For more information on employment status, see Guide RC4110, *Employee or Self-Employed?*.

## Employing a caregiver, baby-sitter, or domestic worker

If you hire a caregiver, baby-sitter, or domestic worker, you may be considered to be the employer of that person. As an employer, you have responsibilities in the employment relationship between you and the person.

### When are you considered to be an employer?

You are considered to be an employer when you:

- hire a person;
- establish regular working hours (for example, 9 a.m. to 5 p.m.); and
- assign and supervise the tasks performed.

If you or a person working for you is not sure of the worker’s employment status, either one of you can request a ruling to determine the status. If you are a business owner, you can use the “Request a CPP/EI ruling” service in My Business Account. For more information, go to [www.cra.gc.ca/mybusinessaccount](http://www.cra.gc.ca/mybusinessaccount). You can also use

Form CPT1, *Request for a Ruling as to the Status of a Worker under the Canada Pension Plan and/or the Employment Insurance Act*, and send it to your tax services office. For more information on employment status, see Guide RC4110, *Employee or Self-Employed?*.

To find out what your responsibilities are as an employer, see page 7.

## Employment in Canada by certified non-resident employers

New proposed legislation allows qualifying non-resident employers (who are certified by the CRA and who continue to meet certain conditions) an exception to the withholding tax obligation when the non-resident employer pays amounts to non-resident employees for performing the duties of an office or employment in Canada. You will find more information about this legislation and how those employers can ask the CRA to be certified at [www.cra.gc.ca/gncy/bdgt/2015/qa06-eng.html](http://www.cra.gc.ca/gncy/bdgt/2015/qa06-eng.html).

## Employment outside Canada

### CPP contributions

If you are a Canadian employer and you hire someone to work for you outside Canada, you should deduct CPP contributions if:

- the employee usually reports for work at your place of business in Canada; or
- the employee is a Canadian resident and is paid from your place of business in Canada.

If the employment does not meet either of these conditions, the employment outside Canada is not pensionable. Do not deduct CPP from the employee’s remuneration.

You have the option of extending CPP coverage for your employees and deducting contributions from employment outside Canada that is not usually pensionable employment if the conditions on Form CPT8, *Application and Undertaking to Cover Employment Outside Canada under the Canada Pension Plan*, are met. To extend coverage, fill out Form CPT8, and send two copies to your tax services office.

### Note

Do not use Form CPT8 if Canada has a reciprocal social security agreement with the country of employment. A list of countries with which Canada has an agreement is found on page 56.

For more information on when employment outside Canada is pensionable or insurable, go to [www.cra.gc.ca/cppeexplained](http://www.cra.gc.ca/cppeexplained) and choose “Employment outside Canada.”

### EI premiums

You have to deduct EI premiums from employment income an employee earns outside or partly outside Canada if **all** of these conditions apply:

- you, as the employer, reside in Canada or have a place of business in Canada;
- the employee usually resides in Canada;

- the employment is not insurable in the country where the employment is performed; and
- the employment is not excluded from insurable employment for any other reason.

### Income tax

If an employee performs services for you outside Canada, you may have to deduct income tax from that employee's remuneration. The employee may be entitled to a foreign tax credit in Canada for taxes paid in the foreign jurisdiction. If so, request a letter of authority (see page 28). If you are not sure if you should deduct income tax, call **1-800-959-5525**.

#### Note

Special deduction rules apply to employment on ships, trains, trucks, and aircraft. To find out more about these rules, send a written request to the CPP/EI Rulings Division of your tax services office. The addresses of our tax services offices and tax centres are available at [www.cra.gc.ca/tso](http://www.cra.gc.ca/tso). The addresses of our tax centres are also listed at the end of this guide.

### Foreign Affairs, Trade and Development Canada

You may be paying an employee for services under a Foreign Affairs program (formerly with the Canadian International Development Agency). If you are not sure about deducting income tax from that employee's remuneration, call **1-800-959-5525**.

### Fishers and employment insurance

Special rules apply to self-employed fishers. For information, see Guide T4005, *Fishers and Employment Insurance*.

### Indian employees

We recognize that many First Nations people in Canada prefer not to describe themselves as Indians. However, we use the term Indian because it has a legal meaning in the *Indian Act*.

The following information will help you determine which deductions you have to make for Indians.

### Definitions

#### Indian

An Indian is a person who is registered or entitled to be registered as an Indian under the *Indian Act*.

#### Reserve

The term "reserve" is defined under the *Indian Act* and, for the purposes of this guide, includes all settlements given reserve-like treatment for tax purposes under the *Indian Settlements Remission Order*. It also includes any other areas that are treated similarly under federal laws such as Category I-A lands under the *Cree-Naskapi (of Quebec) Act*.

### Indian living on a reserve

This means an Indian who lives on a reserve in a domestic establishment that is his or her principal place of residence and that is the centre of his or her daily routine.

### Employer resident on a reserve

When an employer is resident on a reserve, the reserve is the place where the central management and control over the employer organization is actually located.

#### Note

We usually consider a group that performs the function of board of directors of an organization as exercising the central management and control of an organization. However, it may be that some other person or group manages and controls the organization. Generally, a person or group manages and controls an organization at the principal place of business. However, this activity can occur in a place other than the principal administrative office of the organization. It is a question of fact as to where the central management and control is exercised.

### Guidelines

Following the Supreme Court of Canada decision in the *Glenn Williams v Canada* case, we developed guidelines to help you determine a tax exemption that applies to an Indian's employment income. These guidelines do not reflect a change in tax policy. They deal only with determining a tax exemption under the *Indian Act* following the Supreme Court decision. As a result of the Williams decision, you have to examine all factors connecting income to a reserve to determine if income was earned on a reserve and is tax-exempt.

When you apply all the connecting factors, be aware of unusual or exceptional circumstances such as these:

- the income may not be taxable even though it does not fall within one of the guidelines; or
- the income may be taxable even though it appears to fall within one of the guidelines.

If you have any questions about a particular situation, call **1-800-959-5525**.

Form TD1-IN, *Determination of Exemption of an Indian's Employment Income*, will help you decide what type of exemption might apply to an Indian's employment income according to the *Indian Act Exemption for Employment Income Guidelines*. Keep a completed form on file for each employee in case we ask to review it.

### Taxable salary or wages paid to Indians

#### CPP contributions, EI premiums, and income tax

If you are an employer paying taxable salary or wages to an Indian, you have to deduct CPP contributions, EI premiums, and income tax.

#### Note

If you paid a retiring allowance to an Indian, see "Retiring allowances" on page 35.

## Non-taxable salary or wages paid to Indians

### Canada Pension Plan

The employment of an Indian whose income is exempt from tax is excluded from pensionable employment. Therefore, if you are an employer paying non-taxable salary or wages to an Indian, you do not have to deduct CPP contributions.

### Application for coverage under CPP

Although you do not have to deduct CPP from non-taxable income you pay to an Indian, you can choose to provide your Indian employees with optional CPP coverage. You can elect to do this by filling out and filing Form CPT124, *Application for Coverage of Employment of an Indian in Canada Under the Canada Pension Plan Whose Income is Exempt Under the Income Tax Act*. However, you cannot revoke this election **and** you have to cover all employees.

Coverage under the CPP starts on either the date you sign the application or on a later date that you specify. It cannot be retroactive to a date before the date you signed the application.

For more information, go to [www.cra.gc.ca/cppeexplained](http://www.cra.gc.ca/cppeexplained) and choose "Canada Pension Plan and workers who are Indians."

### Employment insurance

You have to deduct EI premiums from the non-taxable salary or wages you paid to an Indian.

#### Note

EI benefits, retiring allowances, CPP payments, registered pension plan benefits, or wage-loss replacement plan benefits will usually be exempt from income tax when they are received as a result of employment income that was exempt from tax. If a part of the employment income was exempt, then a similar part of these amounts will be exempt.

For more information about the *Indian Act Exemption for Employment Income Guidelines* and the different registration dates, go to [www.cra.gc.ca/brgnls/ndns-eng.html](http://www.cra.gc.ca/brgnls/ndns-eng.html).

## Placement and employment agency workers

The following guidelines apply to placement or employment agencies that hire workers:

- a) An agency that hires employees (even if they are located at a client's premises) has to deduct CPP contributions, EI premiums, and income tax from amounts they pay to these employees. The agency also has to report these amounts on a T4 slip.
- b) When an agency places workers in an employment under the direction and control of a client of the agency and the agency pays the worker, the agency has to deduct CPP contributions and EI premiums, but not income tax. The agency has to prepare a T4 slip for the worker.
- c) When an agency places workers in an employment under the direction and control of a client of the agency and the client of the agency pays the worker, the client

has to deduct CPP contributions and income tax but not EI premiums. The client has to prepare a T4 slip for the worker.

- d) An agency that hires a worker under a contract for services does not have to deduct CPP contributions, EI premiums, or income tax since the worker is self-employed. Neither the agency nor the client is required to file a T4 slip.

The gross earnings of workers described in paragraphs b) and c) **must** be reported on their T4 slip. For reporting instructions, see Guide RC4120, *Employers' Guide – Filing the T4 Slip and Summary*.

For more information on the conditions required for employment of individuals placed by an agency to be pensionable or insurable, go to [www.cra.gc.ca/cppeexplained](http://www.cra.gc.ca/cppeexplained) and choose "Placement/Employment agencies."

## Seasonal agricultural workers program

Seasonal agricultural workers from foreign countries who are in regular and continuous employment in Canada must have CPP, EI, and income tax withheld in the same way as Canadian residents.

For program information, see Guide RC4004, *Seasonal Agricultural Workers Program*.

## Special or extra duty pay for police officers

Police forces regularly allow their police officers to provide security and other special or extra duty services to third parties for events.

We consider a third party that pays special or extra duty pay (SEDP) to police officers to be their employer. The third party has to:

- withhold CPP contributions, EI premiums, and income tax from SEDP when the payment is made to a police officer;
- remit these deductions to us; and
- report the SEDP and deductions on a T4 slip.

However, we administratively allow the individual police forces, who are the regular employers of the police officers in question, the option to assume these responsibilities instead.

#### Note

If the police force does not assume the responsibility for withholding remitting, and reporting, it is the third party's responsibility to do this. In such a situation, the third party may have to put the police officer on payroll as a part-time employee.

Under the administrative option, the police force can take into account the CPP contributions and EI premiums previously deducted from the police officers regular salary and SEDP when determining the maximum CPP pensionable and EI insurable earnings for the year.

To determine how much income tax to deduct, the police force should use the method described under "Bonuses, retroactive pay increases, or irregular amounts" on page 30

or go to [www.cra.gc.ca/payroll](http://www.cra.gc.ca/payroll), choose the letter “B” from the payroll topics and select “Bonuses.”

The police force has to keep proper records in order to accurately deduct amounts from the SEPD and regular salary and report these earnings and deductions on the police officer’s T4 slip.

Police officers may be able to claim allowable expenses against SEDP income. For more information, see the section called “Employee’s allowable employment expenses” in chapter 1 of Guide T4130, *Employers’ Guide Taxable Benefits and Allowances*, or go to [www.cra.gc.ca/payroll](http://www.cra.gc.ca/payroll), choose the letter “E” from the payroll topics, go to “Employee” and then select “Allowable expenses.”

For more information, go to [www.cra.gc.ca/cppeiexplained](http://www.cra.gc.ca/cppeiexplained) and choose “Police forces and extra duty.”

## Chapter 8 – Remitting payroll deductions

### Are you a new remitter?

If you are a new employer or you have never remitted Canada Pension Plan (CPP) contributions, employment insurance (EI) premiums, or income tax deductions before, you must apply for a business number (BN) and register for a payroll program account with us, if you don’t already have one. See Chapter 1 for registration and general information on your responsibilities. If you need help calculating or remitting your deductions, call 1-800-959-5525.

Even if you do not have a payroll program account, you still have to send your remittance by the due date. Send your first remittance by mail to one of the tax centres listed at the end of this guide.

Make the payment payable to the Receiver General, and include a letter stating the following information, as applicable:

- you are a new remitter or this is your first remittance;
- the period the remittance covers;
- you need to open a payroll program account; and
- your complete business name, address, and telephone number.

The CRA will send you a remittance form in the mail after it registers your account for your next remittance. If you do not receive a form in time for your next remittance, send in your remittance as described above. In your letter, tell us that you did not receive your remittance form.

**New employers are considered regular remitters.** Send your remittance monthly unless the CRA tells you to remit using a different frequency. For more information, see the next section.

### Remitter types and due dates

Remittance due dates are always based on when an employee is paid for his or her services (**payday**) rather

than the pay period that the services are provided in. For example, if a pay period ends in January but the employee gets paid for this period in February, the remittance due date would be determined from the payday in February.

You can view remitting requirements at:

- [www.cra.gc.ca/mybusinessaccount](http://www.cra.gc.ca/mybusinessaccount), if you are the business owner; or
- [www.cra.gc.ca/representatives](http://www.cra.gc.ca/representatives), if you are an authorized employee or representative.

#### Note

All payments made after the due date are assessed a penalty calculated at graduated rates. For details, see page 11.

### Average monthly withholding amount (AMWA)

We determine the type of remitter you are by adding up all the CPP, EI, and income tax you had to send us for your payroll program accounts two calendar years ago. We divide the total by the number of months in that year (maximum 12) that you had to make payments in. For example, if you made two monthly remittances totalling \$120,000 in 2013, your AMWA for 2015 would be \$60,000 (\$120,000 divided by 2), and you would be a Threshold 1 accelerated remitter. If your remitter type changes based on our calculations, we will inform you in writing, usually in December, of when we have to receive your remittances for the following year.

### Quarterly remitting for new small employers

If you are an eligible new small employer who will pay remuneration for the first time in 2016 or later, you have the option to remit your payroll deductions quarterly (once every three months) instead of monthly for the first year.

You will be eligible if you meet the following conditions:

- your monthly withholding amount (MWA) is less than \$1,000; and
- you have a perfect compliance history.

Your MWA is the total of the CPP, EI and income tax deductions plus your share of CPP and EI for the month that you will remit to the CRA.

Your MWA will be less than \$1,000 if, for example, you have one employee earning an annual salary of \$30,000. However, if you have two employees each earning an annual salary of \$30,000, your MWA will be more than \$1,000.

A perfect compliance history means that, over a 12-month period you have:

- made all deductions and remittances of CPP contributions, EI premiums and income tax on time,
- paid the goods and services tax/harmonized sales tax (GST/HST) on time; and
- filed your T4 information returns and your GST/HST returns on time.

You do not have to apply to remit quarterly. With the information you gave when you registered for your payroll program account, the CRA will determine if you qualify to remit quarterly. If you are eligible, we will tell you on your first remittance voucher, Form PD7A. As there may be a delay between registering and receiving your Form PD7A, you can send in your remittance quarterly if you meet the conditions listed above. If you are not sure, send your remittances in monthly until we tell you, on your Form PD7A, that you are eligible for quarterly remitting. For more information about monthly remitting, see “Regular remitter” on this page.

If you are eligible, and choose to remit quarterly, we have to **receive** your deductions on or before the 15th day of the month immediately following the end of each quarter. The quarters are:

- January to March
- April to June
- July to September
- October to December

The due dates are April 15, July 15, October 15, and January 15.

The CRA will review your MWA and compliance history after each quarter. If you no longer meet either of these conditions, you will have to remit monthly starting with the month after the end of the quarter in which the condition was not met. See examples below. To regain your quarterly remitting privilege, you will have to meet the requirements stated under “Quarterly remitter.”

#### **Example 1 – MWA condition is not met**

Zach’s Auto Repairs has a MWA of \$500 for January 2016, \$1,500 for February 2016, and \$1,500 for March 2016. The employer’s quarterly remittance of \$3,500 is due by April 15. Because the MWA for February was \$1,000 or more, the employer will have to remit monthly beginning with their MWA for the month of April, which is due by May 15.

#### **Example 2 – Perfect compliance history condition is not met**

ABC Construction has a MWA of \$500 for each of the months January, February and March. The employer remits their quarterly remittance of \$1,500 after April 15, which is considered late. Because the failure happened in April, ABC Construction may make their quarterly remittance for April, May and June by July 15. However, the company will have to remit monthly beginning with their MWA for the month of July, which is due by August 15.

### **Regular remitter**

If you are a new employer, or your AMWA two years ago was less than \$25,000, you are a regular remitter and have to remit your deductions so we **receive** them on or before the 15th day of the month following the month you made the deductions.

### **Note**

We consider a remittance that was due on January 15 of the current year (for deductions you made in December of the previous year) to be late if it is paid with the previous year’s T4 information return, and this return is filed after January 15.

### **Quarterly remitter**

Small employers who have had their payroll account for at least a year have the option of remitting source deductions quarterly, which means once every three months.

To qualify for quarterly remitting, you have to:

- have an AMWA of less than \$3,000 in either the first or the second preceding calendar year; and
- have a perfect compliance history.

### **Note**

We consider you to have a perfect compliance history when, over a 12-month period, you made all deductions and remittances of CPP contributions, EI premiums and income tax on time, you paid the goods and services tax/harmonized sales tax (GST/HST) on time, and you filed T4 type information returns and GST/HST returns on time.

You do not have to apply to remit quarterly. If you are a new eligible employer, we will notify you by mail that you have the option to remit quarterly, and we will give you more information on quarterly remitting. If you remain eligible to remit quarterly from one year to the next we will not re-notify you by letter. If you are currently an eligible quarterly remitter, and you have not been notified to the contrary, continue to remit quarterly.

The quarters are January to March, April to June, July to September, and October to December. We have to **receive** your deductions on or before the 15th day of the month immediately following the end of each quarter. The due dates are April 15, July 15, October 15, and January 15.

### **Notes**

We conduct an annual review to identify employers who qualify to be quarterly remitters. However, if at any time after 12 months of business you believe you have met the above qualifications, call **1-800-959-5525** and apply to remit quarterly.

If you fail to comply with all the requirements, you will no longer be able to remit quarterly. To regain the privilege, you have to re-establish a 12 months perfect compliance history. Also, if you have multiple payroll program accounts, you must meet the perfect compliance requirements for all accounts. If one payroll program account does not, you will lose your quarterly remitting privilege for all accounts.

### **Accelerated remitter**

There are two groups of accelerated remitters (called threshold 1 and threshold 2).

#### **Threshold 1**

This group consists of employers, including those with associated corporations, who had a total AMWA of \$25,000 to \$99,999.99 two calendar years ago.

Amounts you deduct from remuneration paid in the first 15 days of the month have to be **received** by the 25th of the same month. Amounts you deduct from the 16th to the end of the month have to be **received** by the 10th day of the following month.

### Threshold 2

This group consists of employers, including those with associated corporations, who had a total AMWA of \$100,000 or more two calendar years ago.

Amounts you deduct from remuneration you pay any time during the month must be **received** by your Canadian financial institution no later than the third working day (not counting Saturdays, Sundays, or public holidays) after the end of the following periods:

- from the 1st through the 7th day of the month;
- from the 8th through the 14th day of the month;
- from the 15th through the 21st day of the month;
- from the 22nd through the last day of the month.

### Example

If the payday had fallen during the period May 8 to 14, 2015, the due date would normally have been May 17. However, because the second and third working days (May 16 and 17) fell on a Saturday and a Sunday, and the following Monday was a public holiday, you would have had until Wednesday, May 20, to remit.

Large employers with an AMWA of \$100,000 or more have to pay their remittances at a financial institution. All payments that we receive at least **one full day** before the due date will be considered as having been made at a financial institution, so no penalty will be charged.

Payments made **on** the due date but not at a financial institution may be charged a penalty of 3% of the amount due.

All payments made **after** the due date may be charged a penalty calculated at graduated rates. For details, see page 11.

Threshold 1 and Threshold 2 accelerated remitters are considered to be monthly accelerated remitters if they have a payroll frequency of only once a month.

### Associated corporations

If a corporation is associated with one or more corporations in the current year, and the total AMWA of all the associated corporations was \$25,000 or more, two calendar years ago, we consider **all** the associated corporations to be accelerated remitters. Associated corporations are defined in the *Income Tax Act*.

### Remittance frequency

Accelerated remitter employers have the option of changing their remitting frequency based on their AMWA in the immediate preceding calendar year. If you want to use this option, call **1-800-959-5525**. We will review your account and let you know in writing when we have to receive your deductions.

### What if your remittance due date falls on a Saturday, Sunday, or public holiday?

If your due date is a Saturday, a Sunday, or a public holiday recognized by the CRA, your remittance is due on the next business day. For a list of public holidays, go to [www.cra.gc.ca/duedates](http://www.cra.gc.ca/duedates).

### Remittance forms

To make your current remittance, you must use one of the following two forms:

- Form PD7A, *Remittance Voucher – Statement of Account for Current Source Deductions*, for regular, quarterly, and monthly remitters; or
- Form PD7A(TM), *Remittance Voucher – Statement of Account for Current Source Deductions*, or Form PD7A-RB, *Remittance Voucher*, for accelerated remitters.

Fill out your remittance voucher (the bottom part of the remittance form) correctly so we can apply your remittance to your account.

#### Note

If you receive a notice of assessment that says you have an amount owing, use only the remittance form **attached to the notice** to make that payment.

### Form PD7A

We will send Form PD7A to each eligible regular, quarterly, and monthly remitter to remit deductions.

We no longer mail paper Forms PD7A, *Statements of Account for Current Source Deductions* to you if you pay your remittances electronically for six consecutive remittances or more.

To view the information that was provided on your paper Form PD7A, use the “View account transactions” and “View account balance” services at [www.cra.gc.ca/mybusinessaccount](http://www.cra.gc.ca/mybusinessaccount) or [www.cra.gc.ca/representatives](http://www.cra.gc.ca/representatives).

You can choose to receive your Form PD7A or PD7A(TM), *Statement of Account for Current Source Deductions*, **online**. For more information, see “Receiving your CRA mail online” on page 61.

If you wish to continue receiving paper statements of account, call **1-800-959-5525**.

Your payroll obligations to withhold, remit, and file do not change. We may charge you penalties for remittances we do not receive by the due date. You should keep a paper remittance voucher handy in case there is an electronic disruption.

#### Form PD7A has three parts:

**Top part** – This part is a statement of account from us. It shows:

- the date of your statement of account;
- your **account number**;
- your **employer name**;



■ the **balances on last statement**:

- **amounts paid** for (year indicated), which are remittances we received for that year; and
- **assessed amount owing**, which is the amount you had to pay on assessments of deductions, including penalties and interest;

■ your **current balances**:

- **amounts paid** for (year indicated), which are the amounts you paid for your deductions for that year;
- **assessed amount owing**, which is your balance owing, including penalties and interest;

■ an **explanation of changes**.

**Bottom part** – This part is your remittance form for current remittances.

When you fill out the bottom part, make sure that the following information is correct:

- Your name, address and account number.
- The **end of the remitting period** for which deductions were withheld.
- The **gross payroll in remitting period** (rounded to the nearest dollar). This represents all remuneration that you pay before you make any deductions such as income tax. It includes regular wages, commissions, overtime pay, paid leave, taxable benefits and allowances, piecework payments, and special payments. It is the same as the monthly total of all amounts that would appear in box 14, "Employment income," on your employees' T4 slips. (For quarterly remitters, it is the total of these amounts for the last month of the quarter.)
- The **number of employees in the last pay period**. This includes any employee for whom you will prepare a T4 slip, such as part-time and temporary employees, and employees absent with pay. Do not include people for whom you will not prepare a T4 slip. Do not include those you did not pay in the last pay period in the month or quarter, such as employees on unpaid leave. If you have various pay groups (for example, executive, hourly, and salaried), include all employees paid in each group's last pay period, but do not count any person twice.
- The **amount paid**. This is the amount you are remitting. This is the total CPP and EI (both employer and employee portions), and income tax you are remitting.

**Back of the form** – Use this part if you will not be making a remittance during the month or quarter. It also contains information on our TeleReply service.

If you mail your payment payable to the Receiver General, keep the top part of the form as a record of your remittance and send the bottom part of Form PD7A to the following address:

Canada Revenue Agency  
875 Heron Road  
Ottawa ON K1A 1B1

If you need more information about Form PD7A, call **1-800-959-5525**.

## Form PD7A(TM)

We send Form PD7A(TM), *Statement of Account for Current Source Deductions*, to all employers who make accelerated remittances, the month immediately following the end of each quarter. The quarters are January to March, April to June, July to September, and October to December.

### Form PD7A(TM) has two parts:

**Top part** – This part is a statement of account from us. It shows:

- the date of your statement of account;
- your **account number**;
- your **employer name**;
- the **balances on last statement**:
  - **amounts paid for** (year indicated), which are remittances we received for that year; and
  - **assessed amount owing**, which is the amount you had to pay on assessments of deductions, including penalties and interest;
- your **current balances**:
  - **amounts paid for** (year indicated), which are the amounts you paid for your deductions for that year; and
  - **assessed amount owing**, which is your balance owing on assessments of deductions, including penalties and interest; and
- an **explanation of changes**.

**Bottom part** – This part is your remittance form for current remittances.

When you fill out the bottom part, make sure that the following information is correct:

- Your name, address and account number.
- The **gross payroll for the remitting period** (rounded to the nearest dollar). This represents all remuneration that you pay before you make any deductions, such as income tax. It includes regular wages, commissions, overtime pay, paid leave, taxable benefits and allowances, piecework payments, and special payments. It is the same as the total of all amounts for the remitting period that would appear in box 14, "Employment income," on your employees' T4 slips.
- The **number of employees in the last pay period**. This includes any employee for whom you will prepare a T4 slip, such as part-time and temporary employees, and employees absent with pay. Do not include people for whom you will not fill out a T4 slip. Do not include those you did not pay in the last pay period of the remitting period, such as employees on unpaid leave. If you have various pay groups (for example, executive, hourly, and salaried), include all employees paid in each group's last pay period, but do not count any person twice.
- The **end of remitting period** (YY MM DD). Threshold 1 accelerated remitters have two remitting periods per month. They should enter either "15th" or "month-end" as their "end of remitting period" on the remittance

form. Threshold 2 accelerated remitters have four remitting periods per month. They should enter either "7th," "14th," "21st," or "month-end," as their "end of remitting period."

- The **amount paid**. This is the amount you are remitting. This is the total CPP and EI (both employer and employee portions), and income tax you are remitting.

When you make your remittance at your financial institution, fill out the top and the bottom parts of Form PD7A(TM) and present them with your remittance. The cashier will date-stamp the bottom part and return the top part to you as a receipt.

Threshold 2 remitters and certain payroll service companies **must** remit payroll deductions electronically or in person at their Canadian financial institution.

## Form PD7A-RB

Each December, we give accelerated remitters (except monthly accelerated remitters) a booklet of PD7A-RB forms (either 27 or 54 forms) to use to remit deductions. These booklets are printed once a year. If you need more forms, call **1-800-959-5525**.

### Form PD7A-RB has two parts:

**Top part** – This part is a receipt.

**Bottom part** – This part is your remittance form when you make your payment. To fill in this part, see "Bottom part" under the heading "Form PD7A(TM)" on page 49.

## Missing or lost remittance forms

If you are a regular or quarterly remitter and do not receive your remittance form for the month or quarter, or if you lose one, send your payment, payable to the Receiver General, to your tax centre. Include a short note that states your account number and the month or quarter for which you withheld the deductions.

If you are an accelerated remitter and you did not receive your remittance forms or you lost them, call **1-800-959-5525**.

### Note

Even if you do not have a remittance form, you still have to send us your remittance so that we receive it by the due date.

## Not making a remittance

If you are not making a remittance for the month or quarter, you may notify us by:

- using the "Provide a nil remittance" service at [www.cra.gc.ca/mybusinessaccount](http://www.cra.gc.ca/mybusinessaccount) or [www.cra.gc.ca/representatives](http://www.cra.gc.ca/representatives);
- using our TeleReply service; or
- sending us a letter by mail.

If you prefer not to use the online services or TeleReply, fill out the remittance form and mail it to us (see "Back of the form" on page 48). Be sure to indicate when you expect to make deductions next.

## TeleReply

You can use TeleReply if you currently have no employees, are submitting nil remittance information for your payroll program account, and the account number printed on your remittance form is correct. If you use TeleReply, do not mail your remittance form to us, but fill it out and keep it for your records.

### Hours of operation

You can use TeleReply every day from 6:00 a.m. to 3:00 a.m., Eastern time.

### Before you call TeleReply

Before you call TeleReply, fill out the back of your remittance form, make sure the account number and address printed on your remittance form are correct, and have this information on hand.

### Note

For best results and to ensure your privacy, do not use a cordless or cellular telephone or one with the keypad in the handset. If at any time during the call we tell you that you cannot use TeleReply, you will have to mail your remittance form.

### How to use TeleReply

1. Call TeleReply at **1-800-959-2256**.
2. Follow the step-by-step instructions to enter your information.
3. At the end of the call, we will ask you to confirm the information you entered.
4. Write down the confirmation number we give you and keep it for your records.

If we do not give you a confirmation number, your information will not be processed. You will have to call TeleReply again or mail your completed remittance form to us. For more information, go to [www.cra.gc.ca/telereply](http://www.cra.gc.ca/telereply).

## Remittance methods

You can choose from several methods to remit your payroll deductions. However, if you are a **threshold 2** remitter, you **must** remit payroll deductions electronically or in person at your Canadian financial institution on or before the due date.

We consider all payments made to the CRA at least **one full day** before the due date to have been made at a financial institution and a penalty will not be charged.

Payments made **on** the due date but not at a financial institution, are assessed a penalty of 3% of the amount due.

All payments made **after** the due date are assessed a penalty calculated at graduated rates. For more information, see page 11.

Remittances are considered to have been made on the day they are received by the CRA. Choose the appropriate remittance method to meet your due date.

Regardless of how you choose to remit, allow 10 days for your remittance to process.

## How to make a remittance

For more information, go to [www.canada.ca/payments](http://www.canada.ca/payments).

### Online payment methods

#### Online or telephone banking

Most financial institutions let you set up payments to be sent to the Canada Revenue Agency (CRA) on pre-set dates. Businesses have to make their remittances using a business bank account. If you are remitting, your options will display according to the business number provided, for example, corporations tax, GST/HST, payroll deductions, non-residents.

Make sure you correctly enter your payroll program account number and the period the remittance covers. For help remitting your payroll deductions through online banking, contact your financial institution.

#### My Payment

My Payment is an electronic payment service offered by the CRA that uses *Interac* Online to allow businesses to make payments directly to the CRA from their bank account. Your transaction total cannot be more than the daily withdrawal limit that your financial institution set.

Use this service to make payments to one or more CRA accounts, from your personal or business account, in one simple transaction. For more information, go to [www.cra.gc.ca/mypayment](http://www.cra.gc.ca/mypayment).

#### Pre-authorized debit

Pre-authorized debit is an online, self-service payment option. Use it to authorize the CRA to withdraw a pre-set payment from your bank account to remit tax on one or more dates. You can set up a pre-authorized debit agreement using the CRA's secure My Account at [www.cra.gc.ca/myaccount](http://www.cra.gc.ca/myaccount) or My Business Account at [www.cra.gc.ca/mybusinessaccount](http://www.cra.gc.ca/mybusinessaccount).

For more information, go to [www.cra.gc.ca/prthrzddb-eng.html](http://www.cra.gc.ca/prthrzddb-eng.html).

#### Third-party service provider

You may be able to make your payments through a third-party service provider. The third-party provider will send your business payments and remittance details to the CRA electronically.

##### Note

You are responsible for making sure the CRA receives your payment by the payment due date. If you are using a third-party service provider, you must clearly understand the terms and conditions of the services you are using. The CRA does not endorse these products, services or publications.

## Other payment methods

### Wire transfers

Non-residents who do not have a Canadian bank account can pay using wire transfers. For more information, go to [www.cra.gc.ca/tx/pymnts/wtrnsfr-eng.html](http://www.cra.gc.ca/tx/pymnts/wtrnsfr-eng.html).

### Pay at your Canadian financial institution

You can make your payment at your financial institution in Canada. To do so, you need a personalized remittance voucher.

#### By mail

If you want to mail your payment to the CRA, make it payable to the **Receiver General** and send it along with your remittance voucher to:

Canada Revenue Agency  
875 Heron Road  
Ottawa ON K1A 1B1

If you don't have a remittance voucher, you can attach a note to your payment giving your payroll program account number, the period the remittance covers, your business' name, address, and telephone number.

##### Notes

Do not mail us cash or send it with your return.

If you make a payment that your financial institution does not honour (including a payment on which you put a "stop payment"), we will charge you a fee.

### Payment arrangement

Payroll deductions must be held in trust for the Receiver General in a separate account from your operating business account. If for any reason you cannot pay your balance owing, call **1-877-397-6014**. We will still charge a penalty and daily compound interest on any outstanding balance.

### Do you have more than one account?

If you remit deductions for more than one account, make sure you provide your payroll program account numbers and give a breakdown of the amounts intended for each account. We can then credit the right amounts to the right accounts.

### Notice of assessment

If you receive a notice of assessment, use only the remittance form attached to the notice to make your payment.

**Use only forms PD7A, PD7A(TM) and PD7A-RB for current remittances of CPP, EI, and income tax.**

## Service bureaus

Service bureaus or similar institutions that take care of payroll deductions for clients can remit a lump-sum payment for the amounts they deduct for their clients. They have to provide the following information for each client:

- account number;
- amount remitted;
- gross payroll; and
- number of employees in the last pay period.

If you use a service bureau or similar institution to remit your deductions, you are still responsible for making sure that the institution withholds your deductions and sends them to us on time.

## Remitting error

If you discover that you made an error in remitting your deductions, you should remit any shortage as soon as possible either by electronic payment, with another remittance form or by writing a short letter giving your account number and the pay period the shortage applies to.

If you have over-remitted, reduce your next remittance by the amount of the overpayment.

If your remittance is late, we may apply a late-remitting penalty. For more information, see page 11.

## Appendix 1 – Which payroll table should you use?

Your employee is a...	Employee reports for work at an establishment of the employer in Canada	Employee works in Canada, but does not report for work at an establishment of the employer	Employee works in Canada, but employer does not have an establishment in Canada
Resident of Canada	Use the payroll deductions tables for the province or territory where the employee reports for work.	Use the payroll deductions tables for the province or territory where the employer's establishment is located and from which the employee's salary is paid.	Use the payroll deductions tables for <i>In Canada beyond the limits of any province/territory or outside Canada</i> .
Deemed resident or sojourner (see Note)	Use the payroll deductions tables for <i>In Canada beyond the limits of any province/ territory or outside Canada</i> .	Use the payroll deductions tables for <i>In Canada beyond the limits of any province/territory or outside Canada</i> .	Use the payroll deductions tables for <i>In Canada beyond the limits of any province/territory or outside Canada</i> .
Part-year resident, for the part of the year he/she is <b>resident</b> in Canada (see Note)	Use the payroll deductions tables for the province or territory where the employee reports for work.	Use the payroll deductions tables for the province or territory where the employer's establishment is located and from which the employee's salary is paid.	Use the payroll deductions tables for <i>In Canada beyond the limits of any province/territory or outside Canada</i> .
Part-year resident, for the part of the year he/she is <b>non-resident</b> (see Note)	Use the payroll deductions tables for the province or territory where employment duties are performed.	Use the payroll deductions tables for the province or territory where employment duties are performed.	Use the payroll deductions tables for the province or territory where employment duties are performed.
Non-resident, including a commuter (see Note)	Use the payroll deductions tables for the province or territory where employment duties are performed.	Use the payroll deductions tables for the province or territory where employment duties are performed.	Use the payroll deductions tables for the province or territory where employment duties are performed.

### Note

For more information about residency status, see Income Tax Folio S5-F1-C1, *Determining an Individual's Residence Status*.

## Appendix 2 – Calculation of CPP contributions (single pay period)

You can use this calculation to determine the CPP contributions you should deduct for your employee for a single pay period. To determine the CPP contributions for multiple pay periods, or to verify the annual contribution at year's end, use Appendix 3 on the next page.

### Note

Before using this calculation, read "Starting and stopping CPP deductions" on page 15.

**Step 1** – Calculate the employee's pensionable earnings for the pay period.

Enter the employee's gross pay for the period .....	\$ _____	<b>1</b>
Enter any taxable benefits and allowances for the period.....	\$ _____	<b>2</b>
Line 1 <b>plus</b> line 2 .....	\$ _____	<b>3</b>
Enter any income from Employment, benefits, and payments from which you do not deduct CPP contributions, described in Chapter 2 of this guide.....	\$ _____	<b>4</b>
<b>Pensionable earnings</b> (line 3 <b>minus</b> line 4) .....	\$ _____	<b>5</b>
<b>Step 2</b> – Enter the basic exemption for the pay period. Use the table below, or the following equation:		
Annual basic exemption (\$3,500 for 2015) divided by the number of pay periods in the year .....	\$ _____	<b>6</b>
<b>Step 3</b> – Line 5 <b>minus</b> line 6 .....	\$ _____	<b>7</b>
<b>Step 4</b> – Enter CPP contribution rate (4.95% in 2015).....	_____	<b>8</b>
<b>Step 5</b> – CPP contribution to be deducted (line 7 <b>multiplied by</b> line 8).....	\$ _____	<b>9</b>

### Employee's basic CPP exemption for various 2015 pay periods

Pay period	Basic exemption
Annually (1)	\$3,500.00
Semi-annually (2)	\$1,750.00
Quarterly (4)	\$875.00
Monthly (12)	\$291.66
Semi-monthly (24)	\$145.83
Bi-weekly (26)	\$134.61
Bi-weekly (27)	\$129.62
Weekly (52)	\$67.30
Weekly (53)	\$66.03
22 pay periods	\$159.09
13 pay periods	\$269.23
10 pay periods	\$350.00
Daily (240)	\$14.58
Hourly (2,000)	\$1.75

## Appendix 3 – Calculation of CPP contributions (multiple pay periods or year-end verification)

Use this calculation to determine an employee's CPP contributions over multiple pay periods, or to verify an employee's CPP contributions at year-end before you fill out and file the T4 slips. This is the same calculation we use in Chapter 7 of the Guide T4127, *Payroll Deductions Formulas for Computer Programs*. This optional calculation is the **only one we authorize**. You can get the information you need to fill in this calculation from each employee's payroll master file.

Using the calculation will help you avoid the possibility of receiving a pensionable and insurable earnings review (PIER) report.

**Note**

Before using this calculation to determine an employee's CPP contributions over multiple pay periods, read "Starting and stopping CPP deductions" on page 15.

To calculate or verify contributions, follow these steps:

<b>Step 1</b> – Enter the salary, wages, benefits, and allowances for the total period of employment from the employee's payroll master file that you will include in box 14 "Employment income" of the T4 slip .....	\$ _____	<b>1</b>
<b>Step 2</b> – Subtract from line 1 the following earnings of the employee:		
■ the amount the employee received before and including the month the employee turned 18 .....	\$ _____	
■ the amount the employee received after the month the employee turned 70.....	\$ _____	
■ the amount the employee received after the effective date of the employee's completed and signed election Form (CPT30) to stop contributing to the CPP .....	\$ _____	
■ the amount the employee received before and including the month in which the employee provided you with a completed and signed revocation Form (CPT30) to start contributing to the CPP.....	\$ _____	
■ the amount the employee received during the months the employee was considered to be disabled under CPP or QPP .....	\$ _____	
■ any income from Employment, benefits, and payments from which you do not deduct CPP contributions, described in Chapter 2 of this guide .....	\$ _____	
Total earnings that do not require CPP contributions .....	\$ _____	<b>2</b>
<b>Step 3</b> – Pensionable earnings for the period of employment (to a <b>maximum</b> of \$53,600 for 2015) Line 1 minus line 2 .....	\$ _____	<b>3</b>
<b>Step 4</b> – Enter the basic exemption for the pay period (see table on previous page) .....	\$ _____	
Multiply by the number of pay periods of pensionable earnings (related to the amount on line 3). Make sure not to include pay periods that apply to the earnings listed in Step 2 above.....	x _____	
Basic exemption that applies to the period of pensionable employment (for more information, see Chapter 2). This amount cannot be more than the maximum yearly basic exemption of \$3,500 .....	\$ _____	<b>4</b>
<b>Step 5</b> – CPP contributory earnings for the period of pensionable employment – Line 3 minus line 4.....	\$ _____	<b>5</b>
<b>Step 6</b> – Enter the CPP contribution rate for the year (4.95% for 2015) .....	x _____	<b>6</b>
<b>Step 7</b> – Employee's required CPP contributions for the period of pensionable employment (maximum \$2,479.95 for 2015) – Line 5 multiplied by the rate on line 6.....	\$ _____	<b>7</b>
<b>Step 8</b> – Enter the CPP contributions from the employee's payroll master file that you deducted for the period of pensionable employment .....	\$ _____	<b>8</b>
<b>Step 9</b> – Line 7 minus line 8. The result should be zero .....	\$ _____	<b>9</b>

If the amount on line 9 is **positive**, you have underdeducted contributions. If this is the case, add line 8 and line 9 and include the total in box 16, "Employee's CPP contributions," of the T4 slip.

**Note**

If the amount on line 9 is **negative**, you may have overdeducted contributions. If this is the case, check the employee's master file to make sure that the amounts on line 1 and line 3 are correct. For more information on refunding CPP overpayments, see page 18.

## Appendix 4 – Canada’s social security agreements with other countries

Country	Date in force	CPT form number
Antigua and Barbuda	January 1, 1994	111
Austria	November 1, 1987	112
Barbados	January 1, 1986	113
Belgium	January 1, 1987	121
Brazil	August 1, 2014	168
Bulgaria	March 1, 2014	170
Chile	June 1, 1998	114
Croatia	May 1, 1999	115
Cyprus	May 1, 1991	116
Czech Republic	January 1, 2003	137
Denmark	January 1, 1986	117
Dominica	January 1, 1989	118
Estonia	November 1, 2006	142
Finland	February 1, 1988	128
France	March 1, 1981	52
Germany	April 1, 1988	130
Greece	December 1, 1997	54
Grenada	February 1, 1999	119
Guernsey	January 1, 1994	120
Hungary	October 1, 2003	141
Iceland	October 1, 1989	49
India	August 1, 2015	169
Ireland	January 1, 1992	50
Israel	September 1, 2003	140
Italy	January 1, 1979	51
Jamaica	January 1, 1984	57
Japan	March 1, 2008	122
Jersey	January 1, 1994	120
Korea (South)	May 1, 1999	58

Country	Date in force	CPT form number
Latvia	November 1, 2006	143
Lithuania	November 1, 2006	144
Luxembourg	April 1, 1990	60
Macedonia	November 1, 2011	163
Malta	March 1, 1992	61
Mexico	May 1, 1996	62
Morocco	March 1, 2010	166
Netherlands	April 1, 2004	63
Norway	January 1, 2014	127
Philippines	March 1, 1997	64
Poland	October 1, 2009	161
Portugal	May 1, 1981	55
Romania	November 1, 2011	165
St. Kitts and Nevis	January 1, 1994	65
Saint Lucia	January 1, 1988	67
Saint Vincent and the Grenadines	November 1, 1998	66
Serbia	December 1, 2014	162
Slovakia	January 1, 2003	138
Slovenia	January 1, 2001	68
Spain	January 1, 1988	125
Sweden	April 1, 2003	129
Switzerland	October 1, 1995	69
Trinidad and Tobago	July 1, 1999	70
Turkey	January 1, 2005	72
United Kingdom	April 1, 1998	71
United States	August 1, 1984	56
Uruguay	January 1, 2002	136



## Appendix 5 – Calculation of employee EI premiums (2015)

This year-end calculation will help you verify an employee's EI premiums before you fill out and file the T4 slips. This optional calculation is the **only one we authorize**. We based the calculation on information in this guide and in Chapter 8 of Guide T4127, *Payroll Deductions Formulas for Computer Programs*. You can get the information you need to fill in this calculation from each employee's payroll master file.

Using this calculation will help you avoid the possibility of receiving a pensionable and insurable earnings review (PIER) report.

To verify the EI deduction, follow these steps:

- Step 1** – Enter the insurable earnings for the year as indicated in each employee's payroll master file for the period of insurable employment. The amount should not be more than the maximum annual amount of \$49,500 (for 2015)..... \$ \_\_\_\_\_ **1**
- Step 2** – Enter the employee's EI premium rate for the year (1.88% for 2015 – for Quebec, use 1.54%) ..... x \_\_\_\_\_ **2**
- Step 3** – Multiply line 1 by line 2 to calculate the employee's EI premiums payable for the year. The amount should not be more than the maximum annual amount of \$930.60 (\$762.30 for Quebec) for 2015 ..... \$ \_\_\_\_\_ **3**
- Step 4** – Enter the employee's EI premium deductions for the period of insurable employment as indicated in the employee's payroll master file ..... \$ \_\_\_\_\_ **4**
- Step 5** – Line 3 minus line 4. The result should be zero ..... \$ \_\_\_\_\_ **5**

If there is an amount on line 5 and it is **positive**, you have underdeducted. If this is the case, add line 4 and line 5 and include the total in box 18, "Employee's EI premiums," of the T4 slip.

### Note

If the amount on line 5 is **negative**, you have overdeducted premiums. If this is the case, check the employee's payroll master file to make sure that the amount on line 1 is correct. For more information on refunding EI overpayment, see page 23.

## Appendix 6 – Special payments chart

This chart will help you determine whether or not to deduct CPP, EI, and income tax on the following special payments you make to your employees.

Special payments	CPP contributions <sup>1</sup>	EI premiums <sup>1</sup>	Tax deductions
Advances	Yes	Yes	Yes
Benefits under the <i>Employment Insurance Act</i>	No	No	Yes
Bonuses and retroactive pay increases	Yes	Yes	Yes
Casual employment if it is for a purpose other than your usual trade or business (even if there is a contract of employment)	No	No	No
Compassionate care benefits – amounts paid to cover the waiting period or to increase the benefit	Yes	Yes/No <sup>2</sup>	Yes
Corporate employee who controls more than 40% of the corporations voting shares receiving salary, wages or other remuneration	Yes	No	Yes
Director's fees paid to residents of Canada or to non-residents – Fee only	Yes <sup>3</sup>	No	Yes <sup>4</sup>
Director's fees paid to residents of Canada or to non-residents – Fee in addition to salary	Yes/No <sup>5</sup>	Yes/No <sup>5</sup>	Yes
Employees profit sharing plans (EPSP)	No	No	No
Employment in Canada by a foreign government or an international organization	Yes/No <sup>6</sup>	Yes/No <sup>7</sup>	Yes <sup>8</sup>
Employment in Canada of a non-resident person if the unemployment insurance laws of any foreign country require someone to pay premiums for that employment	Yes/No <sup>9</sup>	No	Yes <sup>8</sup>
Employment in Canada under an exchange program if the employer paying the remuneration is not resident in Canada	Yes/No <sup>10</sup>	No	Yes <sup>8</sup>
Employment of your child or a person that you maintain if no cash remuneration is paid	No	No	No
Employment that is in exchange of work or service (even if there is a contract of service)	Yes/No <sup>11</sup>	No	Yes/No <sup>12</sup>
Employment under the “Job creation partnerships” and “Self-employment assistance” employment benefits established by the Canada Employment and Immigration Commission under section 59 of the <i>Employment Insurance Act</i> , or under a similar benefit that a provincial government or other organization provides and is the subject of an agreement under section 63 or the <i>Employment Insurance Act</i>	Yes/No <sup>13</sup>	No	Yes/No <sup>14</sup>

<sup>1</sup> If you have already deducted the total yearly maximum contributions from the employee's income, do not deduct more contributions. Do not consider amounts deducted by previous employers during the same year unless there was a restructure or reorganization—see page 10.

<sup>2</sup> Do not deduct EI premiums if the following two conditions are met:

- the total amount of your payment and the EI weekly benefits combined do not exceed the employee's normal weekly gross salary; and
- your payment does not reduce any other accumulated employment benefits such as banked sick leave, vacation leave credits, or retiring allowance.

<sup>3</sup> Do not deduct CPP contributions when the employment is performed totally or partly outside Canada—see page 19.

<sup>4</sup> Do not deduct income tax if you estimate that the total fee paid in the year is less than the total claim amount on Form TD1.

<sup>5</sup> Determination to deduct CPP, EI or both depends on the status of the resident director's employment. For more information on director's fees, see page 32 of this guide.

<sup>6</sup> Deduct CPP contributions when the international organization or the foreign government agree to cover their employees. A list of the international organizations and foreign countries can be found under Schedules V and VII of the *Canada Pension Plan Regulations* (except for employment listed in Schedules VI and VIII).

<sup>7</sup> Deduct EI premiums when the foreign government or international organization agrees to cover its Canadian employees under Canada's EI legislation (in this case, the employment is insurable if Employment and Social Development Canada agrees).

<sup>8</sup> For more information on non-resident employees, see page 30.

<sup>9</sup> Deduct CPP contributions unless the worker has a certificate of coverage from the competent authority of his/her country confirming that the worker is contributing to a pension plan in his/her country. Do not deduct CPP contributions if the employer is not residing in Canada and does not have an establishment in Canada, unless the employer has filed Form CPT13.

<sup>10</sup> Do not deduct CPP contributions unless the employer has filed Form CPT13.

<sup>11</sup> Deduct CPP contributions unless the employment does not require CPP deductions, as indicated in Chapter 2.

<sup>12</sup> For more information about bartering, see archived Interpretation Bulletin IT-490, *Barter Transactions*. Do not deduct income tax unless the taxpayer is an employee and makes a regular habit of providing services for cash.

<sup>13</sup> Do not deduct CPP contributions on benefits paid by Employment and Social Development Canada or a provincial government. Deduct CPP contributions on payments made by an employer unless the individual is working as a self-employed individual or the employment does not require CPP contributions, as indicated in Chapter 2.

<sup>14</sup> Deduct income tax if the payment is considered government financial assistance, but if the payment is considered an inducement to earn business income, do not deduct income tax.

Special payments	CPP contributions <sup>1</sup>	EI premiums <sup>1</sup>	Tax deductions
Employment when employment insurance premiums have to be paid according to the unemployment insurance laws of any state of the United States, the District of Columbia, Puerto Rico, or the Virgin Islands, or according to the <i>Railroad Unemployment Insurance Act</i> of the United States	Yes/No <sup>10</sup>	No	Yes
Entertainment activity, employment in	Yes	Yes	Yes
Furlough, amounts received when on	Yes	Yes	Yes
Honorariums from employment or office	Yes	Yes	Yes
Incentive payments	Yes	Yes	Yes
Job creation Employment and Social Development Canada approved project, additional amounts that you as an employer pay while participating in a project	Yes/No <sup>15</sup>	No	Yes
Lost-time pay from a union, amounts received as	Yes	Yes	Yes
Maternity benefits – amounts paid to cover the waiting period or to increase the benefit	Yes	Yes/No <sup>2</sup>	Yes
Overtime pay, including banked overtime pay	Yes	Yes	Yes
Parental care benefits – amounts paid to cover the waiting period or to increase the benefit	Yes	Yes/No <sup>2</sup>	Yes
Payments under Part 2 of the <i>Canadian Forces Members and Veterans Re-establishment and Compensation Act</i> – amounts received on account of an earnings loss benefit, supplementary retirement benefit or permanent impairment allowance payable to the taxpayer	No	No	Yes
Qualifying retroactive lump-sum payments <sup>17</sup>	Yes	Yes	Yes
Retirement compensation arrangements (RCA)	No	No	Yes
Retiring allowances (also called severance pay)	No	No	Yes <sup>18</sup>
Sabbatical, remuneration received while on	Yes	Yes	Yes
Salary	Yes	Yes	Yes
Salary deferral – non-prescribed plans or arrangements – on amounts earned	Yes	Yes	Yes
Salary deferral – prescribed plans or arrangements – on amounts received	Yes/No <sup>16</sup>	Yes/No <sup>16</sup>	Yes
Sick leave, amounts received while on sick leave, sick leave credits, payments for	Yes	Yes	Yes
Spouse or common-law partner, employment of, if you cannot deduct the remuneration paid as an expense under the <i>Income Tax Act</i>	No	Yes/No <sup>19</sup>	Yes
Teacher on exchange from a foreign country, employment of	No	Yes/No <sup>20</sup>	Yes/No <sup>21</sup>
Tips and gratuities (controlled by employer)	Yes	Yes	Yes <sup>22</sup>
Tips and gratuities (direct tips or gratuities – not controlled by the employer)	No	No	No <sup>22</sup>
Vacation pay, public holidays, and lump-sum vacation payment	Yes	Yes	Yes <sup>1</sup>

<sup>15</sup> Deduct CPP contributions on payments made by an employer unless the individual is working as a self-employed individual or the employment does not require CPP contributions, as indicated in Chapter 2 of this guide.

<sup>16</sup> To determine if you have to deduct CPP, EI or both, see “Prescribed plans or arrangements” on page 37.

<sup>17</sup> Qualifying retroactive lump sum payments may require CPP and/or EI deductions in addition to income tax.

<sup>18</sup> Do not deduct income tax on the amount of retiring allowance that is transferred directly to the recipient’s RPP or RRSP (up to the amount of the employee’s available RRSP deduction limit)—see page 35 for details.

<sup>19</sup> Deduct EI premiums if you would have negotiated a similar contract with a person that you deal with at arm’s length.

<sup>20</sup> Deduct EI premiums, unless the worker is remunerated by an employer residing outside Canada.

<sup>21</sup> You have to deduct income tax on Canadian earnings, unless provisions of an income tax convention or treaty say otherwise.

<sup>22</sup> For more information on determining if the tips and gratuities are controlled or direct, go to [www.cra.gc.ca/tx/hm/xplnd/tps-eng.html](http://www.cra.gc.ca/tx/hm/xplnd/tps-eng.html).

<b>Special payments</b>	<b>CPP contributions<sup>1</sup></b>	<b>EI premiums<sup>1</sup></b>	<b>Tax deductions</b>
Vow of poverty – employment of a member of a religious order who has taken a vow of poverty. This applies whether the remuneration is paid directly to the order or the member pays it to the order.	No	No	Yes/No <sup>23</sup>
Wages	Yes	Yes	Yes
Wages in lieu of termination notice	Yes	Yes	Yes
Wage-loss replacement plans – Paid by the employer	Yes	Yes	Yes
Wage-loss replacement plans – Paid by third party/trustee and the employer: <ul style="list-style-type: none"> <li>■ funds any part of the plan; and</li> <li>■ exercises a degree of control over the plan; and</li> <li>■ directly or indirectly determines the eligibility for benefits.</li> </ul>	Yes	Yes	Yes
Workers' compensation claims – Employee's salary paid before or after a workers' compensation board claim is decided	Yes	Yes	Yes
Workers' compensation claims – Advances or loans equal to the workers' compensation benefits awarded	No	No	No
Workers' compensation claims – Amount paid in addition to an advance or loan before the claim is accepted	Yes	Yes <sup>24</sup>	Yes
Workers' compensation claims – Top-up amounts paid after the claim is accepted	Yes	No	Yes
Workers' compensation claims – Top-up amounts paid as sick leave after the claim is accepted	Yes	No	Yes

<sup>23</sup> Deduct income tax, unless the employer pays the remuneration directly to the order or the employee provides the employer with a letter of authority approved by a tax services office.

<sup>24</sup> An amount you pay in addition to an advance or loan is not a top-up amount if you pay it while waiting for a decision on a workers' compensation board claim. This amount is considered as employment income.

## Online services

### Handling business taxes online

Save time using the CRA's online services for businesses. You can:

- authorize a representative, an employee, or a group of employees, who has registered with Represent a Client, for online access to your business accounts;
- request or delete authorization online through Represent a Client, if you are a representative;
- change addresses;
- file or amend information returns without a web access code;
- register for online mail, get email notifications, and view your mail online;
- authorize the withdrawal of a pre-determined amount from your bank account;
- provide a nil remittance;
- request the transfer of a misallocated credit;
- enrol for direct deposit, update banking information, and view direct deposit transactions;
- request a refund;
- view your account balance and transactions;
- register a formal dispute (Appeal);
- request a CPP/EI ruling; and
- do much more.

To register or log in to our online services, go to:

- [www.cra.gc.ca/mybusinessaccount](http://www.cra.gc.ca/mybusinessaccount), if you are a business owner; or
- [www.cra.gc.ca/representatives](http://www.cra.gc.ca/representatives), if you are an authorized representative or employee.

For more information, go to [www.cra.gc.ca/businessonline](http://www.cra.gc.ca/businessonline).

### Receiving your CRA mail online

You, or your representative (authorized at a level 2), can choose to receive most of your CRA mail for your business online.

When you or your representative registers for online mail, we will no longer mail most correspondence items. Instead, an email notification will be sent to the email address(es) provided when there is new mail available to view online. To register, select the "Manage online mail" service and follow the easy steps.

Using our online mail service is faster and easier than managing paper correspondence.

### Authorizing the withdrawal of a pre-determined amount from your bank account

Pre-authorized debit (PAD) is an online, self-service, payment option. Through this option, you agree to authorize the CRA to withdraw a pre-determined payment from your bank account to pay tax on a specific date or dates. You can set up a PAD agreement using the CRA's secure My Business Account service at [www.cra.gc.ca/mybusinessaccount](http://www.cra.gc.ca/mybusinessaccount). PADs are flexible and managed by you. You can view historical records, modify, cancel, or skip a payment. For more information, go to [www.canada.ca/payments](http://www.canada.ca/payments) and select the "Pre-authorized debit."

### Electronic payments

Make your payment using:

- your financial institution's online or telephone banking services;
- the CRA's My Payment service at [www.cra.gc.ca/mypayment](http://www.cra.gc.ca/mypayment); or
- pre-authorized debit at [www.cra.gc.ca/mybusinessaccount](http://www.cra.gc.ca/mybusinessaccount).

For more information on all payment options, go to [www.canada.ca/payments](http://www.canada.ca/payments).

## For more information

### What if you need help?

If you need more information after reading this guide, go to [www.cra.gc.ca/payroll](http://www.cra.gc.ca/payroll) or call 1-800-959-5525.

### Direct deposit

Direct deposit is a faster, more convenient, reliable, and secure way to get your refunds directly into your account at a financial institution in Canada.

For more information, go to [www.cra.gc.ca/directdeposit](http://www.cra.gc.ca/directdeposit).

### Forms and publications

To get our forms and publications, go to [www.cra.gc.ca/forms](http://www.cra.gc.ca/forms) or call 1-800-959-5525.

### Electronic mailing lists

We can notify you by email when new information on a subject of interest to you is available on our website. To subscribe to our electronic mailing lists, go to [www.cra.gc.ca/lists](http://www.cra.gc.ca/lists).

### Teletypewriter (TTY) users

TTY users can call 1-800-665-0354 for bilingual assistance during regular business hours.

### Tax information videos

We have a number of tax information videos for small businesses on topics such as business income and expenses, GST/HST, and payroll. To watch our videos, go to [www.cra.gc.ca/videogallery](http://www.cra.gc.ca/videogallery).

### Service complaints

You can expect to be treated fairly under clear and established rules, and get a high level of service each time you deal with the Canada Revenue Agency (CRA); see the *Taxpayer Bill of Rights*.

If you are not satisfied with the service you received, try to resolve the matter with the CRA employee you have been dealing with or call the telephone number provided in the CRA's correspondence. If you do not have contact information, go to [www.cra.gc.ca/contact](http://www.cra.gc.ca/contact).

If you still disagree with the way your concerns were addressed, you can ask to discuss the matter with the employee's supervisor.

If you are still not satisfied, you can file a service complaint by filling out Form RC193, *Service-Related Complaint*.

If the CRA has not resolved your service-related complaint, you can submit a complaint with the Office of the Taxpayers' Ombudsman.

For more information, go to [www.cra.gc.ca/complaints](http://www.cra.gc.ca/complaints) or see Booklet RC4420, *Information on CRA – Service Complaints*.

### Reprisal complaint

If you believe that you have experienced reprisal, fill out Form RC459, *Reprisal Complaint*.

For more information about reprisal complaints, go to [www.cra.gc.ca/reprisalcomplaints](http://www.cra.gc.ca/reprisalcomplaints).

### Addresses

#### Ottawa Technology Centre

875 Heron Road  
Ottawa ON K1A 1A2

#### Tax services offices

To find out where to send your requests, go to [www.cra.gc.ca/tso](http://www.cra.gc.ca/tso) or call 1-800-959-5525.

#### Tax centres

Jonquière Tax Centre  
2251 René-Lévesque Boulevard  
Jonquière QC G7S 5J1

Shawinigan-Sud Tax Centre  
4695 12e Avenue  
Shawinigan-Sud QC G9P 5H9

St. John's Tax Centre  
290 Empire Avenue  
St. John's NL A1B 3Z1

Sudbury Tax Centre  
1050 Notre Dame Avenue  
Sudbury ON P3A 5C1

Summerside Tax Centre  
275 Pope Road  
Summerside PE C1N 6A2

Surrey Tax Centre  
9755 King George Boulevard  
Surrey BC V3T 5E1

Winnipeg Tax Centre  
66 Stapon Road  
Winnipeg MB R3C 3M2

### Publications for employers

- Guide T4032, *Payroll Deductions Tables*
- Guide RC4120, *Employers' Guide – Filing the T4 Slip and Summary*
- Guide T4130, *Employers' Guide – Taxable Benefits and Allowances*
- Guide RC4157, *Deducting Income Tax on Pension and Other Income, and Filing the T4A Slip and Summary*
- Guide RC4110, *Employee or Self-Employed?*

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