



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, liquidator, administrator, or corporate director.

For information on drivers of taxis and other passenger-carrying vehicles, barbers, and hairdressers, see page 33.

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

If you have a visual impairment, you can get our publications in braille, large print, or etext (CD or diskette), or MP3. For more information, go to [www.cra.gc.ca/alternate](http://www.cra.gc.ca/alternate) or call us at **1-800-959-2221**.

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

## What's New for 2009?

### Mandatory electronic filing

Effective January 1, 2010, you **must** file information returns by Internet File Transfer in eXtensible mark up language (XML) **if you file more than 50 information returns (slips)** of a specific type such as a T4 or a T4A, for a calendar year. Mandatory electronic filing relates to the date of filing, not the tax year of the returns being filed. For more information, see Guides RC4120, *Employers' Guide – Filing the T4 Slip and Summary*, and RC4157, *Deducting Income Tax on Pension and Other Income, and Filing the T4A Slip and Summary*.

### CPP clarification

We have clarified the rules for calculating CPP contributions in special circumstances, such as an employee turning 18 or 70. For more information, see "Special CPP situations" on page 12.

### Current rates available on the CRA Web site

This guide was printed before the Canada Pension Plan (CPP) and Employment Insurance (EI) rates for 2010 were released. To obtain the current rates and maximums for 2010, go to [www.cra.gc.ca/payroll](http://www.cra.gc.ca/payroll), or get the January *Payroll Deductions Tables* (T4032).

### New payment method

My Payment is a new payment option that allows individuals and businesses to make payments online, using the Canada Revenue Agency's Web site, from an account at a participating Canadian financial institution. For more information on this self-service option, go to My Payment.

## Remittance due dates

For information on remitter types and remitting payroll deductions, see Chapter 8.

For information on remitting methods, see page 41.

### New or regular remitter

We have to **receive** your deductions on or before the 15th day of the month after the month you made them. If your remittance due date is a Saturday, Sunday or public holiday, 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).

### Quarterly remitter

If you are eligible for quarterly remitting, 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; and
- October to December.

The due dates are April 15, July 15, October 15, and January 15.

### Accelerated remitter

#### Threshold 1

We have to **receive** your deductions by the following dates:

- for remuneration paid before the 16th day of the month, by the 25th day of the same month;
- for remuneration paid after the 15th day of the month but before the first day of the following month, by the 10th day of the following month.

#### Threshold 2

As a threshold 2 remitter, you have to remit your deductions through a Canadian financial institution. We have to **receive** your deductions from your Canadian financial institution by the third working day after the end of the following periods:

- the 1st through the 7th day of the month;
- the 8th through the 14th day of the month;
- the 15th through the 21st day of the month; and
- the 22nd through the last day of the month.

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 subject to a penalty of 3% of the amount due.

All payments made **after** the due date are subject to graduated penalty rates. For details, see page 9.

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## Chapter 1 – General information

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

You need to register for a payroll account if you:

- pay salaries or wages;
- pay tips and gratuities;
- pay bonuses and vacation pay;
- provide benefits and 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 account and you already have a Business Number (BN), you only need to add a payroll account to your existing BN. However, if you don't have a BN, you must request one and register for a payroll account before your first remittance due date.

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

### 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, bookkeeper, lawyer, or a firm, to act on your account matters with us.

You can authorize a representative electronically through My Business Account at [www.cra.gc.ca/mybusinessaccount](http://www.cra.gc.ca/mybusinessaccount), or by completing Form RC59, *Business Consent Form*, or a letter of consent and sending it to your tax centre.

This will allow us to communicate with your authorized representative without delay. As well, once authorized, the employees or representatives can access your information through the Represent a Client service at [www.cra.gc.ca/representatives](http://www.cra.gc.ca/representatives).

The protection of confidential information is important to us. Go to [www.cra.gc.ca/mybusinessaccount](http://www.cra.gc.ca/mybusinessaccount) or call us at 1-800-959-5525 to get information on how to add, replace, or delete your authorized 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, since January 1, 2006, the Quebec Parental Insurance Plan (QPIP).

Employers with employees in Quebec have to deduct contributions for the QPP instead of the CPP, if the employment is pensionable under the QPP. Employers have to take deductions for both the QPIP and EI, if the employment is insurable. The QPP, QPIP, and Quebec provincial income tax deductions are sent to Revenu Québec, while the EI and federal tax deductions are sent to the CRA.

Visit the Revenu Québec Web site at [www.revenu.gouv.qc.ca](http://www.revenu.gouv.qc.ca) or write to Revenu Québec, 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 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 employment arrangement between the worker and the payer is an employer-employee relationship. We explain this relationship in this guide as employment under a contract of service. Although a written contract might indicate that an individual is self-employed (working under a contract for services), we may not consider the individual as such if there is evidence of an employer-employee relationship.

If you or a person working for you is not sure of the worker's employment status, either party can request a ruling to have the status determined. Business owners can request the ruling electronically by using My Business Account at [www.cra.gc.ca/mybusinessaccount](http://www.cra.gc.ca/mybusinessaccount). As well, you can 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 the CPP/EI Rulings Division of 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, receiver, receiver-manager, trustee in bankruptcy, assignee, executor, administrator, 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 liable for deducting and remitting the 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 the bankrupt employer in the event of an employer's liquidation, assignment, or bankruptcy.

If a bankrupt employer has deducted Canada Pension Plan (CPP) contributions, Employment Insurance (EI) premiums, or income tax from amounts employees received before the bankruptcy and the employer 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 carries on the bankrupt employer's business, a new (BN) is required. 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 slips should be prepared and filed in the usual way.

#### Note

Amounts paid by a trustee 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 is not subject to CPP, EI, and income tax withholdings. These payments are to be reported on T4A 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, a new BN is required. The trustee has to continue to deduct and remit the necessary CPP contributions, EI premiums, and income tax according to the previous employer's remittance schedule. The trustee should also prepare and file T4 slips 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.

#### Payer of other amounts

A payer of other amounts can be an employer, trustee, estate executor, liquidator, 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 publication or in Guide RC4157, *Deducting Income Tax on Pension and Other Income, and Filing the T4A Slip and Summary*. These amounts are to be reported on a T4A slip.

#### 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 responsibilities the employer, and in some circumstances, the trustee and payer must follow:

- Open and maintain a payroll account. If you meet the criteria to open an account on page 5, you must register to obtain one.

- Get your employee's social insurance number (SIN). Every employee must show you his or her SIN card to work in Canada. See the SIN topic on this page.
- Obtain a completed federal TD1 and, if applicable, a provincial or territorial TD1. New employees or recipients of other amounts such as pension income must complete this form. See page 21.
- Deduct CPP contributions, EI premiums, and income tax from remuneration or other amounts, including taxable benefits and allowances, you pay. 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 will explain how to calculate your share of contributions/premiums and the last chapter explains how and when to remit these amounts.
- Report the employees' 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*.
- Complete and issue Form INS 2106, *Record of Employment*, (ROE) when an employee leaves. For more information, see page 19.
- Keep records of what you do as our officers can ask to see them. See "Keeping records" on this page.

#### Note

Employers resident outside Canada who have employees in Canada have the same responsibilities as Canadian employers, except that CPP coverage is optional in this case.

#### Keeping records

You have to keep your records for six years. If you want to destroy them before the six-year period is over, you have to get permission from the director of a tax services office. To do this, either use Form T137, *Request for Destruction of Records*, or prepare your own written request. For more information, go to [www.cra.gc.ca/records](http://www.cra.gc.ca/records) or see Guide RC4409, *Keeping Records*.

#### Social insurance number (SIN)

As an employer, you have to get the correct SIN from each employee. Every person employed in pensionable or insurable employment has to show you their SIN card. If the employee does not give you his or her SIN, you should be able to show that you made a reasonable effort to get it. For example, if you contact an employee by mail to ask for his or her SIN, be sure to record the date of your request and keep a copy of any correspondence that relates to it. We consider this to be a reasonable effort. If you do not make a reasonable effort to get a SIN, you may be subject to a penalty of \$100 for each failure. Employees also have an

obligation to provide you their SIN. If an employee does not do this, the employee may be subject to a penalty of \$100 for each failure.

Under the *Canada Pension Plan Regulations*, you have to tell your employees who don't have a SIN card how to get a SIN. Refer them to their **Service Canada Centre** within three days of the day they start work and ask them to provide you with proof of application as well as to show you their SIN card once they receive it. To find the nearest Service Canada Centre, visit [www.servicecanada.gc.ca](http://www.servicecanada.gc.ca).

Always use the correct name and number as shown on the employee's SIN card. **An incorrect SIN can affect an employee's future CPP benefits if the record of earnings file is not accurate.** Also, if you report an incorrect SIN on a T4 slip that has a pension adjustment (PA) amount, the employee may receive an inaccurate annual Registered Retirement Savings Plan (RRSP) deduction limit statement. In addition, the related information on the employee's notice of assessment will be inaccurate.

When an employee has an interruption in earnings, you have to record the correct SIN on a *Record of Employment* (ROE) for EI purposes (for details on the ROE, see page 19). **If you don't, you could be fined up to \$2,000, imprisoned for up to six months, or both.**

#### Notes

Until you receive your employee's SIN, you still have to make deductions and file your information returns on or before the last day of February of the following calendar year. If you do not, you may be subject to a penalty for late filing.

If you filed a T4 slip without a SIN but subsequently received it, 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.

For more information, see Information Circular 82-2, *Social Insurance Number Legislation That Relates to the Preparation of Information Slips* or visit the Service Canada Web site 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 a SIN 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 the number "9";
- the SIN card has an expiry date; and
- the person has a valid work permit issued by Citizenship and Immigration Canada (CIC).

#### Note

If the SIN card does not have an expiry date, the card is not valid. Refer the person to the nearest Service Canada Centre. If the eligible person 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.

You can get any of the following versions of the payroll deductions tables:

- You can use our **Payroll Deductions Online Calculator** (PDOC) to calculate your payroll deductions. The calculator has similar features as the Tables on Diskette (TOD) program. However, PDOC calculates the deductions based on exact salary figures and TOD bases the calculations on a salary range. You can use PDOC by going to [www.cra.gc.ca/pdoc](http://www.cra.gc.ca/pdoc).
- **Tables on Diskette (TOD)** – TOD is a stand-alone computer program that calculates payroll deductions for any pay periods, provinces (except Quebec), and territories. You can download this program from [www.cra.gc.ca/tod](http://www.cra.gc.ca/tod).
- **Payroll Deductions Tables (T4032) and Payroll Deductions Supplementary Tables (T4008)** – You can use these tables to calculate payroll deductions. They are available at [www.cra.gc.ca/payroll](http://www.cra.gc.ca/payroll) or in paper format. The electronic versions are usually available three weeks before the printed copies are available.
- **Payroll Deductions Formulas for Computer Programs (T4127)** – You may want to use these formulas instead of the printed tables to calculate your employees' payroll deductions. This publication contains formulas to calculate CPP contributions, EI premiums, and federal, provincial (except Quebec), and territorial income tax.

If the computer formulas you want to use are different from ours, you have to submit them to any tax services office or tax centre for approval.

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

## Which tax tables should you use?

When you pay employment income such as salaries, wages, or commissions, you have to determine your employee's province or territory of employment. This depends on whether or not you require your employee to report for work at your place of business.

#### Note

Your "place of business" does not have to be a permanent physical location. For example, the place of business for a construction company can include one or more construction sites.

**If the employee reports for work at your place of business, the province or territory of employment is the province or territory where your business is located. To deduct payroll deductions, use the tax tables for that province or territory of employment.**

### Example 1

Your head office is in Ontario, but you require 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 require 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 head office is in Ontario. Your employee works from a home office in Alberta, but occasionally has to report to your Alberta office. In this case, use the *Alberta Payroll Deductions Tables*.

**If you do not require your employee to report for work at your place of business, (for example, per the employment contract, the employee works from a home office), the employee's province or territory of employment is the province or territory where your business is located and from where you pay your employee's salary.**

### Example

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 is not subject to CPP contributions, but could be subject to Quebec Pension Plan (QPP) contributions.

**If you have employees working in Canada but you do not have a permanent or deemed business establishment in Canada, the employees are considered employed in Canada beyond the limits of any province for purposes of tax at source.**

### Example

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 *In Canada Beyond the Limits of any Province or Outside Canada Payroll Deductions Tables*.

### Notes

An employee who lives in one province or territory but works in another one may be subject to excessive tax deductions. If so, he or she can ask for a reduction in tax deductions by getting a letter of authority from any tax services office. For more information, see "Letter of authority" on page 23.

An employee who lives in one province or territory but works in another may not have enough tax deducted. If this is the case, the employee should request additional tax deductions on Form TD1, *Personal Tax Credits Return*.

If you paid amounts other than employment income, such as pension income, use the provincial or territorial table of the recipient's province or territory of residence.

For more information on which tax table to use, see Appendix 1 on page 43.

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

Inform us by using My Business Account, by calling our TeleReply service, or by sending us your completed remittance form and indicate when you expect to have employees subject to deductions. For more information on My Business Account (MyBA), go to [www.cra.gc.ca/mybusinessaccount](http://www.cra.gc.ca/mybusinessaccount).

To find out how to use our TeleReply service, see page 41.

## Changes to your business entity

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

- Remit all CPP contributions, EI premiums, and income tax withheld 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).
- Prepare and give a Record of Employment (ROE) to each former employee, generally within five calendar days. For more information, see "Record of Employment (ROE)" on page 19.
- Complete and file all T4 or T4A slips and summaries with the Ottawa Technology Centre or electronically within 30 days of the day your business ends (90 days for estates). If you file more than 50 slips for a calendar year, you must file the return by Internet File Transfer in eXtensible mark-up language (XML). Distribute copies of the T4 or T4A slips to your former employees.
- When the owner of a sole proprietorship dies, a final personal 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*.

It will also be necessary to close the Business Number and all CRA business accounts after all the final returns and all the amounts owing have been processed.

To find out how to complete and file the T4 or T4A slips and summary, go to [www.cra.gc.ca/payroll](http://www.cra.gc.ca/payroll), or get Guides RC4120, *Employers' Guide – Filing the T4 Slip and Summary* or RC4157, *Deducting Income Tax on Pension and Other Income, and Filing the T4A Slip and Summary*.

### If you change your business status

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

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.
- You and your partners own part of a business. The group decides to incorporate.

## If your business changes its structure or organization

A successor employer who has acquired all or part of a business and who has immediately succeeded the former employer as the new employer of an employee, may, under certain circumstances, take into consideration the amounts deducted, remitted, or paid under the *Canada Pension Plan* and/or the *Employment Insurance Act*. Go to [www.cra.gc.ca/cppeexplained](http://www.cra.gc.ca/cppeexplained) to see if you can benefit from these circumstances.

## 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 companies, or you can apply for a new one. If one of the companies is non-resident, however, you **have to** apply for a new BN.

Since no new employer exists for CPP and EI purposes, continue deducting in the normal manner, taking into account the deductions and remittances that occurred before the amalgamation. These remittances will be reported under the payroll account of the successor BN. If you had previously been granted a reduced employer's EI remittance rate, you will need to contact Human Resources and Skills Development Canada to make sure you are still eligible for the reduced rate.

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

## Filing information returns

You have to file a T4 or T4A information return, as applicable, and forward information slips to your employees each year, on or before the last day of February of the following calendar year.

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 get one of the related publications listed on page 51. For information on filing electronically, visit [www.cra.gc.ca/t4internet](http://www.cra.gc.ca/t4internet) or [www.cra.gc.ca/electronicmedia](http://www.cra.gc.ca/electronicmedia).

## Penalties and interest

### Failure to deduct

We can assess a penalty of 10% of the required amount of CPP, EI, and income tax you failed to deduct.

If you are subject to this penalty more than once in a calendar year, we may 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 late remittances

We can assess a penalty of up to 20% of the amount you failed to remit when:

- you deduct the amounts, but do not remit them or;
- we receive the amounts you deducted after the due date.

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

The penalty for **remitting late** 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 that is more than \$500. However, we may apply the penalty to the total amount if the failure was made knowingly or under circumstances of gross negligence.

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

For more information, see "Remittance due dates" on page 3 and "Remitter types and due dates" on page 38.

#### Note

We will apply a penalty on a non-sufficient funds (NSF) cheque.

### Interest

If you fail to pay an amount, we may apply interest from the day your payment was due using prescribed interest rates. Interest is compounded daily. We also apply interest to unpaid penalties. For the prescribed interest rates we use, visit our Web site at [www.cra.gc.ca](http://www.cra.gc.ca).

For due dates, see pages 3 and 38.

## Obligations and liabilities

### Offences and punishment

If you fail to comply with the deducting, remitting, and reporting requirements, you may be prosecuted. You could be fined from \$1,000 up 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 corporations) fails to 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 may be held personally 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 Information Circular 89-2, *Director's Liability – Section 227.1 of the Income Tax Act, Section 323 of the Excise Tax Act*.

## Cancelling or waiving penalties and interest

The taxpayer relief provisions of the *Income Tax Act* give us some discretion to cancel or waive all or a part of any penalties and interest charges. This flexibility allows us to consider extraordinary circumstances that may have prevented you from fulfilling your obligations under the *Income Tax Act*. Go to [www.cra.gc.ca/fairness](http://www.cra.gc.ca/fairness) or see Information Circular 07-1, *Taxpayer Relief Provisions*.

## How to appeal an assessment or a ruling

If you receive an assessment for CPP contributions, EI premiums, or income tax that you do not agree with, or you have received a rulings letter and you disagree with the decision, you have 90 days after the date of the assessment or notification of the ruling to appeal. However, before you file an appeal, you may want to call us at 1-800-959-5525 to discuss the matter. This could solve the problem and save you the time and trouble of appealing.

To appeal the amount of **income tax** that we indicate you owe, you can:

- appeal electronically using My Business Account by going to [www.cra.gc.ca/mybusinessaccount](http://www.cra.gc.ca/mybusinessaccount);
- file Form T400A, *Objection – Income Tax Act*; or
- write to the Chief of Appeals of your tax services office explaining why you do not agree with the assessment or ruling, and provide all related facts. Include a copy of the official assessment notice or ruling letter.

To appeal the **CPP contributions** or **EI premiums** that we indicate you owe, or to appeal a **rulings decision**, you can:

- appeal electronically using My Business Account by going to [www.cra.gc.ca/mybusinessaccount](http://www.cra.gc.ca/mybusinessaccount);
- file Form CPT100, *Appeal Under the Canada Pension Plan and/or Employment Insurance Act*; or
- file Form CPT101, *Appeal of an Assessment Under the Canada Pension Plan and/or Employment Insurance Act*; or
- write to the Chief of Appeals of your tax services office explaining why you do not agree with the assessment notice or ruling, and provide all related facts. Include a copy of the official assessment or ruling letter.

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

## Chapter 2 – Canada Pension Plan contributions

For Canada Pension Plan (CPP) purposes, contributions are not calculated from the first dollar of pensionable

earnings. Contributions are calculated using the amount of pensionable earnings less an exempt amount that is based on the period of employment.

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 apparent 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 to which they are not entitled (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 18 or older, but **younger** than 70;
- is in pensionable employment during the year; **and**
- does **not** receive a CPP or QPP retirement or disability pension.

### Notes

CPP deductions should start effective the first pay dated on or after the first of the month following the employee's 18th birthday. For this situation, see "Special CPP situations" on page 12.

Quebec employers deduct Quebec Pension Plan (QPP) contributions instead of CPP contributions. For information on deducting and remitting the QPP, see the publication TP-1015.G-V, *Guide for Employers: Source Deductions and Contributions*, which you can get from Revenu Québec (see page 5).

## Amounts and benefits subject to 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), wages in lieu of termination notice;
- most cash/non-cash taxable benefits and allowances, including 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, employer contributions to an employee's registered retirement savings plan (RRSP), group term life insurance premiums, personal use of an automobile

that you as the employer own or lease, holiday trips, subsidized meals, and certain gifts, prizes, and awards;

- 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);
- certain tips and gratuities received for services performed;
- remuneration received while retired, 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;
- wage-loss benefits that an employee receives from a wage-loss replacement plan (these benefits may or may not be subject to CPP contributions—for more information, see page 31);
- 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 workers' compensation award;
  - any advance or loan not repaid to you; or
  - a top-up amount you pay in addition to the workers' compensation award paid by a workers' compensation board.

#### Note

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

## Types of employment and amounts not subject to CPP contributions

### Excluded employment

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

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

#### Note

In a calendar year, if the employee reaches both minimums—\$250.00 or more in cash remuneration and

works 25 days or more—the employment is pensionable starting from the first day of work.

- 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 that you maintain if no cash remuneration is paid;
- employment of a person in a rescue, including a disaster operation, as long as you do not regularly employ that person for that purpose;
- 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;

#### Note

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

- 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

When the employee works 35 hours or more, the employment is pensionable from the first day of work.

- 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.

## Excluded 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 supplementary unemployment benefit plan (SUBP) that qualifies as a SUBP under the *Income Tax Act*;
- wage-loss benefits that an employee receives from a wage-loss replacement plan (these benefits may or may not be subject to CPP contributions—for information, see page 31);
- payments you make after an employee dies, except for amounts the employee earned and was owed before the date of death;
- an advance or a loan equal to a workers' compensation award you pay to an employee, before or after the workers' compensation board claim is decided (for information on situations when CPP contributions are required, see "Amounts and benefits subject to

CPP contributions” on page 10, and for information on workers’ compensation awards, see page 31);

- amounts for the residence of a clergy member if he 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 the amounts and benefits you pay or provide to your employees. In addition, you must contribute the **same amount** that you deduct from your employees’ remuneration.

### Example

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

Each year, we determine:

- the **maximum pensionable earnings** from which you deduct CPP (\$46,300 for 2009);
- the **annual basic exemption**, which is a base amount from which you do not deduct CPP contributions (\$3,500 for 2009 – see Appendix 2); and
- the **rate** you use to calculate the amount to deduct from your employees (4.95% for 2009).

You stop deducting CPP contributions when the employee’s annual earnings reach the maximum pensionable earnings or the maximum employee contribution for the year (\$2,118.60 for 2009).

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

### Note

The annual maximum pensionable earnings 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 was paid by the previous employer. This is the case even if the employee has paid the maximum contribution amount during the previous employment. If your business went through a restructure or reorganization, see page 9.

Any overpayments will be refunded to employees when they file their income tax and benefit returns. Employers are not entitled to a refund.

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 have to prepare **two** T4 slips:

- one showing the province of employment as Quebec, the remuneration the employee earned in Quebec, the QPP contributions deducted, the applicable pensionable earnings, and any other applicable deductions; and
- the other showing the other province or territory of employment, the remuneration the employee earned in that other province or territory, the CPP contributions deducted, the applicable pensionable earnings, and any other applicable deductions.

In such a case, when calculating the amount of CPP contributions, you can take into account the QPP contributions you deducted from that employee throughout the year. The total contributions to both plans **cannot** be more than the maximum contribution for the year.

## Calculating the CPP deduction

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

- the payroll deductions online calculator (PDOC);
- the tables on diskette (TOD);
- the payroll deductions tables; or
- computer formulas.

### 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 7.

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 44. For multiple pay periods, or to verify the CPP contributions deducted at the end of the year before completing the T4 slip, use the calculation in Appendix 3 on page 45.

### 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.

## Special CPP situations

You will have to either start deducting, or stop deducting, CPP contributions under the following circumstances.

**Your employee turns 18** – start deducting CPP contributions for the first pay dated in the month after the employee turns 18.

**Your employee turns 70** – deduct CPP contributions up to and including the last pay dated in the month in which the employee turns 70.

**Your employee has received a CPP retirement pension award letter from HRSDC** – For details, see “Employees who are between 60 and 70 years old,” on the next page.

**Your employee is considered to be disabled under the CPP** – deduct CPP contributions up to and including the last pay dated in the month in which the employee is considered to be disabled.

**Note**

If the employee is no longer considered disabled under the CPP, start deducting CPP contributions in the first pay dated in the month after the employee ceases to be considered 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.

In some cases, the requirements are different for QPP. For information, see the publication TP-1015.G-V, *Guide for Employers: Source Deductions and Contributions*, which you can get from Revenu Québec (see page 5).

**Note**

If any of these special situations apply to your employees, you may need to prorate their contributions for the year. For more information, go to [www.cra-arc.gc.ca/payroll](http://www.cra-arc.gc.ca/payroll), and select “General information” under the **Canada Pension Plan** listing in the Payroll Alphabetical Index.

**Example 1**

Brent turned 18 on June 15, 2009. He receives \$1,000 every two weeks (\$26,000 a year). This amount is less than the maximum pensionable earnings (\$46,300 for 2009) that are subject to CPP contributions. You have to calculate Brent’s CPP contributions, starting in the first pay dated in July, the month **after** he turns 18.

**January to June 2009**

No CPP contributions.

**July to December 2009**

■ Pay period: biweekly.

■ Brent’s first pay in July is July 12, for the period June 29 to July 12.

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

<b>Step 1:</b> Brent’s pensionable earnings	=	\$1,000.00
<b>Step 2:</b> Basic exemption for the period from the table in Appendix 2	=	\$134.61
<b>Step 3:</b> Pensionable earnings minus basic exemption	=	\$865.39
<b>Step 4:</b> CPP contribution rate for 2009	=	4.95%
<b>Step 5:</b> CPP contribution per pay period	=	\$42.84

You will have to start deducting \$42.84 from each of Brent’s paycheques, beginning with the cheque dated July 12.

**Example 2**

Maria turns 70 on February 15, 2009. She receives \$900 per week (\$46,800 per year). This amount is more than the maximum pensionable earnings (\$46,300 for 2009) that are subject to CPP contributions. Her last paycheque in February is dated February 27th.

**January to February 2009**

■ Pay period: weekly

■ Earnings: \$900

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

<b>Step 1:</b> Maria’s pensionable earnings	=	\$900.00
<b>Step 2:</b> Basic exemption for the period from the table in Appendix 2	=	\$67.30
<b>Step 3:</b> Pensionable earnings minus basic exemption	=	\$832.70
<b>Step 4:</b> CPP contribution rate for 2009	=	4.95%
<b>Step 5:</b> CPP contribution per pay period	=	\$41.21

Maria’s CPP contributions will be \$41.21 each pay, up to and including her pay dated February 27.

**Employees who are between 60 and 70 years old**

These employees can apply for a CPP retirement pension. You have to deduct CPP contributions from their remuneration until the end of the month before the month that the pension becomes payable.

Human Resources and Skills Development Canada (HRSDC) sends an award letter to employees who get a pension. The letter indicates the date the pension becomes payable. **An employee has to show you this letter to prove that contributions are no longer required.**

An employee may work after the age of 60 and not apply for a CPP retirement pension. As a result, you have to deduct contributions until the end of whichever occurs first:

- the month before the employee receives the retirement pension; or
- the month in which the employee turns 70.

For information on eligibility for a CPP retirement pension, contact Service Canada or visit [www.servicecanada.gc.ca](http://www.servicecanada.gc.ca).

**Note**

The requirements are different for QPP. For information on QPP, see the publication TP-1015.G-V, *Guide for Employers: Source Deductions and Contributions*, which you can get from Revenu Québec.

**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 maximum contribution for the number of days in the year between payments.

**Example**

Sylvie, your employee, works on commission. You pay her only when she sells something. On June 1, 2009, you paid her a \$1,800 commission. The last time you paid her a commission was March 16, 2009. There are 76 days between these two payments.

Calculate the required contribution for 2009 as follows:

- Prorate the basic yearly exemption:  
 $76 \div 365 \text{ (days)} \times \$3,500 = \$728.76$
- You have to deduct CPP contributions of:  
 $\$1,800 - \$728.76 = \$1,071.24$   
 $\$1,071.24 \times 4.95\% = \$53.02$

## 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 the CRA payroll 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 T4 slip of the employee. If you reported the employee's overpayment on the T4 slip, you can ask for a refund by completing Form PD24, *Application for a Refund of Overdeducted CPP Contributions or EI Premiums*. Your request must be made 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 employer and employee share).

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 of remuneration. 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. Instead, the CRA will amend the previous year's T4 slips and send them to you.

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>	

Details on the pensionable and insurable earnings review (PIER) are contained in 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 completing Form CPT13, *Application for Coverage of Employment in Canada Under the Canada Pension Plan by an Employer Resident Outside Canada*.

## 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—CPP or a foreign social security plan.

To find out which country has CPP coverage provisions with Canada and to obtain the specific CPT application form number, see Appendix 4 on page 46.

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).

### 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, boul. René-Lévesque Est, 13<sup>e</sup> étage  
 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, you should not deduct any more premiums, even though the excess remuneration is still considered insurable. For 2009, the maximum annual insurable earnings is \$42,300.

## 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 (employer-employee relationship—see page 5). There is no age limit for deducting EI premiums. Some employment outside Canada is also insurable (see page 35).

### Note

Certain workers who are not employees might be considered to be in insurable employment. Examples of such workers are taxi and other passenger-vehicle drivers, barbers and hairdressers, and fishers (see page 33).

## Amounts and benefits subject to 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 from employment or office, a share of profit that an employer paid, incentive payments, management fees, and other fees if paid in the course of insurable employment;
- certain tips and gratuities received for services performed;
- remuneration received while on vacation, furlough, sabbatical, sick leave, or for vacation pay;
- payments made to individuals who holds an office in a union or an association of unions;
- wage-loss benefits that an employee receives from a wage-loss replacement plan (these benefits may or may not be subject to EI premiums—for more information, see page 31); 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 workers' compensation award;
  - 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 rate in effect when you make the payment.

## Employment, benefits and payments not subject to EI premiums

Certain conditions must be met if the employment of an individual holding an office in the private, municipal or academic sectors applies. This list is not exhaustive: mayors, municipal councillors, school commissioners, chiefs of Indian bands, band councillors, executors, liquidators, or administrators for settling estates, members of a board of referees at the Commission of Canada Employment Insurance, corporation directors, or any other position when a person is elected or appointed to that office.

## Excluded employment

Even if there is a contract of service, employment is **not insurable** and is not subject to EI premiums in the following situations:

- casual employment if it is not for your usual trade or business;
- 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 and non-related persons:
  - Related persons: individuals connected by blood relationship, marriage, common-law relationship, or adoption. In cases where the employer is a corporation, the employee will be related to the corporation when the employee 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 that you deal with at arm's length.
  - Non-related persons: an employment contract between you and a non-related employee can be determined to 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.

If you have any doubts as to whether or not you should deduct EI premiums when employing family members or non-related employees whose circumstances of employment are unusual, we suggest you request a ruling using our My Business Account service at [www.cra.gc.ca/mybusinessaccount](http://www.cra.gc.ca/mybusinessaccount), or by completing 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 sending it to the CPP/EI Rulings Division of your tax services office.

- when a corporation employs a person who controls more than 40% of the corporation's voting shares;
- employment that is an exchange of work or services;
- employment by an employer in agriculture, in an agricultural enterprise, or in horticulture when:
  - the person receives no cash remuneration; or
  - works less than seven days with the same employer during the year;

**Note**

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

- 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;

**Note**

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

- employment of a person in a rescue operation, as long as you do not regularly employ that person for that purpose;
- 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 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 someone to pay premiums 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 HRSDC agrees); or
- employment under the "Self-employment assistance" and "Job creation partnerships" employment benefits

established by the Canada Employment and Immigration Commission under section 59 of the *Employment Insurance Act*, or under a similar benefit that a provincial government or other organization provides and is the subject of an agreement under section 63 of the *Employment Insurance Act*.

## Excluded benefits and payments

Do not deduct EI premiums from the following types of benefits and payments:

- a payment made under a registered supplementary unemployment benefit plan 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 (i.e. salary, banked overtime, bonus, vacation, etc) before the death of an employee and not yet paid at the time of death are not subject to EI premiums;
- 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 HBP or the 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 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 the make-up of a retiring allowance, see page 28);
- 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 does 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 a loan equal to the workers' compensation award that you pay to employees before or after the workers' compensation board claim is decided (see page 31);
- a top-up amount you pay to an employee in addition to the workers' compensation award paid by a workers' compensation board after the workers' compensation board is decided (see page 32);
- top-ups to wage-loss replacement plans that are not subject to EI premiums (see page 31).

## EI premium rate and maximum

You have to deduct EI premiums from insurable earnings you pay to your employees. In addition, you must pay **1.4 times** the amount of the employee's premiums.

### 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>

Each year, we determine:

- the **maximum annual insurable earnings** from which you deduct EI (\$42,300 for 2009); and
- a **premium rate** that you use to calculate the amount to deduct from your employees (1.73% for 2009—for Quebec, use 1.38%).

You stop deducting EI premiums when you reach the employee's maximum annual insurable earnings or the maximum annual employee premium (\$731.79 for 2009—the maximum is \$583.74 for Quebec).

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

### Notes

The annual maximum for insurable earnings (\$42,300 for 2009) 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 was paid by the previous employer. This is the case even if the employee has paid the maximum premium amount during the previous employment. However, if your business went through a restructure or reorganization, see page 9.

We will credit or refund any overpayments to employees when they file their income tax and benefit return. There is no provision that provides a credit or refund to the employer in such circumstances.

Different EI rates apply for employees working in Quebec as a result of the establishment of the Quebec Parental Insurance Plan (QPIP).

### Example

Hassan makes \$30,000 of insurable earnings in Ontario, and then 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>\$42,300</b>
In Ontario:.....	\$30,000 × 1.73% = \$519.00
In Quebec:.....	\$12,300 × 1.38% = \$169.74
Total premiums.....	<u>\$688.74</u>

## Quebec Parental Insurance Plan

Since January 1, 2006, maternity, parental, and adoption benefits for residents of Quebec are administered by the province of Quebec. The QPIP replaces similar benefits that Quebec residents previously received under the *Employment Insurance Act*.

All employers who have employees working in Quebec deduct a reduced EI premium rate (1.38% for 2009) for all those employees regardless of their province or territory of residence. The maximum annual premium for 2009 is \$583.74.

For information on the QPIP program, visit Revenu Québec's Web site at [www.revenu.gouv.qc.ca](http://www.revenu.gouv.qc.ca).

### Note

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

## 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 EI 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 HRSDC's publication called *Guide for Employers – EI Premium Reduction Program* (IN-041-05-06); 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:

Human Resources and Skills Development Canada  
Premium Reduction Program  
P.O. Box 11000  
Bathurst NB E2A 4T5  
Telephone: **1-800-561-7923**  
Fax: **506-548-7473**  
Web site: **[www.hrsdc.gc.ca](http://www.hrsdc.gc.ca)**

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 account, which will be set at a reduced rate. An officer of the EI Premium Reduction Program will ask you to open, under your BN, an additional payroll account to make a separate remittance for employees not covered by the plan.

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

- For employees covered under an approved plan, report their income and deductions using your payroll 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 account at the standard rate of 1.4 times the employee's 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

Use one of the following methods:

- the payroll deductions online calculator (PDOC);
- the tables on diskette (TOD);
- the payroll deductions tables; or
- computer formulas.

See the section called "Payroll deductions tables," on page 7 to find out which method is best for you.

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

To calculate the EI premiums you should deduct, multiply the employee's insurable earnings by the EI premium rate (1.73% outside Quebec and 1.38% inside Quebec for 2009). Do not exceed the maximum for the year.

As an employer, your EI premium payable is 1.4 times the EI premium payable by each employee (unless a reduced rate applies).

## EI overpayment

If, during a year, you have overdeducted EI premiums from your employee (for example, the maximum amount of insurable earnings was reached, or the employee was not employed in insurable 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 the CRA payroll account equal to the employee and employer portion of the overdeduction. You may reduce a future remittance in the same calendar year.

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 T4 slip of the employee.

If you reported the employee's overpayment on the T4 slip, you can ask us for a refund by completing Form PD24, *Application For a Refund of Overdeducted CPP Contributions or EI Premiums*. Your request must be made 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 and employee share).

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. Instead, the CRA will amend the previous year's T4 slip and send it to you.

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 × 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 contained 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 ( $1.5 \times$  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** – Standby hours are insurable if:

- the standby 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 during a public holiday equals one hour of insurable employment, even if the rate of pay is higher.
- **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, lieu-of-notice payments.

## Record of Employment (ROE)

Generally, you have to give your employee a Record of Employment (ROE) within five days of 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. You may also have to provide an ROE if your business status changes. For more information, see page 8.

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.

To create an ROE for your employee, you can use Service Canada's online ROE Web service, or complete Form INS2106, *Record of Employment (ROE)*.

### Note

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

For more information on the ROE, see the publication called *Employment Insurance – How to Complete the Record of Employment (ROE) form*, which is available at your nearest Service Canada Centre or on their Web site at [www.servicecanada.gc.ca](http://www.servicecanada.gc.ca).

## 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

CPP contributions or EI premiums indicated in the publication 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 difference between the CPP contributions or EI premiums required and the ones you reported, we print the figures on a PIER listing. If you file on electronic media or by Internet 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. The listing will also show any balance due.

#### Notes

You will be 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 listing as payment (either by mail or at your financial institution), do not send the listing back. We only need the listing if you are correcting the figures or a SIN, or are submitting information we should update on our file.

### 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, compassionate care leave or are injured, ill or on leave without pay.

#### Note

If you report insufficient amounts, it could reduce a person's benefits.

### CPP deficiency calculations

If your employee has 52 pensionable weeks during the year, you usually 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 (or box 14 if box 26 is blank) 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 on Appendix 2 and the CPP contribution rate appears on page 12.

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

If you did not report pensionable earnings in box 26 of the T4 slip, we base the calculation of the required CPP contribution on the amount in box 14, "Employment income," up to the maximum employee contribution for the year.

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 "Special CPP situations" on page 12. In these cases, to verify the employee's CPP contributions before you file the T4 slip, use the calculation in Appendix 3 on page 45.

### EI deficiency calculations

**Step 1:** Calculate the required EI premiums, multiply the EI insurable earnings shown in box 24 (or box 14 if box 24 is blank) of the employee's T4 slip.

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

The yearly EI premium rate appears in the publication T4032, *Payroll Deductions Tables*.

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

If you did not report insurable earnings in box 24 of the T4 slip, we base the calculation of the required EI premium on box 14, "Employment income," up to the maximum employee premium for the year.

To verify the employee's EI premiums before you file the T4 slip, you can complete the "Year-end calculation of deductions for employee Employment Insurance premiums." See Appendix 5 on page 47.

If you put an "X" in box 28 (CPP/QPP, EI and PPIP exempt) on the T4 slip and you reported amounts in boxes 16 or 17, and 26 for CPP/QPP, or in boxes 18 and 24 for EI, our processing system ignores the "X." 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, you can report the insurable earnings amount for each period of employment in box 24 on each T4 slip. Reporting these amounts can reduce unnecessary PIER Reports for EI deficiency calculations, especially if the employee worked both inside and outside Quebec.

### Security Options on PIER Reports

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" in box 28 (Exempt) under EI (Employment Insurance). Do **not** place an "X" in the CPP (Canada Pension Plan) exempt box 28, as it may impact the employee's CPP benefits. You may receive a PIER report for a CPP deficiency for this type of taxable benefit. If you do, please contact the tax centre listed to have the PIER report reviewed and resolved.

### Multiple T4 Returns

If you are an employer with a Business Number (BN) that has **multiple** payroll account extensions, we will not send you a PIER report if we detect deficiencies at the time 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.

To get information on how to avoid common reporting errors, see Guide RC4120, *Employers' Guide – Filing the T4 Slip and Summary*.

## 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 complete Form TD1, *Personal Tax Credits Return*.
- Employees who are paid commissions and who claim expenses may choose to complete Form TD1X, *Statement of Commission Income and Expenses for Payroll Tax Deductions*, instead of completing Form TD1.
- Fishers complete 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 be deducted from the income an individual receives in a year.

Individuals who will receive salary, wages, commissions, employment insurance benefits, pensions, or other remuneration **must** complete 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" below.

An employee must complete a TD1 form and file it with the employer when the employee commences employment with that employer. The employee should complete a new TD1 form within seven days of any change that may reasonably be expected to result in a change to their personal tax credits for the year.

Employees who do not complete new forms may be subject to a penalty of \$25 for each day the form is late. The minimum penalty is \$100; which increases by \$25 per day to the maximum of \$2,500.

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

The provincial or territorial Form TD1 the employee completes should be the form for the province or territory of employment. The section "Which tax tables should you use?" on page 7, explains how to determine the province or territory of employment. The same section 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, pension income), use the provincial or territorial 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 us at 1-800-959-5525.

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

### Employment in Quebec

Individuals who work or receive other income (such as pension income) in the province of Quebec have to complete 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 complete a federal Form TD1X, *Statement of Commission Income and Expenses for Payroll Tax Deductions*, **and** a provincial Form TP-1015.R.13.1-V, *Statement of Commissions and Expenses for Source Deduction Purposes*.

Quebec forms can be obtained from Revenu Québec (see page 5).

### 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 located 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 complete 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 file a new federal Form TD1 that shows how much more tax they want deducted. This amount stays the same until they file 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 filing their return. As a result, these

employees may request a reduction in payroll deductions by claiming it on Form TD1.

If you provide housing and travel assistance benefits, see Guides T4130, *Employers' Guide – Taxable Benefits and Allowances*, RC4054, *Ceiling Amounts for Housing Benefits Paid in Prescribed Zones*, and T4039, *Northern Residence Deductions – Places in Prescribed Zones*.

## 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 complete this form instead of 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 elect to complete Form TD1X have to give it to you 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. 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 21.

## 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 commission without expenses**  
If you pay commission at the same time you pay salary, add this amount to the salary, then use the payroll deductions online calculator (PDOC), the tables on diskette (TOD), the computer formula or the manual calculation method found in Part A of the publication T4032, *Payroll Deductions Tables*. 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 and retroactive pay increases" on page 25 to find out how to do this.
- **Employees who earn commission with expenses**  
To calculate the amount of tax to deduct, you can use the

payroll deductions online calculator (PDOC), the tables on diskette (TOD), the computer formula or the manual calculation method found in Part A of the publication T4032, *Payroll Deductions Tables*.

### Notes

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

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

## 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 complete Form TD3F with the designated employer. The designated employer is then responsible to deduct, remit and report the amounts withheld.

## Remuneration subject to income tax

You have to deduct income tax **at source** from the following types of remuneration:

- salary, wages, bonus, commissions or other remuneration (including payroll advances or earnings advances), overtime, and wages in lieu of termination notice;
- most cash/non cash taxable benefits and allowances including 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 a motor vehicle 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);
- 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 benefits that an employee receives from a wage-loss replacement plan (these benefits are taxable but you may not have to deduct tax. For more information, see page 31);
- pensions, retiring allowances (also called severance pay), certain amounts received for wrongful dismissal, and death benefits;
- distribution from a retirement compensation arrangement (RCA);
- additional amounts that you as an employer pay while participating in a job creation project that HRSDC has approved; and
- benefits under the *Employment Insurance Act*.

**Note**

Salary or wages include payroll advances and any other taxable allowances or taxable benefits you should add to the pay periods in which it is received or enjoyed.

## Reducing remuneration subject to 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 on which you have deducted tax for the pay period. The remuneration can be reduced 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;
- employees' 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 24;
- union dues;

**Note**

Rules for union dues are different in Quebec—see the publication TP-1015.G-V, *Guide for Employers: Source Deductions and Contributions*, which you can get from Revenu Québec (see page 5).

- 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 (see the section called "RRSP contributions you withhold from remuneration") on this page;

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

**Example**

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

Basic salary .....	\$500.00
<b>Plus:</b> .....	\$50.00
Gross remuneration.....	\$550.00

**Minus:** weekly deductions for:

RPP Contributions .....	25.00
Union dues .....	\$ 5.50
Living in a prescribed zone (\$8.25 per day × 7 days).....	\$57.75
Total of:.....	\$88.25
Remuneration subject to tax deductions at source ...	\$461.75

## Letter of authority

To reduce remuneration on which you have to deduct tax in situations other than the ones described above, you need a letter of authority from a tax services office. For example, if you do not withhold the deductible RRSP contribution but your employee makes the contributions or payments himself or herself during the year, or if an employee who lives in one province or territory but works in another is subject to excessive tax deductions, the employee has to give you a copy of a letter of authority that we issued.

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**

Canadian resident employees applying for the overseas employment tax credit, non-resident employees who perform services in Canada, and non-resident directors should **not** use Form T1213. See relevant topics below and in Chapters 6 and 7 for details.

## RRSP contributions you withhold from remuneration

As indicated previously, a registered retirement savings plan (RRSP) contribution that you withhold from the remuneration that you pay an employee in a year automatically reduces the remuneration on which you have to deduct tax. However, you have to have reasonable grounds to believe that the employee can deduct the contribution for the year. This applies to an RRSP contribution you withhold from remuneration that is subject to income tax, regardless of the amount of the payment or whether it is paid periodically or in a lump sum.

The employees cannot receive the amounts and then purchase an RRSP themselves. The contributions have to be transferred by the employer directly to the employee's RRSP or to his or her spouse or common-law partner's RRSP (except for the eligible part of a retiring allowance that has to be transferred **only** to the employee's RRSP).

Generally, we consider you to have reasonable grounds to believe your employee can deduct the contribution if you have either confirmation by the employee that the contribution can be deducted for the year, or a copy of his or her RRSP deduction limit statement from a notice of assessment.

Confirmation of the employee's RRSP deduction limit is not needed for the eligible part of a retiring allowance 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 29.

## 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 Interpretation Bulletin IT-167, *Registered Pension Funds or 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 the publication RC4120, *Employers' Guide – Filing the T4 Slip and Summary*.

## Calculating income tax deductions

Use one of the following methods:

- the payroll deductions online calculator (PDOC);
- the *Tables on diskette* (TOD);
- the payroll deductions tables; or
- computer formulas.

To determine which method is best for you, see "Payroll deductions tables," on page 7.

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 Part A of the publication T4032, *Payroll Deductions Tables*.

You have to deduct tax according to the claim code that corresponds to the total claim amount on Form TD1. If an employee states that his or her total expected income from all sources will be less than the total claim amount, 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 21. If you need advice, call us at 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. For other lump-sum payments not described

here, see Guide RC4157, *Deducting Income Tax on Pension and Other Income*, and *Filing the T4A Slip and Summary*.

## 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 Part A of the publication T4032, *Payroll Deductions Tables*.

## Non-resident employees who perform services in Canada

Employees not resident in Canada who are in regular and continuous employment in Canada are subject to tax deductions in the same way as Canadian residents. 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 service in Canada **may** provide relief from Canadian tax deductions.

## Application for a waiver of tax withholding

A non-resident employee who wants a reduction of the withholding based on a tax treaty can send a letter with supporting documentation to the Non-resident Section of their tax services office. For more information, call us at 1-800-959-5525.

### Note

Payments 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) are subject to tax withholdings. 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 to a non-resident of Canada, such as interest, a dividend, rental income, a royalty, pension income, a retiring allowance, or other similar types of income, 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

**F**or 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 48.

## Advances

If you pay part of your employee's salary before the usual payday, you have to deduct CPP, 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 and retroactive pay increases

If you paid bonuses and retroactive pay increases to your employees, you have to deduct the following amounts:

- Canada Pension Plan (CPP) contributions (without taking into consideration the annual basic exemption amount if the payment is on a separate cheque);
- Employment Insurance (EI) premiums; and
- income tax.

### CPP contributions

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

#### Note

Deduct CPP contributions from monies earned before the death of an employee and not yet paid at the time of death.

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 wage record for the year indicates that, to date, you have deducted \$300 in CPP contributions.

Maximum CPP contribution for the year (2009)..... \$2,118.60

Contributions to date for the year ..... \$300.00

Maximum that you can deduct  
for Joseph for the rest of the year ..... \$1,818.60

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

*Tables on Diskette* (TOD) calculates the CPP contributions, EI premiums, and income tax on bonuses and retroactive pay increases.

### EI premiums

You have to deduct EI premiums from bonuses and retroactive pay increases. Make sure that you 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 28.

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:

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

After subtracting the above 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 determine the amount to deduct in the case of a bonus. Example 3 shows you how to manually determine 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 Part D, "Federal tax deductions," and Part E, "Provincial tax deductions." Turn to 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 for the entire year the amount of tax to deduct, 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 Part D “Federal tax deductions” and Part E “Provincial tax deductions.” Turn to 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 Part D, “Federal tax deductions,” and Part E, “Provincial tax deductions.” Turn to 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 represents the tax that you must deduct from the retroactive payment.

## Director’s fees

### Resident and non-resident directors

You have to report director’s fees on a T4 slip, whether paid to a non-resident for services rendered in Canada or to a Canadian resident.

**Notes**

A non-resident director is not considered to be employed in Canada for purposes of the *Income Tax Act*, if he or she does not attend any meeting or perform any other functions **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 ten meetings were held during the year and the non-resident director attended five meetings in Canada, one-half of the flat annual amount paid to the non-resident director would be considered taxable and reportable. The CPP is only deducted if the services are performed wholly in Canada.

Director’s fees are paid to Canadian resident and non-resident directors of a corporation and cannot be paid to a corporation or a self-employed person. Payments must be reported on the director’s 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, CPP is only deducted 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 5.

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.

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#### 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 × 4.95%).....	\$157.16
Employer's contribution .....	<u>\$157.16</u>
<b>Total</b> .....	<u>\$314.32</u>

### EI premiums

Do **not** deduct EI premiums from payments issued 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 5.

### 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. 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 ten meetings were held during the year and the non-resident director attended five meetings in Canada, one-half of the flat annual amount paid to the non-resident director would be subject to income tax deductions at source.

If you only pay director's fees and you estimate that the total of these fees will not be more than the claim amount 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 claim amount on Form TD1, you have to deduct income tax. A non-resident director may not have a claim amount on Form TD1. For more information, see the back of Form TD1.

### Calculation

To calculate the amount to deduct, use the "Federal tax deductions and the Provincial tax deductions – Monthly" table in parts D and E of the *Payroll Deductions Tables* 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 code 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 the director's fees are not subject to CPP contributions and/or EI premiums, an extra amount should be added to the income tax deduction calculated above. See Part A, "Deducting tax from income not subject to CPP contributions or EI premiums."

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

## 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 5.

### 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 5.

### Income Tax

Use the calculation in the previous section 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 who wants a reduction of the withholding based on a tax treaty can send a letter with supporting documentation to the Non-resident Section of the International tax services office. For more information, call us at 1-800-959-5525.

## Employees profit sharing plan (EPSP)

An 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. See Interpretation Bulletin IT-379, *Employees Profit Sharing Plans – Allocations to Beneficiaries*.

### Note

An EPSP established for reasons of tax planning, income splitting, and avoidance of CPP contributions or EI premiums **may not be** considered valid. If you have any concerns about whether your EPSP is valid or not, request a tax ruling. See Information Circular IC70-6, *Advance Income Tax Rulings*.

## 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 in which it is earned, 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 previous section "Bonuses and retroactive pay increases" on page 25.

## Qualifying retroactive lump-sum payments

Certain 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 and benefits return. The payments 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.

### Note

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

The payer has to provide the following information in writing to the recipient:

- The year in which the lump-sum payment was made to the recipient.
- 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 and each of the preceding years covered by the payment. The payer can provide all the information indicated above to the recipient by using Form T1198, *Statement of Qualifying Retroactive Lump-Sum Payment*.

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

## Withholding rates

Lump sum payments may be considered regular remuneration and subject to CPP, EI and tax as discussed in this guide. However, certain types of lump sum payments are subject to income tax only and qualify for the lump sum withholding rates. See "Special Payments" in Guide RC4157, *Deducting Income Tax on Pension and Other Income and Filing the T4A Slip and Summary*, to determine if the payment you are making qualifies for those rates.

## Retirement compensation arrangements

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

- contributions are made by the employer or employee 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 to which the information return applies.

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

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**:

- a superannuation or pension benefit;
- an amount an individual receives as a result of an employee's death;
- a benefit derived from certain counseling services;
- payments for accumulated vacation leave not taken prior to retirement;
- pay in lieu of termination notice (see page 31); and
- damages for violations or alleged violations of an employee's human rights awarded under the *Human Rights Act* (these damages are not taxable).

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.

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

If you pay a retiring allowance to a **non-resident** of Canada, withhold 25% of the retiring allowance (subject to various tax conventions and agreements). Send this amount to the Receiver General on the non-resident's behalf.

For more information, see Interpretation Bulletin IT-337, *Retiring Allowances*, T4145, *Electing Under Section 217 of the Income Tax Act*, and Guide T4061, NR4 – *Non-Resident Tax Withholding, Remitting and Reporting*.

### Transfer of a retiring allowance

There are situations when a person can transfer all or part of a retiring allowance to a registered pension plan (RPP) or a registered retirement savings plan (RRSP).

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, but cannot exceed the employee's eligible portion of the retiring allowance minus the eligible portion transferred by the employee in a prior year.

The amount of retiring allowance eligible for transfer paid in each year should be reported in box 26 of a T4A slip. Amounts ineligible for transfer are reported in box 27.

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 amounts reported in the first 4 years should be reported in box 26, while the amounts paid in years 5 and 6 should be reported in box 27.

You **do not** have to deduct income tax on the amount of eligible retiring allowance that is transferred directly to the recipient's RPP or RRSP. If you transfer the amount to an RPP, you may have to report a pension adjustment (PA). For information, contact your plan administrator.

The amount that is eligible for transfer under section 60(j.1) of the *Income Tax 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 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.

The recipient can contribute the **non-eligible part** to his or her RRSP, or to a spousal or common-law partner's RRSP, up to the amount of the recipient's available RRSP deduction limit. In this situation, you will withhold income tax. You **can** contribute directly on the recipient's behalf the non-eligible part to his or her RRSP or to a spousal or common-law partner RRSP **if** you have reasonable grounds to believe that the amount can be claimed based on the recipient's RRSP deduction limit. In this situation, you do not have to deduct income tax on the amount of the retiring allowance that you transfer directly. For more information, see page 23.

### Example 1

In November 2009, you pay Bruno, your ex-employee, a retiring allowance of \$50,000. He worked for you from 1985 to 2009 (25 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 × 11 years (from 1985 to 1995, including part-years) .....	\$22,000
<b>plus</b>	
■ \$1,500 × 4 years (from 1985 to 1988, including part-years) .....	<u>\$ 6,000</u>
<b>Total eligible for transfer</b> .....	<u><b>\$28,000</b></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 directly \$28,000 to an RPP or RRSP without tax deductions.

The difference of \$22,000 (\$50,000 – \$28,000) between the allowance paid and the maximum eligible for transfer could be directly transferred to Bruno's RRSP without tax deductions if he gives you a written statement indicating 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 section 60(j.1) of the *Income Tax Act*. Colette wants you to transfer to her RRSP the total amount of the eligible retiring allowance (\$12,000). She also requests that you direct 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 subject to 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 RRSP based on Colette's deduction limit: non-eligible amount of Retiring allowance for transfer to an RRSP.....\$11,000 ..... \$ 23,000

Remuneration subject to 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 provided you with a written statement.

Report retiring allowances on a T4A slip instead of a T4 slip. See Guide RC4157, *Deducting Income Tax on Pension and Other Income, and Filing the T4A Slip and Summary*. For information, see Interpretation Bulletin IT-337, *Retiring Allowances*.

## Salary deferral arrangements

A salary deferral arrangement 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.

An employee may defer receiving the income to a later year. If the arrangement is not a prescribed plan (see below), 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

Prescribed plans or arrangements, as described in the advanced income tax rulings document ATR-39, *Deferred Salary Leave Plan*, are not covered by the preceding salary-deferral rules. Treat the deferred amounts in these cases as income in the year in which the employee **receives** them. Report it on the employee's T4 slip in the year 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**

Interest income earned under these plans or arrangements is subject to both CPP and EI deductions.

## 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. Leave this box blank if the insurable earnings are the same as in box 14.

The EI premium for this income is based on the gross amount, while the amount reported in Box 14 is the net amount. So the insurable earnings cannot be the same as Box 14 and should not be left blank.

## 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;
- the deferred amounts when you pay them to the participant during the leave period; and
- the interest income and other amounts earned by the deferred amount are employment income paid to the participant.

## 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 if your employee takes holidays or not. Also, deduct as you normally would when part of the pay period includes a public holiday (such as Christmas Day).

## The employee takes holidays

When you pay vacation pay and your employee takes holidays, you have to deduct CPP contributions, EI premiums, and income tax in the following way:

## 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 bi-weekly and the employee is paid one week of vacation pay and one week of regular pay, the bi-weekly tables should be used.

### The employee does not take holidays

When you pay vacation pay and your employee does not take holidays, deduct CPP contributions, EI premiums, and income tax in the following way:

#### CPP contributions

To deduct CPP contributions, use the bonus method we explained earlier in this chapter under the heading “Bonuses and retroactive pay increases.” on page 25. 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 and retroactive pay increases” on page 25.

#### 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 income tax from this amount as if you had paid the amount directly to the employee. For more information, see Interpretation Bulletin IT-389, *Vacation Pay Trusts Established Under Collective Agreement*.

### 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.

You can use the bonus method we explained earlier in this chapter to determine the tax to deduct from the wages in lieu of termination notice if the calculation of the tax using the *Payroll Deductions Tables* causes hardship to the employee. See “Bonuses and retroactive pay increases” on page 25 to find out how to do this.

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

### Wage-loss replacement plans

A wage-loss replacement plan is an arrangement between an employer and employees, or between an employer and a group or association of employees, under which the employees are compensated with benefits on a periodic basis for the loss of employment income as a result of sickness, disability, maternity, or accident. If you make a contribution to this type of plan for your employee, the premium **may** be a taxable benefit. For more information, see Guide T4130, *Employers’ Guide – Taxable Benefits and Allowances*.

Wage-loss benefits **are subject** to CPP contributions and EI premiums when:

- you pay benefits directly to an employee from a wage-loss replacement plan where you fund any part of the plan; or
- an employee receives benefits from a trustee or an insurance company through a wage-loss replacement plan where you:
  - fund any part of the plan;
  - exercise a degree of control over the terms of the plan; and
  - determine the eligibility for benefits.

Wage-loss benefits **are not subject** to CPP contributions and EI premiums when an employee receives benefits from a trustee or insurance company where you:

- do not exercise a degree of control over the terms of the wage-loss replacement plan; and
- do not determine the eligibility for benefits.

Although the payments are subject to income tax, no withholding is required. The trustee or insurance company has to report these payments on a T4A slip.

For information about wage-loss replacement plans, see Interpretation Bulletin IT-428, *Wage Loss Replacement Plans*.

### Workers’ compensation awards

When an employee cannot work because of an employment-related injury, a workers’ compensation board may award benefits as compensation for lost wages.

#### Reporting requirements

An employer who continues to pay an employee’s salary before and after a workers’ compensation board claim is decided is **not** allowed to 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.

Our policy applies 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.

#### Note

Since employers cannot amend T4 slips or the current-year payroll records, they are not able to recover their share of the CPP and EI contributions.

### 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, you have to complete a T4 slip for the year in which the reimbursement is received by the employer, and enter the amount of the reimbursed workers' compensation in the "Other information" area, under code 77. 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, you should not report this amount.

### Advances or loans

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, and income tax on this amount. It is not reported on a T4 slip at year-end. We do not consider any interest that accumulates on advances or loans while waiting for a claim decision as a taxable benefit.

### Advances or loans not repaid

Normally, the advance or loan is offset or repaid when the claim is paid by the workers' compensation board. However, if the workers' compensation board denies an award, 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 award is refused. 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 denied 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. This will allow you to 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 allow the employee to claim a deduction for the repayment of this amount on his or her income tax and benefit return.

### Top-up amount

A top-up amount is an amount that you pay your employee **in addition** to the amount of a workers' compensation award that the employee is 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 claim is accepted by the workers' compensation board. However, the top-up amount is subject to CPP contributions and income tax, 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.

### 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 immediately 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.

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

In Quebec, workers' compensation benefits are administered by the Commission de la santé et de la sécurité au travail (CSST). Employers in Quebec are still required to follow the instructions for the federal requirements. For more information on Quebec's requirement for CSST, see Guide TP-1015.G-V, *Guide for Employers – Source Deductions and Contributions*, which you can get from Revenu Québec (see page 5).

### How to treat workers' compensation board payments under different circumstances

#### Employer continues to pay regular wages

#### Example

John is injured at work on July 10, 2008. He continues to be paid his regular wages until February 6, 2010, when the workers' compensation board pays his claim. The employer is reimbursed by the workers' compensation board.

## Results

- All wages paid in 2008, 2009, and 2010 are to be reported on a T4 slip for each of those years, with CPP contributions, EI premiums, and income tax withheld. John will report these T4 slips on his income tax and benefit return for the appropriate year.
- In 2010, the year of the award, the employer is **not** allowed to adjust box 14, "Employment income," of the T4 slip or to reduce the CPP contributions, EI premiums, and income tax withheld in 2008, 2009, or 2010.
- When completing the T4 slip for 2010, the employer will enter code 77 in the "Other information" area, and report the total amount of the workers' compensation board award for the three years.
- When John files his 2010 income tax and benefit return, he will claim this amount 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 2010, this amount may become a **non-capital loss**.

### Employer pays advances equal to the expected workers' compensation board award and an amount in addition to this advance

#### Example

Mary is injured on April 2, 2009, and is away from work until June 6, 2010. 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 workers' compensation board award and an amount paid in addition to this advance.

## Results

- The amount of the advance equal to the amount of the anticipated workers' compensation board award is not considered to be employment income. As a result, the employer will not have to deduct CPP contributions, EI premiums, and income tax on this amount.
- The amount paid by the employer in addition to the advance, while waiting for a decision, is considered to be employment income in the year it is paid and is subject to CPP contributions, EI premiums, and income tax.
- In 2010, when the claim is paid, her employer has to offset the amount received from the workers' compensation board against the advances made 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 of the award, the difference is considered to be 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, the employer continues to pay an amount in

addition to the workers' compensation award, 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 disallowed, the advance not repaid becomes employment income in the year the claim is disallowed. The 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, the 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.

## Chapter 7 – Special situations

### Barbers and hairdressers, drivers of taxis and 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.

If these workers **are not your employees** (considered self-employed), the following special rules apply.

For 2008 and subsequent tax years, 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*.

When the workers have an interruption in earnings, you have to complete Form INS 2106, *Record of Employment* (ROE) or use ROE Web, within five days of the last day worked. For more information, visit the Service Canada Web site at [www.servicecanada.gc.ca](http://www.servicecanada.gc.ca).

#### 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 and benefits 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 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 to be 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 or not you know the worker's actual weekly earnings and expenses (see page 17 for rates):

- 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 the worker's operation in the establishment in 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.

## Drivers of taxis and 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-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, and consequently their employment is **not** insurable.

A driver is considered to be the owner/operator if both of the following conditions are met:

- the driver is in a position to gain a profit or risk a loss from the operation of the taxi business;
  - the driver possesses the right to operate a taxicab.
- a) If you **know** how much the driver earned in a week and the expenses the driver incurred while operating the vehicle, the insurable earnings should be calculated as

the difference between the two amounts up to the maximum annual insurable earnings;

- b) 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
  - the maximum of 1/78 of the maximum of the annual insurable earnings.

### Note:

For 2009, the maximum of the annual insurable earning is \$42,300. The insurable earning is the lesser of:

- the number of days worked in the week multiplied by \$105.38; or
- \$526.92.

## Emergency volunteers

The *Income Tax Act* provides an exemption of up to \$1,000 on amounts an individual receives from a government, municipality, or public authority.

This exemption applies to the following individuals:

- volunteer fire fighters;
- 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 in comparison to 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 fire fighter who, from time to time, acts as a volunteer fire fighter or rescue worker for his employer).

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

Amounts received by volunteers are treated differently under the *Canada Pension Plan*, *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, only the amount that is more than \$1,000 is subject to CPP contributions. 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 subject** to EI premiums if **all** of the following conditions are met:

- the individual receives an hourly wage, salary, or other fixed amount of remuneration;
- the individual must adhere to a fixed work schedule; and
- the individual must be available **and** obligated to intervene when an emergency happens (for example, a fire) during the schedule fixed by his or her employer. However, if the individual must be available during the fixed work schedule, but he or she **is not** obligated to intervene when the emergency happens, the amount received by the individual **is not subject** to EI premiums.

### Income tax

As indicated before, 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 have any doubts about whether an employer-employee relationship exists for CPP and EI purposes, see Guide RC4110, *Employee or Self-Employed?* You can request a ruling using our My Business Account service, or by completing 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.

## 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 are not sure whether you are an employer based on these criteria, see Guide RC4110, *Employee or Self-Employed?* You can request a ruling using our My Business Account service, or by completing 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.

To find out what your responsibilities are as an employer, see page 6.

## 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. As a result, do not deduct CPP from the employee's remuneration.

Under certain conditions, you have the option of extending CPP coverage and deducting contributions from employment outside Canada that is not usually pensionable employment. To do this, complete Form CPT8, *Application and Undertaking for Coverage of Employment in a Country Other Than Canada Under the Canada Pension Plan*.

Please note that Form CPT8 is not required if Canada has a reciprocal social agreement with the country of employment. A list of countries with which Canada has an agreement is found in Appendix 4 on page 46.

**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. It should be noted that the employee may be entitled to a tax reduction subject to a foreign tax credit in respect of taxes paid in a foreign jurisdiction. A request for a letter of authority (see page 23) should be made. If you are not sure if you should deduct income tax, call us at **1-800-959-5525**.

### Note

Special deduction rules apply to employment on ships, trains, trucks, and aircraft. To find out more about these rules, call us at **1-800-959-5525**.

## Overseas employment tax credit

If you hire a resident of Canada to work outside Canada for more than six consecutive months, the employee may be entitled to an overseas employment tax credit.

The six consecutive months of employment may start in the current year or a previous year. The employment duties performed outside Canada must either be to get a contract for the employer or relate to a contract under which the employer carried on business outside Canada. The contract or business must relate to:

- the exploration for or exploitation of petroleum, natural gas, minerals, or other similar resources;
- any construction, installation, agricultural, or engineering activity; or
- any prescribed activity.

An employee who is eligible for the credit may ask you to reduce the amount of tax you deduct. The employee should send a completed Form T626, *Overseas Employment Tax Credit*, with a covering letter to the Non-resident Section of the tax services office of the employer with the following information:

- qualification of the employer as a specified employer;
- qualification of the employer's contacts—qualifying activities; and
- qualification of the employee—residency, employment terms and duties, and tax situation.

If we approve the reduction in tax deductions, we will send the employee a letter of authorization stating that you can reduce the amount of tax deductions. When the employee provides you with a copy of this letter, you may reduce the amount of tax withholding from the employees pay. Keep this letter for our officers to examine. For more information on this subject, see Interpretation Bulletin IT-497, *Overseas Employment Tax Credit*.

Certain Canadian individuals cannot claim the overseas employment tax credit when they are employed by a Canadian firm that contracts with a foreign firm to provide the individual's services. The credit is not available in such situations if the Canadian firm hires less than six full-time employees and is either:

- a corporation that the individual owns, or the individual is related to a shareholder of the corporation who owns 10% or more of any class of shares of the corporation's capital stock; or
- a partnership where the individual is related to a member of the partnership or is a specified shareholder of a member of the partnership.

### Canadian International Development Agency (CIDA)

If you are paying an employee for services under a CIDA program, you may have to deduct income tax from that employee's remuneration. If you are not sure if you should deduct income tax, call us at 1-800-959-5525.

## Fishers and Employment Insurance

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

## Placement and employment agency workers

The following guidelines apply to workers engaged by placement or employment agencies:

- 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 paid to these employees. The agency also has to report these amounts on a T4 slip.
- b) An agency that places workers in an employment under the direction and control of a client of the agency and where the agency pays the worker; the agency is required to deduct CPP contributions and EI premiums, but not income tax. The agency has to prepare a T4 slip for the worker.
- c) An agency that places workers in an employment under the direction and control of a client of the agency and where the client of the agency pays the worker, the client is required to deduct CPP contributions and income tax but is not required to deduct EI premiums. The client of the agency is required to prepare a T4 slip for the worker.
- d) An agency that hires a worker under a contract for services is not required 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.

For 2008 and subsequent tax years, 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*.

## Seasonal agricultural workers program

Seasonal agricultural workers from foreign countries who are in regular and continuous employment in Canada are subject to CPP, EI, and income tax deductions in the same way as Canadian residents.

For program information, see Guide RC4004, *Seasonal Agricultural Workers Program*.

## Status Indian employees

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

### Definitions

#### Indian

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

#### Reserve

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

## Status Indian living on a reserve

This means a Status Indian 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 case, we developed guidelines to help you determine a tax exemption that applies to a Status 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 where:

- 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 us at 1-800-959-5525.

**Form TD1-IN**, *Determination of Exemption of an Indian's Employment Income*, will help you determine the type of exemption that applies to a Status Indian's employment income according to the *Indian Act Exemption for Employment Income Guidelines*. Keep a completed form on file for each employee, as we may ask to review it.

## Taxable salary or wages paid to Status Indians

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

If you are an employer paying taxable salary or wages to a Status Indian, you have to deduct CPP contributions, EI premiums, and income tax.

## Non-taxable salary or wages paid to Status Indians

### Canada Pension Plan

The employment of a Status 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 a Status 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 paid to a Status Indian, you can choose to provide your Status Indian employees with optional CPP coverage. You can elect to do this by completing 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.

CPP coverage starts on either the date you sign the application or on a later date that you specify. Coverage cannot be retroactive to a date before the date you signed the application.

### Employment Insurance

The non-taxable salary or wages paid to a Status Indian are subject to EI premiums.

### 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.

## 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 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 us at 1-800-959-5525. **New employers** are considered **regular remitters** for remitting frequencies.

If you do not have a payroll account number, or you have not received a remittance form in time to make your **first remittance**, send a cheque or money order to your tax centre. Make the cheque or money order payable to the Receiver General and print your BN on the back. Include a letter stating:

- that you are a new remitter;
- the period your remittance covers;

- your complete employer name, address, and business telephone number; and
- your Business Number.

We will send you a remittance form in the mail each month after you make your first remittance and then following each subsequent remittance. If you do not receive a form in time for your next remittance, send in your remittance as described above. In your letter, be sure to indicate that you did not receive your remittance form.

## 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 for which the services are rendered. 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 your remitting requirements by using our My Business Account service at [www.cra.gc.ca/mybusinessaccount](http://www.cra.gc.ca/mybusinessaccount).

### Note

All payments made after the due date are subject to the graduated penalty rates. For details, see page 9.

### Regular remitter

If you are a new employer, or your average monthly withholding amount (AMWA) two years ago was less than \$15,000, 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

Quarterly remitting gives small employers the option of remitting source deductions once every three months.

To qualify for quarterly remitting, an employer has to:

- have an average monthly withholding amount (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 an employer to have a perfect compliance history when, over a 12-month period, all deductions and remittances of CPP contributions, EI premiums and income tax were made on time, GST/HST have been paid on time, and T4 type information returns and GST/HST returns have also been filed 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 provide more information on quarterly remitting. Employers who remain eligible to remit quarterly from one year to the next

will not be re-notified by letter. If you are currently an eligible quarterly remitter, and you have not been notified to the contrary, you may continue to remit quarterly.

The quarters are January to March, April to June, July to September, and October to December. Remittances are due 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 an employer believes they have met the conditions mentioned above, they can call us at **1-800-959-5525** and apply to remit quarterly.

An employer who fails to comply with all the required conditions loses the quarterly remitting privilege. To regain the privilege, the employer has to re-establish a 12-month history of perfect compliance. Also, an employer with multiple payroll accounts must meet the compliance requirements for all accounts. If one payroll account is ineligible, the employer loses the quarterly remitting privilege for all accounts.

### Accelerated remitter

There are two groups of accelerated remitters (also called thresholds).

#### Threshold 1

This group consists of employers, including those with associated corporations, who had a total average monthly withholding amount (AMWA) of \$15,000 to \$49,999.99 two calendar years ago.

Amounts you deduct from remuneration paid in the first 15 days of the month are due by the 25th of the same month. Amounts you deduct from the 16th to the end of the month are due by the 10th day of the following month.

#### Threshold 2

This group consists of employers, including those with associated corporations, who had a total average monthly withholding amount (AMWA) of \$50,000 or more two calendar years ago.

Amounts you deduct from remuneration you pay any time during the month are due to 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 falls during the period of the 8th through the 14th day of May, 2009, the due date is May 20, 2009 as the three working days after this period do not include May 16, 17, or 18.

## Note

Threshold 2 remitters **have to** remit payroll deductions electronically or in person at their Canadian financial institution.

Large employers with an average monthly withholding amount of \$50,000 or more are required to pay their remittances at a financial institution. 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 subject to a penalty of 3% of the amount due. All payments made **after** the due date are subject to the graduated penalty rates. For details, see page 9.

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 average monthly withholding amount (AMWA) of all the associated corporations was \$15,000 or more, two calendar years ago, we consider **all** the associated corporations to be accelerated remitters. Associated corporations is defined in the *Income Tax Act*.

## Remittance frequency

Under the *Income Tax Act*, 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 us at **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, Sunday, or public holiday, 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).

## 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 accounts two calendar years ago. We divide the total by the number of months (maximum 12) that you had to make payments in that year. For example, if you made two monthly remittances totalling \$120,000 in 2006, your AMWA for 2009 would be \$60,000 (\$120,000 divided by 2), and you would be a Threshold 2 employer. If your remitter type changes based on our calculations, we will advise you in writing, usually in December, of when we have to receive your remittances for the following year.

## Remittance forms

To make your current remittance, you must use one of the following forms:

- Form PD7A, *Statement of Account for Current Source Deductions*, for regular, quarterly, and monthly accelerated remitters; or
- Form PD7A(TM), *Statement of Account for Current Source Deductions*, or Form PD7A-RB, *Remittance Voucher for Current Source Deductions*, for accelerated remitters (other than monthly accelerated remitters who use Form PD7A).

Complete 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 states 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 accelerated remitter to remit deductions.

### 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 Business Number (BN) and payroll (RP) account number ;
- your business name;
- balances on your last statement:
  - amounts paid for (year indicated), which are remittances we received for the year indicated; and
  - assessed amount owing, which is the amount you had to pay on assessments of deductions, including penalties and interest;
- current balances:
  - amounts paid for (year indicated), which are the amounts you paid for your deductions for the year indicated; 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 complete the bottom part, ensure that the following information is correct:

- Your name, address, BN and payroll (RP) 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 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 complete 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.
- The end of the remitting period for which deductions were withheld. Enter the month and year for which you are remitting (for regular remitters) or the last month and the year of the quarter for which you are remitting (for quarterly remitters).
- The amount paid. This is the total CPP, EI (employer and employee portions), and income tax you are remitting.

**Back of the form** – This part can be used if you will not be making a remittance during the month or quarter. It also provides information on our TeleReply service.

If you mail your cheque or money order payable to the Receiver General, keep the top part 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 us at **1-800-959-5525**.

## Form PD7A(TM)

Each month, we send Form PD7A(TM) to all accelerated remitters, except monthly accelerated remitters (who use Form PD7A).

### 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 BN and payroll (RP) account number ;
- your business name;
- balances on your last statement:
  - amounts paid for (year indicated), which are remittances we received for the year indicated; and
  - assessed amount owing, which is the amount you had to pay on assessments of deductions, including penalties and interest;
- current balances:
  - amounts paid for (year indicated), which are the amounts you paid for your deductions for the year indicated; 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 complete the bottom part, ensure that the following information is correct:

- Your name, address, and BN and Payroll 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 complete 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. Therefore, 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. Therefore, they should enter either "7th," "14th," "21st," or "month-end," as their "end of remitting period."
- The amount paid. This is the total CPP, EI (employer and employee portions), and income tax you are remitting.

When you make your remittance at your financial institution or tax centre, complete the top and the bottom parts of Form PD7A(TM) and present them with your remittance. The recipient 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.

## E-PD7A

E-PD7A is an electronic service that lets you receive and view your Statement of Account for Current Source Deductions. The E-PD7A replaces the paper version of the PD7A and the PD7A(TM). For more information, and to find out if you can register, go to [www.cra.gc.ca/epd7a](http://www.cra.gc.ca/epd7a).

## Form PD7A-RB

Each December, we provide accelerated remitters (except monthly accelerated remitters who receive Form PD7A) 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 require additional forms, call us at **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 making your payment. To complete this part, see “Bottom part” under the heading “Form PD7A(TM)” on page 40.

## 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 cheque or money order payable to the Receiver General to your tax centre. Include a short note that states your Business 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 us at **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 through My Business Account, via our TeleReply services, or by mail.

If you prefer not to use My Business Account or TeleReply, complete the remittance form and mail it to us (see “Back of the form” on the previous page). Be sure to indicate when you expect to have employees subject to deductions.

## TeleReply

You can use TeleReply if you currently have no employees, are submitting nil remittance information for your payroll account, and the Business 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 during the following times:

Monday to Friday	8:00 a.m. to 7:30 p.m.
Saturday	8:00 a.m. to 4:30 p.m.

You cannot use TeleReply on Sundays and public holidays.

## What do you do before you call TeleReply?

Before you call TeleReply, you should complete the back of your remittance form, make sure the Business Number and address printed on your remittance form are correct, and have this information with you when you call TeleReply.

### 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. Also, if at any time during the call we tell you that you cannot use TeleReply, you will have to mail your remittance form.

## How do you 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 will 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) or call us at **1-800-959-5525**.

## Remittance methods

There are several methods to choose from when remitting 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.

As of February 26, 2008, for remittances due on or after that date, we will 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 subject to a penalty of 3% of the amount due.

All payments made **after** the due date are subject to the graduated penalty rates. For more information, see page 9.

Remittances are deemed to have been made on the day on which it is received by the Receiver General, and as such, you should choose the appropriate remittance method to meet your due date.

Regardless of your remittance method, allow 10 days for your remittance to process.

## My Payment

My Payment is a new payment option that allows individuals and businesses to make payments online, using the Canada Revenue Agency’s Web site, from an account at a participating Canadian financial institution. For more information on this self-service option, go to My Payment.

## Electronically

You may be able to remit your deductions electronically through your financial institution’s telephone or Internet banking services. For more information, go to [www.cra.gc.ca/electronicpayments](http://www.cra.gc.ca/electronicpayments) or contact your financial institution.

## At your financial institution

You can make your payment at your Canadian financial institution. Complete the remittance form and present it with your payment. The financial institution will date stamp the bottom part and return the top part to you as a receipt.

## Using an ATM (automated teller machine)

If you use an ATM to send us a remittance, allow time for the financial institution to process the transaction. The institution

will debit your account when you use the ATM. However, you should allow time for us to receive the remittance. An ATM receipt is **not** proof of payment by the due date.

### **By mail**

You can mail a cheque or money order payable to the Receiver General to the address listed in your remittance form booklet or on the back of your remittance form. Write your Business Number (BN) on the back of your cheque or money order. Complete and include the bottom part of your remittance form with your payment. Allow sufficient mailing time to ensure that we receive your remittance by the due date. We accept cheques that are post-dated to the due date. **Do not send cash in the mail.**

### **Do you have more than one account?**

If you remit deductions for more than one account, make sure you provide your payroll 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), E-PD7A 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:

- Business 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 using another remittance form or by writing a short letter giving your Business Number (BN) and the pay period for which it applies.

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 9.

# Appendices

## 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 In Canada Beyond the Limits of Any Province or Outside Canada.
Deemed resident or sojourner (see Note)	Use the Payroll Deductions Tables for In Canada Beyond the Limits of Any Province or Outside Canada.	Use the Payroll Deductions Tables for In Canada Beyond the Limits of Any Province or Outside Canada.	Use the Payroll Deductions Tables for In Canada Beyond the Limits of Any Province or Outside Canada.
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 In Canada Beyond the Limits of Any Province or Outside Canada.
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.
<p><b>Note</b> For more information, see Interpretation Bulletin IT-221, <i>Determination of an Individual's Residence Status</i>.</p>			

## Appendix 2 – Calculation of CPP Contributions (single pay period)

You can use the following 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 "Special CPP situations" on page 12.

**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 excluded amounts (income, benefits or payments) .....	\$ _____	<b>4</b>	
<b>Pensionable earnings</b> (line 3 <b>minus</b> line 4) .....	\$ _____		<b>5</b>

**Step 2** – Enter the basic exemption for the pay period. Use the table below, or the following equation:

Annual basic exemption (\$3,500 for 2009) 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 2009).....	_____	<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 2009 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 the following calculation to determine an employee's CPP contributions over multiple pay periods, or to verify an employee's CPP contributions at year's end before you complete and file the T4 slips. This is the same calculation we use in Part B of the *Payroll Deductions Formulas for Computer Programs*. This optional calculation is the **only one we authorize**. You can get the information you need to complete 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) statement.

### Note

Before using this calculation to determine an employee's CPP contributions over multiple pay periods, read "Special CPP situations" on page 12.

To calculate or verify contributions, follow these steps:

**Step 1** – 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 of the T4 slip, "Employment income" ..... \$ \_\_\_\_\_ **1**

**Step 2** – 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 during and after the month the employee began to receive a CPP retirement pension ..... \$ \_\_\_\_\_
- the amount the employee received during the months the employee was considered to be disabled under CPP or QPP ..... \$ \_\_\_\_\_
- the amount received after the last pay dated the month the employee died, other than the amount the employee earned and was owed before the date of death..... \$ \_\_\_\_\_
- any excluded income, benefits, or payments in Chapter 2 of this guide ..... \$ \_\_\_\_\_

Total earnings not subject to CPP contributions..... \$ \_\_\_\_\_ **2**

**Step 3** – Pensionable earnings for the period of employment (to a **maximum** of \$46,300 for 2009)  
Line 1 minus line 2..... \$ \_\_\_\_\_ **3**

### Note

If you have entered an amount on line 2, enter the amount on line 3 in box 26, "CPP-QPP pensionable earnings," on the T4 slip.

**Step 4** – 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 ..... × \_\_\_\_\_

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 ..... \$ \_\_\_\_\_ **4**

**Step 5** – CPP contributory earnings for the period of pensionable employment – Line 3 minus line 4 ..... \$ \_\_\_\_\_ **5**

**Step 6** – Enter the CPP contribution rate for the year (4.95% for 2009) ..... × \_\_\_\_\_ **6**

**Step 7** – Employee's required CPP contributions for the period of pensionable employment (maximum \$2,118.60 for 2009) – Line 5 multiplied by the rate on line 6..... \$ \_\_\_\_\_ **7**

**Step 8** – Enter the CPP contributions from the employee's payroll master file that you deducted for the period of pensionable employment..... \$ \_\_\_\_\_ **8**

**Step 9** – Line 7 minus line 8. The result should be zero..... \$ \_\_\_\_\_ **9**

If there is an amount on line 9 and it 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, verify the employee's master file to ensure that the amounts on line 1 and line 3 are correct. For more information on refunding CPP overpayments, see page 13.

## 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
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
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	May 1, 1999	58
Latvia	November 1, 2006	143
Lithuania	November 1, 2006	144
Luxembourg	April 1, 1990	60
Malta	March 1, 1992	61
Mexico	May 1, 1996	62
Netherlands	October 1, 1990	63
Norway	January 1, 1987	127
Philippines	March 1, 1997	64
Portugal	May 1, 1981	55
St. Kitts and Nevis	January 1, 1994	65
Saint Lucia	January 1, 1988	67
Saint Vincent and the Grenadines	November 1, 1998	66
Slovakia	January 1, 2003	138
Slovenia	January 1, 2001	68
Spain	January 1, 1988	125
Sweden	January 1, 1986	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 (2009)

The following year-end calculation will help you verify an employee's EI premiums before you complete 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 Part C of the *Payroll Deductions Formulas for Computer Programs*. You can get the information you need to complete 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) statement.

To verify the EI deduction, follow these steps:

- |    |  |          |          |
|----|--|----------|----------|
| A. | Enter the insurable earnings for the year as indicated in each employee's payroll master file for the period of insurable employment. If the insurable earnings are less than the maximum and different from the gross income (box 14) reported on the T4 slip, report the amount on the T4 slip in box 24, "EI insurable earnings." The amount should not be more than the maximum annual amount of \$42,300.00 ..... | \$ _____ | <b>1</b> |
| B. | Enter the employee's EI premium rate for the year (1.73% for 2009 – for Quebec, use 1.38%).....  | × _____  | <b>2</b> |
| C. | 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 \$731.79 (\$583.74 for Quebec) for 2009 .....  | \$ _____ | <b>3</b> |
| D. | Enter the employee's EI premium deductions for the period of insurable employment as indicated in the employee's payroll master file .....   | \$ _____ | <b>4</b> |
| E. | Line 3 minus line 4. The result should be zero .....   | \$ _____ | <b>5</b> |

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. If this is the case, verify the employee's payroll master file to ensure that the amount on line 1 is correct. For more information on refunding EI overpayments, see page 18.

## Appendix 6 – Special Payments Chart

The following 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
1. Advances	Yes	Yes	Yes
2. Bonuses and retroactive pay increases	Yes	Yes	Yes
3. Director's fees paid to residents of Canada or to non-residents			
■ Fee only	Yes <sup>2</sup>	No	Yes <sup>3</sup>
■ Fee in addition to salary	Yes/No <sup>4</sup>	Yes/No <sup>4</sup>	Yes
4. Employees profit sharing plans (EPSP)	No	No	No
5. Overtime pay, including banked overtime pay	Yes	Yes	Yes
6. Prescribed plans or arrangements—on amounts received	Yes/No <sup>5</sup>	Yes/No <sup>5</sup>	Yes
7. Qualifying retroactive lump-sum payments <sup>6</sup>	Yes	Yes	Yes
8. Retirement compensation arrangements (RCA)	No	No	Yes
9. Retiring allowances (also called severance pay)	No	No	Yes <sup>7</sup>
10. Salary deferral arrangements—on amounts earned	Yes	Yes	Yes
11. Vacation pay, public holidays, and lump-sum vacation payment	Yes	Yes	Yes
12. Wages in lieu of termination notice	Yes	Yes	Yes
13. Wage loss replacement plans			
■ Paid by the employer	Yes	Yes	Yes
■ Paid by third party/trustee and the employer: <ul style="list-style-type: none"> <li>○ funds any part of the plan</li> <li>○ determines the eligibility of the benefits, and</li> <li>○ exercises a degree of control over the plan</li> </ul>	Yes	Yes	Yes
■ Paid by third party/trustee and the employer <b>does not</b> : <ul style="list-style-type: none"> <li>○ determine the eligibility of the benefits, or</li> <li>○ exercise a degree of control over the plan</li> </ul>	No	No	No <sup>8</sup>
14. Workers' compensation awards			
■ Employee's salary paid before or after a workers' compensation board claim is decided	Yes	Yes	Yes
■ Advances or loans equal to the workers' compensation award	No	No	No
■ Amount paid in addition to an advance or loan before the claim is accepted	Yes	Yes <sup>9</sup>	Yes
■ Top-up amounts paid after the claim is accepted	Yes	No	Yes
■ Top-up amounts paid as sick leave after the claim is accepted	Yes	No	Yes

<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 3.

<sup>2</sup> Do not deduct CPP contributions when the employment is performed totally or partly outside Canada—see page 26.

<sup>3</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>4</sup> Determination to deduct CPP, EI or both depends on the status of the resident director's employment. Do not deduct EI on the fees portion.

<sup>5</sup> To determine if you have to deduct CPP, EI or both, see "Prescribed plans or arrangements" on page 3.

<sup>6</sup> Qualifying retroactive lump sum payments may be subject to CPP and/or EI in addition to tax, see chapters 2 and 3.

<sup>7</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 29 for details.

<sup>8</sup> Although no withholding is required, the amounts are taxable and the third party/trustee must report the payments on a T4A slip.

<sup>9</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.

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### Publications for employers

- T4032, *Payroll Deductions Tables or Tables on Diskette (TOD)*
- RC4120, *Employers' Guide – Filing the T4 Slip and Summary*
- T4130, *Employers' Guide – Taxable Benefits and Allowances*
- RC4157, *Deducting Income Tax on Pension and Other Income, and Filing the T4A Slip and Summary.*
- RC4110, *Employee or Self-Employed?*
- RC4409, *Keeping Records*

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## Addresses

### Electronic Media Processing Unit

Electronic Media Processing Unit  
Ottawa Technology Centre  
Canada Revenue Agency  
875 Heron Road  
Ottawa ON K1A 1A2

### Ottawa Technology Centre

Ottawa Technology Centre  
Canada Revenue Agency  
875 Heron Road  
Ottawa ON K1A 1G9

### Tax services offices

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### Tax centres

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Jonquière QC G7S 5J1

Shawinigan-Sud Tax Centre  
4695 – 12th Avenue  
Shawinigan-Sud QC G9N 7S6

St. John's Tax Centre  
290 Empire Avenue  
St. John's NL A1B 3Z1

Sudbury Tax Centre  
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