Canada Revenue Agency   Agence du revenu du Canada

Payroll Deductions Formulas for Computer Programs

84th Edition

Effective January 1, 2007

T4127(E) Rev. 07

Canada

Distribution of this publication

The printing of this guide has been discontinued. This decision reflected minimal requests in recent years for a printed guide in favour of the electronic version. It also has resulted in cost savings and benefits to the environment. The T4127 will still be available on our website at which time you may print the document or download it to your personal computer.

Payroll deductions information is available on the Canada Revenue Agency (CRA) Web site at **www.cra.gc.ca/payroll**.

Electronic mailing lists – More ways to serve you!

If your business has access to the Internet, the CRA can now notify you immediately of any changes. To get quick and easy access to the CRA's latest information and new publications including changes to payroll deductions, you can subscribe free of charge to any of the electronic mailing lists. The CRA will add more electronic mailing lists to its Web site in the future.

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More information on this convenient, free electronic subscription service is available at: **www.cra.gc.ca/lists**.

Payroll Deductions Online Calculator

Starting on January 1, 2007, you can use our new Payroll Deductions Online Calculator free of charge.

The Payroll Deductions Online Calculator is an interactive web application that calculates payroll deductions for all pay periods, provinces (except for Quebec), and territories. You will find a link to the Payroll Deductions Online Calculator at **www.cra.gc.ca/payroll**.

The new Payroll Deductions Online Calculator applies the exact taxable income amount to determine the tax deductions. The calculations are more accurate than those produced by the *Tables on Diskette* (TOD).

Tables on Diskette (TOD)

The January 1, 2007, edition of the Tables on Diskette will be published in limited quantities. Our goal is to phase out the CD version of the tables by January 2008.

TOD contains the revised federal and provincial payroll deductions effective January 1, 2007. You can also download the program from the CRA's web site at: **www.cra.gc.ca/payroll**.

Table of Contents

La version française de cette publication est intitulée *Formules pour le calcul informatisé des retenues sur la paie* – 84e édition.

What does this publication contain?

This publication contains the formulas you need to determine federal, provincial (except Quebec), and territorial income taxes, Canada Pension Plan (CPP) contributions, and Employment Insurance (EI) premium deductions. The formulas also allow you to calculate payroll deductions for special cases such as commission, pension income, bonuses, and retroactive pay increases.

The formulas used in this publication to calculate statutory deductions have been approved for purposes of the *Income Tax Act*, Canada Pension Plan, and *Employment Insurance Act* as well as their related regulations and any amendments proposed to these acts. The formulas are valid unless any adjustments are required because of changes to income tax rates, personal tax credits, Canada Pension Plan pensionable earnings, contributions, or rate, or to Employment Insurance insurable earnings, premiums, or rate.

For more information on income amounts that are subject to payroll deductions, see the employers' guide called *Payroll Deductions (Basic Information)*. If you have any questions about the formulas contained in this publication, contact your tax services office or tax centre. For the addresses and telephone numbers of your tax services office or tax centre, see the listings in the government section of your telephone book.

Employers who have an establishment in the province of Quebec

When we refer to the annual provincial or territorial tax deduction, factor "T2," in this publication, **this item does not apply to the province of Quebec**. Quebec administers its own provincial income tax and Quebec Pension Plan contributions. If you have any questions about the formulas for Quebec, contact the Ministère du Revenu du Québec, at the following address:

Ministère du Revenu du Québec
3800 Marly Street
Ste-Foy QC G1X 4A5

Telephone:........................1-800-567-4692

Outside Canada: ....(418) 659-4692

What's new for January 1, 2007?

The information contained in this 84th edition publication is effective January 1, 2007. It replaces the 83rd edition of the *Payroll Deductions Formulas for Computer Programs*. Significant changes to the formulas and text in this publication appear with a shaded background.

Tax measures for 2007

This publication reflects some income tax changes recently announced which, if enacted by the applicable legislature as proposed, would be effective January 1, 2007. At the time of publishing, these proposed changes had not been legislated. We recommend that you use the new payroll deductions tables and formulas in this publication for withholding, commencing with your first payroll in 2007.

Federal changes included in this edition

Indexing for 2007

The income tax thresholds and many of the personal amounts on the federal Form TD1, *Personal Tax Credits Return*, are indexed for 2007. Indexing means that these values are adjusted based on changes to the Consumer Price Index (CPI) factor.

The federal indexing factor for 2007 is 2.2%. To calculate the indexed income thresholds and personal amounts for 2007, multiply the appropriate federal amounts by 1.022. For more information on indexing, see page 16.

Federal tax rates and income thresholds

In the Budget 2006 announced on May 2, 2006, the tax rate for the lowest tax bracket was set at 15.5% for taxable income up to $37,178 for 2007.

This rate of 15.5% will be used to calculate the federal non-refundable tax credit (factors K_1, K_2 and K_4).

Effective January 1, 2007, the federal tax rates and income thresholds are changed as follows:

- 15.5% (formerly 15.25%) on income less than or equal to $37,178 (formerly $36,378);
- 22% on income greater than $37,178, but less than or equal to $74,357 (formerly $72,756);
- 26% on income greater than $74,357, but less than or equal to $120,887 (formerly $118,285); and
- 29% on income greater than $120,887 (formerly $118,285).

2007 federal tax rates and income thresholds		
Annual taxable income A More than – Not more than	**Rate R**	**Constant K**
$ 0 – $ 37,178	0.155	$ 0
37,178 – 74,357	0.22	2,417
74,357 – 120,887	0.26	5,391
120,887 – and over	0.29	9,017

Federal personal amounts for 2007

In the Budget 2006 announced on May 2, 2006, the basic personal amount for 2006 was set at $8,839. For 2007, $8,639 will be used as a base and will be increased by indexation plus an additional $100.

The federal spouse or common-law partner amount and the amount for an eligible dependent for 2006 was set at $7,505. For 2007, $7,335 will be used as a base and will be increased by indexation plus an additional $85.

On October 31, 2006, the Minister of Finance announced a Tax Fairness Plan for Canadians. The age amount for Canadians 65 years of age and older will be increased $1,000 retroactively to January 1, 2006. Therefore the age amount for 2006 is revised from $4,066 to $5,066 and the age amount for 2007 is $5,177.

For 2007, some federal personal amounts are increased due to federal indexing. The 2007 federal indexing factor is 2.2%. Review the federal Form TD1 for complete information on all personal amounts for 2007.

Basic personal amount	$8,929
Age amount	5,177
Pension income amount	2,000

Education and textbook amount for each month (full-time)	465
Education and textbook amount for each month (part-time)	140
Disability amount	6,890
Spouse or common-law partner amount	7,581
Amount for an eligible dependant	7,581
Caregiver amount	4,019
Amount for an infirm dependant age 18 or older	4,019

For additional information, see the section called "Personal tax credits return (TD1 forms)" on page 16.

Canada Employment Credit for 2007

The Canada Employment Credit (factor K4) is revised to the lesser of:

(i) $0.155 \times A$; and
(ii) $0.155 \times \$1,000$

Note:
For puposes of the Canada Employment Credit, A is the annual gross income from office or employment before deductions. This is the same amount you normally report in box 14 of the T4 slip(s). As administrative relief, you are authorized to use the regular factor A (annual taxable income) for this calculation, except when the total income is superannuation or pension benefits.

Federal labour-sponsored funds tax credit for 2007

The federal labour-sponsored funds tax credit (factor LCF) for 2007 remains the lesser of $750 and 15% of the approved shares purchase.

Federal surtax for income not earned in a province or territory

The federal surtax rate for income, which is considered to be earned in Canada but not considered to be earned in a province or territory, remains at 48%. This federal surtax applies to deemed residents of Canada such as members of the Canadian Armed Forces who reside outside Canada, Canadian residents with income from a permanent establishment in a foreign country, and non-residents who have employment income taxable in Canada.

Tax relief for Canadian Forces and police

There is tax relief in the calculation of taxable income for certain members of the Canadian Forces and police serving in high- and moderate-risk areas. This tax relief applies only to military and police personnel. Since this change involves only governmental employers, the details have not been included in this publication.

Canada Pension Plan (CPP) for 2007

For **2007**, the Canada Pension Plan maximum pensionable earnings are **$43,700**, and the basic exemption for the year is **$3,500**. The contribution rate for employees is **4.95%**.

An employee's maximum contribution for the year is **$1,989.90**. The employer's contribution is an amount equal to the total of the employee's contribution.

For insurance companies that need the year's maximum pensionable earnings before rounding, the amount for this year is **$43,744.30.**

Employment Insurance (EI) for 2007

For **2007**, the maximum annual insurable earnings are **$40,000** and the premium rate is **1.80%** for a maximum annual premium of **$720.00** for the country except for Quebec and **1.46%** for a maximum annual premium of **$584.00** for Quebec.

On March 1, 2005, the Quebec government and the federal government signed a final agreement fixing the terms and conditions for implementing the Quebec Parental Insurance Plan (QPIP). The Canada Revenue Agency (CRA) administers the requirements relating to Employment Insurance (EI) premiums. The QPIP references in this publication are only for clarifying EI requirements. All QPIP requirements should be confirmed with Revenu Québec, which administers the provincial plan.

Employers will use the EI rate corresponding to the province of employment. A reduced EI rate applies when the province of employment is Quebec and the regular EI rate applies when the province of employment is other than Quebec. Quebec Parental Insurance Plan premiums, insurable earnings, and exempt code if applicable will be reported on the T4 slip.

When an employee changes province of employment with the same employer during the year, the maximum premium for the year will vary based on the province where the first $40,000 of insurable earnings are paid.

Example:

An employee makes $30,000 of insurable earnings in Ontario and changes his province of employment to Quebec and makes an additional $40,000 with the same employer. The employee's maximum premium is calculated as follows:

In Ontario:	$30,000	×	1.80%	=	$540.00
In Quebec:	$10,000	×	1.46%	=	$146.00
Totals:	$40,000	=			$686.00

Canada Revenue Agency and Revenu Québec will reconcile adjustments to EI and QPIP premiums for trans-border employees. It is anticipated that adjustments between the EI and QPIP deductions will be resolved through the filing of the income tax return and an annual year-end adjustment process.

As an employer, your contribution is 1.4 times the amount of the employee’s premiums for the pay period, unless a reduced rate applies.

Provincial and territorial tax changes effective January 1, 2007

1. Newfoundland and Labrador

The provincial tax rates and income thresholds for Newfoundland and Labrador remain as follows:

- 10.57% on income less than or equal to $29,590;
- 16.16% on income greater than $29,590, but less than or equal to $59,180; and
- 18.02% on income greater than $59,180.

Listed below are some of the non-refundable personal tax credits amounts for the province of Newfoundland and Labrador. Refer to Form TD1NL for complete information on personal amounts.

- The basic personal amount remains at $7,410.
- The spouse or common-law partner amount remains at $6,055.

Personal amounts will be multiplied by the province's lowest non-zero tax rate of 10.57%.

The provincial surtax payable for Newfoundland and Labrador remains as follows:

- Where the basic provincial tax payable (T_4) is less than or equal to $7,032, the surtax payable (V_1) is $0.
- Where the basic provincial tax payable (T_4) is greater than $7,032, the surtax payable (V_1) is 9% of the basic provincial tax payable in excess of $7,032.

The provincial labour-sponsored funds tax credit (factor LCP) for Newfoundland and Labrador remains the lesser of $750 and 15% of the approved shares purchase.

2. Nova Scotia

The provincial tax rates and income thresholds for Nova Scotia remain as follows:

- 8.79% on income less than or equal to $29,590;
- 14.95% on income greater than $29,590, but less than or equal to $59,180;
- 16.67% on income greater than $59,180, but less than or equal to $93,000; and
- 17.50% on income greater than $93,000.

The government of Nova Scotia introduced an increase of $250 to the basic personal amount for 2007 and a proportional change to the other personal amounts. Listed below are some of the non-refundable personal tax credits amounts for the province of Nova Scotia. Refer to Form TD1NS for complete information on personal amounts.

- The basic personal amount is revised to $7,481 (formerly $7,231).
- The spouse or common-law partner amount is revised to $6,352 (formerly $6,140).

Personal amounts will be multiplied by the province's lowest non-zero tax rate of 8.79%.

The provincial surtax payable for Nova Scotia remains as follows:

- Where the basic provincial tax payable (T_4) is less than or equal to $10,000, the surtax payable (V1) is $0.
- Where the basic provincial tax payable (T_4) is greater than $10,000, the surtax payable (V_1) is 10% of the basic provincial tax payable in excess of $10,000.

The provincial labour-sponsored funds tax credit (factor LCP) for Nova Scotia remains the lesser of $1,000 and 20% of the approved shares purchase.

3. Prince Edward Island

The provincial tax rates and income thresholds for Prince Edward Island remain as follows:

- 9.8% on income less than or equal to $30,754;
- 13.8% on income greater than $30,754, but less than or equal to $61,509; and
- 16.7% on income greater than $61,509.

Listed below are some of the non-refundable personal tax credits amounts for the province of Prince Edward Island. Refer to Form TD1PE for complete information on personal amounts.

- The basic personal amount remains at $7,412.
- The spouse or common-law partner amount remains at $6,294.

Personal amounts will be multiplied by the province's lowest non-zero tax rate of 9.8%.

The provincial surtax payable for Prince Edward Island remains as follows:

- Where the basic provincial tax payable (T_4) is less than or equal to $5,200, the surtax payable (V_1) is $0.
- Where the basic provincial tax payable (T_4) is greater than $5,200, the surtax payable (V_1) is 10% of the basic provincial tax payable in excess of $5,200.

4. New Brunswick

Effective January 1, 2007, the provincial tax rates for New Brunswick are not changed.

The income thresholds and personal amounts have been indexed. The provincial indexing factor for 2007 is 2.2%. To calculate the indexed amounts, multiply the provincial income thresholds and appropriate personal amounts by 1.022. For more information on indexing, see page 16.

The income thresholds are revised as follows:

- 9.68% on income less than or equal to $34,186 (formerly $33,450);
- 14.82% on income greater than $34,186, but less than or equal to $68,374 (formerly $66,902);
- 16.52% on income greater than $68,374, but less than or equal to $111,161 (formerly $108,768); and
- 17.84% on income greater than $111,161.

Listed below are some of the non-refundable personal tax credits amounts for the province of New Brunswick. Refer to Form TD1NB for complete information on personal amounts.

- The basic personal amount is revised to $8,239 (formerly $8,061).
- The spouse or common-law partner amount is revised to $6,996 (formerly $6,845).

Personal amounts will be multiplied by the province's lowest non-zero tax rate of 9.68%.

The provincial labour-sponsored funds tax credit (factor LCP) for New Brunswick remains the lesser of $750 and 15% of the approved shares purchase.

5. Quebec

There is no change to the 16.5% Quebec Tax Abatement rate for 2007.

6. Ontario

Effective January 1, 2007, the provincial tax rates for Ontario are not changed.

The income thresholds and personal amounts have been indexed. The provincial indexing factor for 2007 is 2.1%. To calculate the indexed amounts, multiply the provincial income thresholds and appropriate personal amounts by 1.021. For more information on indexing, see page 16.

The income thresholds are revised as follows:

- 6.05% on income less than or equal to $35,488 (formerly $34,758);

- 9.15% on income greater than $35,488, but less than or equal to $70,976 (formerly $69,517) and
- 11.16% on income greater than $70,976.

Listed below are some of the revised non-refundable personal tax credits amounts for the province of Ontario. Refer to Form TD1ON for complete information on personal amounts.

- The basic personal amount is revised to $8,553 (formerly $8,377).
- The spouse or common-law partner amount is revised to $7,262 (formerly $7,113).

Personal amounts will be multiplied by the province's lowest non-zero tax rate of 6.05%.

As a result of indexing, the Ontario provincial surtax thresholds for 2007 are revised as follows:

- Where the basic provincial tax payable (T_4) is less than or equal to $4,100 (formerly $4,016), the surtax payable (V_1) is $0.
- Where the basic provincial tax payable (T_4) is greater than $4,100 and less than or equal to $5,172 (formerly $5,065), the surtax payable (V_1) is 20% of the basic provincial tax payable in excess of $4,100.
- Where the basic provincial tax payable (T_4) is greater than $5,172, the surtax payable (V_1) is the total of 20% of the basic provincial tax payable in excess of $4,100 and 36% of the basic provincial tax payable in excess of $5,172.

The provincial labour-sponsored funds tax credit (factor LCP) for Ontario remains the lesser of $750 and 15% of the approved shares purchase.

The Ontario Health Premium (OHP) is payable on annual taxable income in excess of $20,000. It is designated by factor, V_2. The OHP remains as follows:

- Where taxable income is less than or equal to $20,000, the premium is $0;
- Where taxable income is greater than $20,000 and less than or equal to $36,000, the premium is equal to the lesser of (i) $300, and (ii) 6% of taxable income greater than $20,000;
- Where taxable income is greater than $36,000 and less than or equal to $48,000, the premium is equal to the lesser of (i) $450, and (ii) $300 plus 6% of taxable income greater than $36,000;
- Where taxable income is greater than $48,000 and less than or equal to $72,000, the premium is equal to the lesser of (i) $600, and (ii) $450 plus 25% of taxable income greater than $48,000;
- Where taxable income is greater than $72,000 and less than or equal to $200,000, the premium is equal to the lesser of (i) $750, and (ii) $600 plus 25% of taxable income greater than $72,000; and
- Where taxable income is greater than $200,000, the premium is equal to the lesser of (i) $900, and (ii) $750 plus 25% of taxable income greater than $200,000.

The Ontario Health Premium is not reduced by the Ontario tax reduction (factor S). The Ontario Health Premium is not related to the Employer Health Tax for Ontario. You include the Ontario Health Premium in the total federal and provincial tax deducted on T4 Slips.

Provincial tax reduction for Ontario

The provincial tax reduction for Ontario has changed due to provincial indexing. When possible, the employer or payer should implement the Y factor based on the total of the applicable amounts shown on the employee's or pensioner's TD1ON form. If the Y factor is not used, any over deduction of tax will be adjusted when the individual files an income tax return.

The revised provincial tax reduction amounts for 2007 are as follows:

- $198 (formerly $194) for the basic personal amount;
- $365 (formerly $357) for each dependant under age 18*, and
- $365 (formerly $357) for each dependant with a disability that the employee or pensioner has claimed on Form TD1ON.

*Since the tax reduction for dependants under age 18 is not shown on the TD1ON, the employee or pensioner will have to provide the employer or payer with a written request to include such amounts.

The reduction remains equal to twice the individual's personal amounts minus the Ontario income tax. The reduction cannot exceed the Ontario income tax otherwise payable and the reduction is nil when the Ontario income tax exceeds twice the personal amounts.

7. Manitoba

Effective January 1, 2007, the income thresholds for Manitoba are not changed. The provincial tax rates for Manitoba are revised as follows:

- 10.9% on income less than or equal to $30,544;
- 13.0% (formerly 13.5%) on income greater than $30,544, but less than or equal to $65,000; and
- 17.4% on income greater than $65,000.

The government of Manitoba introduced an increase of $100 to the basic personal amount for 2007. Listed below are some of the non-refundable personal tax credits amounts for the province of Manitoba. Refer to Form TD1MB for complete information on personal amounts.

- The basic personal amount is revised to $7,834 (formerly $7,734).
- The spouse or common-law partner amount remains at $6,482.

Personal amounts will be multiplied by the province's lowest non-zero tax rate of 10.9%.

The provincial labour-sponsored funds tax credit (factor LCP) for Manitoba is revised to the lesser of $1,800 (formerly $750) and 15% of the approved shares purchase.

Provincial tax reduction for Manitoba

The amounts used in the tax reduction calculation do not change for January 1, 2007. When possible, the employer or payer should implement the Y factor based on the total of the applicable amounts shown on the employee's or pensioner's TD1MB form. If the Y factor is not used, any over deduction of tax will be adjusted when the individual files an income tax return.

The tax reduction amounts for Manitoba remain as follows:

- the basic provincial tax reduction amount is $225;
- the spouse or common-law partner amount is $225;
- the amount for age 65 or over is $225 for the employee or pensioner and $225 for a dependant spouse age 65 or over;
- the amount for each dependant under age 18 is $300;
- the amount for an employee or pensioner with a disability is $300; and
- the amount in respect of a dependant with a disability is $300.

The total of the above amounts that apply is reduced by 1% of net income, and the reduction cannot exceed the Manitoba income tax otherwise payable. The reduction is nil when 1% of net income exceeds the reduction amounts.

8. Saskatchewan

Effective January 1, 2007, the provincial tax rates for Saskatchewan are not changed.

The income thresholds and personal amounts for Saskatchewan are indexed. The indexing factor for 2007 is 2.2%. To calculate the indexed amounts, multiply the provincial income thresholds and appropriate personal amounts by 1.022. For more information on indexing, see page 16.

The income thresholds are revised as follows:

- 11% on income less than or equal to $38,405 (formerly $37,579);
- 13% on income greater than $38,405, but less than or equal to $109,729 (formerly $107,367); and
- 15% on income greater than $109,729.

Listed below are some of the non-refundable personal tax credits amounts for the province of Saskatchewan. Refer to Form TD1SK for complete information on personal amounts.

- The basic personal amount is revised to $8,778 (formerly $8,589).
- The spouse or common-law partner amount is revised to $8,778 (formerly $8,589).
- The senior supplementary amount is revised to $1,097 (formerly $1,074).
- The child amount is revised to $2,743 (formerly $2,684).

Personal amounts will be multiplied by the province's lowest non-zero tax rate of 11%.

There is no change to the provincial labour-sponsored funds tax credit (factor LCP) for Saskatchewan. For investments in venture capital corporations that are registered in Saskatchewan, the tax credit is the lesser of $1,000 or 20% of the approved shares purchase. For investments in venture capital corporations that are registered federally, the tax credit is the lesser of $525 or 15% of the approved shares purchase. The total of the two tax credits cannot exceed $1,000. Note that the federal factor (LCF) is not affected by where a corporation is registered.

9. Alberta

The provincial tax rate applicable to all taxable income for Alberta for January 1, 2007, remains at 10%.

Personal amounts have been indexed. The provincial indexing factor for 2007 is 3.6%. To calculate the indexed amounts, multiply the appropriate personal amounts by 1.036. For more information on indexing, see page 16.

Listed below are some of the revised non-refundable personal tax credits amounts for the province of Alberta. Refer to Form TD1AB for complete information on personal amounts.

- The basic personal amount is revised to $15,435 (formerly $14,899).
- The spouse or common-law partner amount is revised to $15,435 (formerly $14,899).

Personal amounts will be multiplied by the province's tax rate of 10%.

10. British Columbia

Effective January 1, 2007, the provincial tax rates for British Columbia are not changed.

The income thresholds, personal amounts and tax reduction values are indexed. The provincial indexing factor for 2007 is 1.9%. To calculate the indexed amounts, multiply the provincial income thresholds, appropriate personal amounts and tax reduction values by 1.019. For more information on indexing, see page 16.

The income thresholds are revised as follows:

- 6.05% on income less than or equal to $34,397 (formerly $33,755);
- 9.15% on income greater than $34,397, but less than or equal to $68,794 (formerly $67,511);
- 11.7% on income greater than $68,794, but less than or equal to $78,984 (formerly $77,511);
- 13.7% on income greater than $78,984, but less than or equal to $95,909 (formerly $94,121); and
- 14.7% on income greater than $95,909.

Listed below are some of the revised non-refundable personal tax credits amounts for the province of British Columbia. Refer to Form TD1BC for complete information on personal amounts.

- The basic personal amount is revised to $9,027 (formerly $8,858).
- The spouse or common-law partner amount is revised to $7,729 (formerly $7,585).

Personal amounts will be multiplied by the province's lowest non-zero tax rate of 6.05%.

The provincial labour-sponsored funds tax credit (factor LCP) for British Columbia remains the lesser of $2,000 and 15% of the approved shares purchase.

Provincial tax reduction for British Columbia

The provincial tax reduction for British Columbia is indexed and is calculated as follows:

- Where net income is less than or equal to $16,646 (formerly $16,336), the reduction is equal to the lesser of (i) basic provincial tax, and (ii) $375 (formerly $368);
- Where net income is greater than $16,646 and less than or equal to $27,062.67 (formerly $26,558.22), the reduction is equal to the lesser of (i) basic provincial tax, and (ii) $375 – [(Annual net income – $16,646) × 3.6%];
- Where net income is greater than $27,062.67, the reduction is equal to $0.

11. Yukon

Effective January 1, 2007, the territorial tax rates for Yukon are not changed.

The income thresholds and personal amounts are indexed. The indexing factor for 2007 is 2.2%. To calculate the indexed amounts, multiply the territorial income thresholds and appropriate personal amounts by 1.022. For more information on indexing, see page 16.

The income thresholds are revised as follows:

- 7.04% on income less than or equal to $37,178 (formerly $36,378);
- 9.68% on income greater than $37,178, but less than or equal to $74,357 (formerly $72,756);
- 11.44% on income greater than $74,357, but less than or equal to $120,887 (formerly $118,285); and
- 12.76% on income greater than $120,887.

Yukon introduced a territorial Canada Employment Credit and it will be designated as factor K_4P.

Yukon will again be harmonized with all federal personal amounts. Listed below are some of the revised non-refundable personal tax credits amounts for Yukon. Refer to Form TD1YT for complete information on personal amounts.

- The basic personal amount is revised to $8,929 (formerly $8,328).
- The spouse or common-law partner amount is revised to $7,581 (formerly $7,071).

Personal amounts will be multiplied by the territory's lowest non-zero tax rate of 7.04%.

The surtax payable for Yukon remains as follows:

- Where the basic territorial tax payable (T_4) is less than or equal to $6,000, the surtax payable (V_1) is $0.
- Where the basic territorial tax payable (T_4) is greater than $6,000, the surtax payable (V_1) is 5% of the basic territorial tax payable in excess of $6,000.

The territorial labour-sponsored funds tax credit (factor LCP) for Yukon remains the lesser of $1,250 and 25% of the approved shares purchase.

12. Northwest Territories

Effective January 1, 2007, the territorial tax rates for Northwest Territories are not changed.

The income thresholds and personal amounts are indexed. The indexing factor for 2007 is 2.2%. To calculate the indexed amounts, multiply the territorial income thresholds and appropriate personal amounts by 1.022. For more information on indexing, see page 16.

The income thresholds are revised as follows:

- 5.9% on income less than or equal to $35,315 (formerly $34,555);
- 8.6% on income greater than $35,315, but less than or equal to $70,631 (formerly $69,110);
- 12.2% on income greater than $70,631, but less than or equal to $114,830 (formerly $112,358); and
- 14.05% on income greater than $114,830.

Listed below are some of the revised non-refundable personal tax credits amounts for Northwest Territories. Refer to Form TD1NT for complete information on personal amounts.

- The basic personal amount is revised to $12,125 (formerly $11,864).
- The spouse or common-law partner amount is revised to $12,125 (formerly $11,864).

Personal amounts will be multiplied by the territory's lowest non-zero tax rate of 5.9%.

13. Nunavut

Effective January 1, 2007, the territorial tax rates for Nunavut are not changed.

The income thresholds and personal amounts are indexed. The indexing factor for 2007 is 2.2%. To calculate the indexed amounts, multiply the territorial income thresholds and appropriate personal amounts by 1.022. For more information on indexing, see page 16.

The income thresholds are revised as follows:

- 4% on income less than or equal to $37,178 (formerly $36,378);
- 7% on income greater than $37,178, but less than or equal to $74,357 (formerly $72,756);
- 9% on income greater than $74,357, but less than or equal to $120,887 (formerly $118,285); and
- 11.5% on income greater than $120,887.

Listed below are some of the revised non-refundable personal tax credits amounts for Nunavut. Refer to Form TD1NU for complete information on personal amounts.

- The basic personal amount is revised to $11,149 (formerly $10,909).
- The spouse or common-law partner amount is revised to $11,149 (formerly $10,909).

Personal amounts will be multiplied by the territory's lowest non-zero tax rate of 4%.

Personal tax credits return (TD1 forms)

Federal Form TD1, *2007 Personal Tax Credits Return*

The federal Form TD1 has been revised for 2007. General refiling of the 2007 federal Form TD1 is not necessary, but a new employee, a new pensioner, or an individual who wishes to change his or her federal claim amounts will have to complete the 2007 federal Form TD1.

The federal claim codes are in Chart 1 of the publication *Payroll Deductions Tables* and in this publication under the heading "Federal, provincial, and territorial claim codes" on page 17.

A separate worksheet TD1-WS is available for employees or pensioners who want to calculate partial claims for some of the federal personal tax credits amounts.

Indexing of personal amounts

Each year, certain personal tax credits amounts are subject to indexing based on changes to the Consumer Price Index. Since only some of the amounts are indexed, we recommend that you record separately in your payroll records each item shown on the employee's or pensioner's TD1 form. This will allow you to automatically increase the applicable indexed claim amounts when necessary. This also means you will not have to ask your employees or pensioners to file a new TD1 form when indexing applies.

You can use the following method to calculate the value of TC or TCP when indexing applies:

1. Enter the total claim amount reported on TD1 form	$	______
2. Minus: any pension income amount, tuition fees, and full or part-time education amounts claimed on the TD1 form*	$	______
3. Amount subject to annual indexing (line 1 minus line 2)	$	______
4. Enter the applicable indexing factor for the year	×	*see ***
5. Multiply line 3 by line 4 (rounded to the nearest dollar)	$	______
6. Enter the amount from line 2 (non-indexed amounts)	$	______
7. Revised factor TC or TCP (total of personal tax credits amounts) (line 5 plus line 6)	$	______

* For the provinces of Alberta and Ontario only, do not include any amounts at line 2, since all Alberta and Ontario credits are subject to indexing.

** The federal indexing factor for 2007 is 1.022. This factor of 1.022 is also applied to New Brunswick, Saskatchewan, Yukon, Northwest Territories, and Nunavut. Some changes to Yukon personal amounts are not directly attributable to indexing, as they have harmonized amounts with the federal values.

The indexing factors for the other provinces are as follows: Ontario at 1.021, Alberta at 1.036, and British Columbia at 1.019. There is no indexing applied to Newfoundland and Labrador, Nova Scotia, Prince Edward Island, and Manitoba.

Note that for the federal amounts, add the scheduled increases before and after indexing as explained on page 6.

Provincial and territorial TD1 forms

The CRA provides a specific 2007 TD1 form for each province (except Quebec) and territory. Employees should complete the provincial or territorial TD1 form that corresponds to their province or territory of employment. Pensioners should complete the provincial or territorial TD1 form that corresponds to their province or territory of residence.

New employees, new pensioners, and employees or pensioners who wish to change their personal tax credits amounts must complete both the federal and applicable provincial or territorial TD1 forms. An employee who changes province or territory of employment or a pensioner who moves to another province or territory should complete the appropriate provincial or territorial TD1 form.

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 requesting a letter of authority from any tax services office. For more information, see Chapter 4 of the employers' guide called *Payroll Deductions* (*Basic Information*).

Claim codes

Basic personal amounts and employment income from all sources

You are required to deduct tax according to the claim code that corresponds to the claim amount on line 12 of the TD1 form. If an employee states that his or her total expected income will be less than the "Total claim amount" on line 12 of a TD1 form, do not deduct any federal, provincial or territorial tax, as applicable. However, as an employer, if you know that the employee's statement is false, you must deduct federal and provincial or territorial tax from the employee's salary.

It is a serious offence to accept a TD1 form that you know contains false or misleading statements. If you are not sure whether or not a statement you receive on a TD1 form is false, contact your tax services office for advice.

Claim Code 0

This code represents **no claim** amount allowed. If the federal claim code is "0" because the employee is a non-resident, the provincial claim code must also be "0."

Federal, provincial, and territorial claim codes

Some provincial claim code amounts will not correspond to the federal claim code amounts. You will not find claim code amounts on Form TD1. A listing of claim codes and amount ranges can be found below.

2007 federal claim codes			
Claim code	**Total claim amount ($)**	**Option 1, TC =**	**Option 1, K1 =**
Code 0	No claim amount	$ 0.00	$ 0.00
Code 1	Minimum – 8,929.00	8,929.00	1,384.00
Code 2	8,929.01 – 10,817.00	9,873.00	1,530.32
Code 3	10,817.01 – 12,705.00	11,761.00	1,822.96
Code 4	12,705.01 – 14,593.00	13,649.00	2,115.60
Code 5	14,593.01 – 16,481.00	15,537.00	2,408.24
Code 6	16,481.01 – 18,369.00	17,425.00	2,700.88
Code 7	18,369.01 – 20,257.00	19,313.00	2,993.52
Code 8	20,257.01 – 22,145.00	21,201.00	3,286.16
Code 9	22,145.01 – 24,033.00	23,089.00	3,578.80
Code 10	24,033.01 – 25,921.00	24,977.00	3,871.44

2007 Newfoundland and Labrador claim codes			
Claim code	**Total claim amount ($)**	**Option 1, TCP =**	**Option 1, K1P =**
Code 0	No claim amount	$ 0.00	$ 0.00
Code 1	Minimum – 7,410.00	7,410.00	783.24
Code 2	7,410.01 – 9,010.00	8,210.00	867.80
Code 3	9,010.01 – 10,610.00	9,810.00	1,036.92
Code 4	10,610.01 – 12,210.00	11,410.00	1,206.04
Code 5	12,210.01 – 13,810.00	13,010.00	1,375.16
Code 6	13,810.01 – 15,410.00	14,610.00	1,544.28
Code 7	15,410.01 – 17,010.00	16,210.00	1,713.40
Code 8	17,010.01 – 18,610.00	17,810.00	1,882.52
Code 9	18,610.01 – 20,210.00	19,410.00	2,051.64
Code 10	20,210.01 – 21,810.00	21,010.00	2,220.76

2007 Nova Scotia claim codes			
Claim code	**Total claim amount ($)**	**Option 1, TCP =**	**Option 1, K1P =**
Code 0	No claim amount	$ 0.00	$ 0.00
Code 1	Minimum – 7,481.00	7,481.00	657.58
Code 2	7,481.01 – 9,081.00	8,281.00	727.90
Code 3	9,081.01 – 10,681.00	9,881.00	868.54
Code 4	10,681.01 – 12,281.00	11,481.00	1,009.18
Code 5	12,281.01 – 13,881.00	13,081.00	1,149.82
Code 6	13,881.01 – 15,481.00	14,681.00	1,290.46
Code 7	15,481.01 – 17,081.00	16,281.00	1,431.10
Code 8	17,081.01 – 18,681.00	17,881.00	1,571.74
Code 9	18,681.01 – 20,281.00	19,481.00	1,712.38
Code 10	20,281.01 – 21,881.00	21,081.00	1,853.02

2007 Prince Edward Island claim codes			
Claim code	**Total claim amount ($)**	**Option 1, TCP =**	**Option 1, K1P =**
Code 0	No claim amount	$ 0.00	$ 0.00
Code 1	Minimum – 7,412.00	7,412.00	726.38
Code 2	7,412.01 – 9,012.00	8,212.00	804.78
Code 3	9,012.01 – 10,612.00	9,812.00	961.58
Code 4	10,612.01 – 12,212.00	11,412.00	1,118.38
Code 5	12,212.01 – 13,812.00	13,012.00	1,275.18
Code 6	13,812.01 – 15,412.00	14,612.00	1,431.98
Code 7	15,412.01 – 17,012.00	16,212.00	1,588.78
Code 8	17,012.01 – 18,612.00	17,812.00	1,745.58
Code 9	18,612.01 – 20,212.00	19,412.00	1,902.38
Code 10	20,212.01 – 21,812.00	21,012.00	2,059.18

2007 New Brunswick claim codes			
Claim code	Total claim amount ($)	Option 1, TCP =	Option 1, K1P =
Code 0	No claim amount	$ 0.00	$ 0.00
Code 1	Minimum – 8,239.00	8,239.00	797.54
Code 2	8,239.01 – 10,066.00	9,152.50	885.96
Code 3	10,066.01 – 11,893.00	10,979.50	1,062.82
Code 4	11,893.01 – 13,720.00	12,806.50	1,239.67
Code 5	13,720.01 – 15,547.00	14,633.50	1,416.52
Code 6	15,547.01 – 17,374.00	16,460.50	1,593.38
Code 7	17,374.01 – 19,201.00	18,287.50	1,770.23
Code 8	19,201.01 – 21,028.00	20,114.50	1,947.08
Code 9	21,028.01 – 22,855.00	21,941.50	2,123.94
Code 10	22,855.01 – 24,682.00	23,768.50	2,300.79

2007 Ontario claim codes			
Claim code	Total claim amount ($)	Option 1, TCP =	Option 1, K1P =
Code 0	No claim amount	$ 0.00	$ 0.00
Code 1	Minimum – 8,553.00	8,553.00	517.46
Code 2	8,553.01 – 10,396.00	9,474.50	573.21
Code 3	10,396.01 – 12,239.00	11,317.50	684.71
Code 4	12,239.01 – 14,082.00	13,160.50	796.21
Code 5	14,082.01 – 15,925.00	15,003.50	907.71
Code 6	15,925.01 – 17,768.00	16,846.50	1,019.21
Code 7	17,768.01 – 19,611.00	18,689.50	1,130.71
Code 8	19,611.01 – 21,454.00	20,532.50	1,242.22
Code 9	21,454.01 – 23,297.00	22,375.50	1,353.72
Code 10	23,297.01 – 25,140.00	24,218.50	1,465.22

2007 Manitoba claim codes			
Claim code	Total claim amount ($)	Option 1, TCP =	Option 1, K1P =
Code 0	No claim amount	$ 0.00	$ 0.00
Code 1	Minimum – 7,834.00	7,834.00	853.91
Code 2	7,834.01 – 9,527.00	8,680.50	946.17
Code 3	9,527.01 – 11,220.00	10,373.50	1,130.71
Code 4	11,220.01 – 12,913.00	12,066.50	1,315.25
Code 5	12,913.01 – 14,606.00	13,759.50	1,499.79
Code 6	14,606.01 – 16,299.00	15,452.50	1,684.32
Code 7	16,299.01 – 17,992.00	17,145.50	1,868.86
Code 8	17,992.01 – 19,685.00	18,838.50	2,053.40
Code 9	19,685.01 – 21,378.00	20,531.50	2,237.93
Code 10	21,378.01 – 23,071.00	22,224.50	2,423.56

2007 Saskatchewan claim codes			
Claim code	**Total claim amount ($)**	**Option 1, TCP =**	**Option 1, K1P =**
Code 0	No claim amount	$ 0.00	$ 0.00
Code 1	Minimum – 8,778.00	8,778.00	965.58
Code 2	8,778.01 – 10,534.00	9,656.00	1,062.16
Code 3	10,534.01 – 12,290.00	11,412.00	1,255.32
Code 4	12,290.01 – 14,046.00	13,168.00	1,448.48
Code 5	14,046.01 – 15,802.00	14,924.00	1,641.64
Code 6	15,802.01 – 17,558.00	16,680.00	1,834.80
Code 7	17,558.01 – 19,314.00	18,436.00	2,027.96
Code 8	19,314.01 – 21,070.00	20,192.00	2,221.12
Code 9	21,070.01 – 22,826.00	21,948.00	2,414.28
Code 10	22,826.01 – 24,582.00	23,704.00	2,607.44

2007 Alberta claim codes			
Claim code	**Total claim amount ($)**	**Option 1, TCP =**	**Option 1, K1P =**
Code 0	No claim amount	$ 0.00	$ 0.00
Code 1	Minimum – 15,435.00	15,435.00	1,543.50
Code 2	15,435.01 – 17,693.00	16,564.00	1,656.40
Code 3	17,693.01 – 19,951.00	18,822.00	1,882.20
Code 4	19,951.01 – 22,209.00	21,080.00	2,108.00
Code 5	22,209.01 – 24,467.00	23,338.00	2,333.80
Code 6	24,467.01 – 26,725.00	25,596.00	2,559.60
Code 7	26,725.01 – 28,983.00	27,854.00	2,785.40
Code 8	28,983.01 – 31,241.00	30,112.00	3,011.20
Code 9	31,241.01 – 33,499.00	32,370.00	3,237.00
Code 10	33,499.01 – 35,757.00	34,628.00	3,462.80

2007 British Columbia claim codes			
Claim code	**Total claim amount ($)**	**Option 1, TCP =**	**Option 1, K1P =**
Code 0	No claim amount	$ 0.00	$ 0.00
Code 1	Minimum – 9,027.00	9,027.00	546.13
Code 2	9,027.01 – 11,058.00	10,042.50	607.57
Code 3	11,058.01 – 13,089.00	12,073.50	730.45
Code 4	13,089.01 – 15,120.00	14,104.50	853.32
Code 5	15,120.01 – 17,151.00	16,135.50	976.20
Code 6	17,151.01 – 19,182.00	18,166.50	1,099.07
Code 7	19,182.01 – 21,213.00	20,197.50	1,221.95
Code 8	21,213.01 – 23,244.00	22,228.50	1,344.82
Code 9	23,244.01 – 25,275.00	24,259.50	1,467.70
Code 10	25,275.01 – 27,306.00	26,290.50	1,590.58

2007 Yukon claim codes			
Claim code	**Total claim amount ($)**	**Option 1, TCP =**	**Option 1, K1P =**
Code 0	No claim amount	$ 0.00	$ 0.00
Code 1	Minimum – 8,929.00	8,929.00	628.60
Code 2	8,929.01 – 10,817.00	9,873.00	695.06
Code 3	10,817.01 – 12,705.00	11,761.00	827.97
Code 4	12,705.01 – 14,593.00	13,649.00	960.89
Code 5	14,593.01 – 16,481.00	15,537.00	1,093.80
Code 6	16,481.01 – 18,369.00	17,425.00	1,226.72
Code 7	18,369.01 – 20,257.00	19,313.00	1,359.64
Code 8	20,257.01 – 22,145.00	21,201.00	1,492.55
Code 9	22,145.01 – 24,033.00	23,089.00	1,625.47
Code 10	24,033.01 – 25,921.00	24,977.00	1,758.38

2007 Northwest Territories claim codes			
Claim code	**Total claim amount ($)**	**Option 1, TCP =**	**Option 1, K1P =**
Code 0	No claim amount	$ 0.00	$ 0.00
Code 1	Minimum – 12,125.00	12,125.00	715.38
Code 2	12,125.01 – 14,210.00	13,167.50	776.88
Code 3	14,210.01 – 16,295.00	15,252.50	899.90
Code 4	16,295.01 – 18,380.00	17,337.50	1,022.91
Code 5	18,380.01 – 20,465.00	19,422.50	1,145.93
Code 6	20,465.01 – 22,550.00	21,507.50	1,268.94
Code 7	22,550.01 – 24,635.00	23,592.50	1,391.96
Code 8	24,635.01 – 26,720.00	25,677.50	1,514.97
Code 9	26,720.01 – 28,805.00	27,762.50	1,637.99
Code 10	28,805.01 – 30,890.00	29,847.50	1,761.00

2007 Nunavut claim codes			
Claim code	**Total claim amount ($)**	**Option 1, TCP =**	**Option 1, K1P =**
Code 0	No claim amount	$ 0.00	$ 0.00
Code 1	Minimum – 11,149.00	11,149.00	445.96
Code 2	11,149.01 – 13,267.00	12,208.00	488.32
Code 3	13,267.01 – 15,385.00	14,326.00	573.04
Code 4	15,385.01 – 17,503.00	16,444.00	657.76
Code 5	17,503.01 – 19,621.00	18,562.00	742.48
Code 6	19,621.01 – 21,739.00	20,680.00	827.20
Code 7	21,739.01 – 23,857.00	22,798.00	911.92
Code 8	23,857.01 – 25,975.00	24,916.00	996.64
Code 9	25,975.01 – 28,093.00	27,034.00	1,081.36
Code 10	28,093.01 – 30,211.00	29,152.00	1,166.08

Tax deductions from commission income

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

Form TD1X remains unchanged for 2007. The form is to be used for both federal and provincial or territorial tax purposes.

Remitting and reporting federal and provincial or territorial tax deductions

Payroll remittances (Form PD7A, *Statement of Account for Current Source Deductions*)

You report the combined federal and provincial or territorial tax deductions on payroll remittance forms. Also, make periodic remittances to the Canada Revenue Agency (CRA) of federal and provincial or territorial tax, Canada Pension Plan (CPP) contributions, and Employment Insurance (EI) premiums.

Pay statements and T4 slips, *Statement of Remuneration Paid*

You show the combined federal and provincial or territorial tax deductions on your pay statements. Also, you file only one T4 slip per employee no later than the last day of February of each year. The T4 slip will show combined federal and provincial or territorial tax deductions.

Letters of authority

The Canada Revenue Agency will continue to issue letters of authority to reduce federal and provincial or territorial tax deductions, for example, in respect of support payments.

Payroll Deductions Online Calculator

Important features of the Payroll Deductions Online Calculator include:

- The Payroll Deductions Online Calculator is an interactive web application that calculates payroll deductions for all pay periods, provinces (except for Quebec), and territories. You will find a link to the Payroll Deductions Online Calculator at **www.cra.gc.ca/payroll**
- The new Payroll Deductions Online Calculator applies the exact taxable income amount to determine the tax deductions. The calculations are more accurate than those produced by the *Tables on Diskette* (TOD);
- The Payroll Deductions Online Calculator offers the same features as the current CD version of the *Tables on Diskette* (TOD), without the hassle of downloading or installing the program. The online calculator is compatible with all users' operating systems.

Tables on Diskette (TOD) for January 1, 2007

Tables on Diskette (TOD), is a stand-alone computer program that calculates payroll deductions for all pay periods, provinces (except for Quebec), and territories. TOD gives you easy access to information you need, without the burden of paperwork. TOD is available **free of charge** to all employers.

General information

Any deviation from the formulas

If you deviate from the formulas, rates, and constants we provide, other than for converting to the related pay period, you have to submit the details to your tax services office or tax centre for approval.

Rounding procedures

For all mathematical calculations in this publication, use the following rounding rules except where we specify otherwise.

For income tax deductions

When the figure calculated for an employee's income tax deduction for a certain pay period has three or more digits after the decimal point, increase the second digit after the decimal point by one if the third digit is five or greater, and drop the third digit. If the third digit after the decimal point is less than five, drop the third digit.

For Canada Pension Plan (CPP) basic exemption and contributions

An employee's basic exemption for a pay period is determined by dividing the annual basic exemption by the number of pay periods in the calendar year. If the figure has three or more digits after the decimal point, drop the third digit after the decimal point.

When the employee's contribution to CPP for the pay period has three or more digits after the decimal point, increase the second digit after the decimal point by one if the third digit is five or more, and drop the third digit. If the third digit after the decimal point is less than five, drop the third digit.

For Employment Insurance (EI) premiums

When the employee's or employer's EI premium for the pay period has three or more digits after the decimal point, increase the second digit by one if the third digit is five or more, and drop the third digit. If the third digit after the decimal point is less than five, drop the third digit.

Mathematical symbol definition

The mathematical symbols we use in this publication and their definitions are as follows:

Symbol	Definition
>	is greater than
<	is less than
≥	is greater than or equal to
≤	is less than or equal to
/	Division
×	Multiplication
( ) or [ ]	Parentheses and brackets indicate that the quantities enclosed are calculated before the remainder of the formula.

Tax deductions comparison

When the tax deductions amount using Option 1 in this publication is compared to the tax deductions amount contained in the *Payroll Deductions Tables* (T4032), the amounts will not necessarily be identical. Any difference results from the fact that amounts in the *Payroll Deductions Tables* are based on:

(i) the mid-point of the range of remuneration under the "Pay" column;

(ii) the federal tax credit for Canada or Quebec Pension Plan contributions and Employment Insurance premium deductions is based on the amount determined in item (i); and

(iii) the mid-point of the “Claim code” amounts on federal, provincial, and territorial TD1 forms are used, except for code 1 where the actual basic personal non-refundable tax credit amount is used. For claim code 0, no personal tax credits amounts are used when calculating the tax deduction amounts.

Lump-sum payments

Composite tax rates to be used for lump-sum payments are provided in the employers’ guide called *Payroll Deductions (Basic Information)*, in the section called “Withholding rates for lump-sum payments.” Depending on the total income, the composite rates are given as 10%, 20%, or 30% (5%, 10%, or 15% in Quebec).

Frequently, the tax rates above will not produce the proper amount of tax payable on the lump-sum payment. This difference occurs because there are various federal, provincial, and territorial income thresholds, as well as provincial or territorial surtaxes and tax reductions.

To avoid deficient or excess tax deductions that can result from lump-sum payments, you can, as an alternative, use the tax calculation for non-periodic payments contained in Option 1.

Registered retirement income fund (RRIF)

The following is our position on how the trustee of a registered retirement income fund (RRIF) should calculate the amount of tax to deduct when amounts above the minimum are paid out in the year.

We consider all periodic payments made from an RRIF, following an election to make withdrawals that are above the yearly minimum, to be a blended payment. In such cases, the elected part is subject to tax deductions. Use the withholding rates for lump-sum payments to determine the amount of tax to deduct. The withholding rates for lump-sum payments will also apply when an individual makes a lump-sum withdrawal that is greater than the minimum during the year.

Registered retirement savings plans (RRSPs)

Contributions you make to an employee's RRSP and RRSP administration fees that you pay on behalf of your employee are considered to be a taxable benefit to the employee. This does not include an amount you withheld from the employee's remuneration and contributed for the employee.

If GST/HST applies to the administration fees, include it in the value of the benefit.

Payroll Deductions

RRSP taxable benefits are pensionable and insurable. Deduct CPP contributions and EI premiums.

Your contributions to the employee's RRSP are considered non-cash benefits and are not insurable in cases where the employees cannot withdraw the amounts from a group RRSP until they retire or cease to be employed.

Where you allow the employee to withdraw RRSP funds under the Home Buyers Plan or Lifelong Learning Plan, we still consider the contributions to be non-cash benefits.

Although the benefit is taxable and has to be reported on the T4 slip, you do not have to deduct income tax at source on the contributions you make to employees' RRSPs. However, you must have reasonable grounds to believe that the employee can deduct the contribution for the year.

Information returns

You will need to complete separate T4 slips when an employee has worked in more than one province during the year.

For instructions on which tax tables to use, see the publication called *Payroll Deductions Tables*, under the heading, “Which provincial or territorial tax table should you use?”

Information Returns Electronic Filing

As of January 2006, three options will be available:

T4 Web forms: This convenient filing option is for employers who have to file 1 to 3 original or amended T4 slips. With T4 Web forms, all you need is a compatible browser to complete, print, and submit a T4 information return.

T4 and T1204 desktop applications: These downloadable desktop applications let you create, save, and print an electronic T4 or T1204 information return.

Internet file transfer (XML): As of January 2006, Internet File Transfer (XML) is available for the following information returns: Originals and amended - T1204, T4, T4A, T4A-NR, T4RIF and T4RSP; Originals only - T4E. You may also file multiple returns within a single submission (maximum 610 Kb). Clients will require a payroll Business Number (RP) and Web Access Code (WAC) when filing these returns to CRA.

We invite you to visit our Web site at: **http://www.cra-arc.gc.ca/eservices/**

Use and requirement of Social Insurance Number (SIN)

An individual (employee or pensioner) has to provide a Social Insurance Number (SIN) to an employer or payer. An employer or payer has to make a reasonable effort to obtain a SIN from an individual. An individual without a SIN has to apply for one at the nearest office of Human Resources Skills Development Canada (HRSDC) within 15 days of the date the employer or payer requests it. After receiving the SIN, an individual has 15 days to provide it to the employer or payer.

An individual who, for any reason, does not comply with these requirements is liable for a fine or penalty for each failure. An employer or payer who fails to provide a SIN on an information slip is also liable for a fine or penalty.

An employer or payer, who knowingly uses, communicates, or allows a SIN to be communicated for any purpose other than that for which it was provided, is guilty of an offence, and is liable for a fine or imprisonment, or both.

If an individual fails to respond to a request for a SIN, leave the SIN field of the information slip (T4, T4A, etc.) blank until the SIN is provided.

If an individual refuses to provide a SIN, the information slips prepared should contain all zeros (000-000-000) in the SIN field.

For more information about the use and requirement of the SIN, see our Information Circular 82-2, *Social Insurance Number Legislation That Relates to the Preparation of Information Slips*.

Validation of the Social Insurance Number (SIN)

HRSDC uses the SIN and employee information we provide them to maintain accurate records of employee contributions and earnings. To minimize the enquiries you receive, we recommend that you include a SIN validity check as part of your payroll program.

A SIN has nine digits. The first eight digits are the basic number while the ninth digit is a check digit. You can check whether or not a SIN is valid by using the following verification method.

Example

The employee provides Social Insurance Number 193-456-787. You can check the validity of the number by calculating the check digit as follows:

Basic number (first eight digits)						**Check digit**
193 456 78						7
Make a number from each alternate position to the left beginning at the second digit	9	4	6	8		
Add the number to itself	9	4	6	8		
Sum	18	8	12	16		
Cross-add the digits in the sum (1 + 8 + 8 + 1 + 2 + 1 + 6) =				27		
Add each alternate digit beginning at the first digit (1 + 3 + 5 + 7) =				16		
Total				43		
If the total is a multiple of 10, the check digit should be 0; otherwise, subtract the total calculated (43) from the next highest number ending in zero (50)				50		
The check digit is (50 – 43)				7	=	7

Social Insurance Numbers that do not pass the validation check

If the SIN provided by an individual does not pass the verification check, the preparer should confirm the SIN with the employer who received the original number. If you are unable to obtain the correct number for the employee, DO NOT LEAVE the SIN field on the information slip blank. Instead, report the SIN that was provided, even if it is not a valid number. Frequently, even an incorrect number will enable us to find a match so that we can correct the record and ensure the employee receives proper credit for the deductions.

Validating the Business Number (BN)

The Business Number is a nine-digit registration number and account identifier, for example: **12345 6782 RP0001**.

You can check the validity of the registration part of the Business Number by using the same standard formula used for the Social Insurance Number. For validation purposes, use only the first nine digits of the Business Number.

Part A – Formulas to determine tax deductions on salary, wages, taxable benefits, pension income, commissions, and other non-periodic payments

Option 1 – General tax formula

The general formula contained in this option determines the federal and provincial or territorial tax deductions on salary, wages, taxable benefits, pension income, commissions, and other periodic payments. The general formula can also be used to calculate the tax on a bonus or other non-periodic payment.

We use Option 1, with the exception of a few factors, to determine the tax deductions amounts contained in the *Payroll Deductions Tables* (T4032) and *Payroll Deductions Supplementary Tables* (T4008) for each province and territory, and in Canada beyond the limits of any province or outside Canada.

Outline of Option 1

In general, the Option 1 steps are as follows:

1. Determine the net taxable income for the pay period (remuneration minus allowable deductions) and multiply it by the number of pay periods in the year to get an estimated annual taxable income amount. This annual taxable income amount is factor A.
2. Calculate the basic federal tax on the estimated annual taxable income, after allowable federal personal tax credits. The basic federal tax is factor T_3.
3. Calculate the annual federal tax payable. This is factor T_1.
4. Calculate the basic provincial or territorial tax on the estimated annual taxable income, after allowable provincial or territorial personal tax credits. The annual basic provincial or territorial tax is factor T_4.
5. Calculate the annual provincial or territorial tax deduction. This is factor T_2.
6. Add the federal and provincial or territorial tax and divide the result by the number of pay periods to find the estimated federal and provincial or territorial tax deductions for a pay period. This is factor T.

Special rules apply to determine the annual income for employees remunerated by commissions. An optional calculation is provided to determine the tax deductions for bonuses, retroactive pay increases, and other non-periodic payments. For more details, see the example on page 34.

Note
If an employee or a pensioner has income from another source from which no tax has been deducted (for example, investment income or support payments), a possible tax liability could exist when filing an individual income tax return for the year. The employee or pensioner may ask for additional tax deductions, factor L, using Form TD1.

Glossary

Factor	Meaning (refer to the formulas for complete details)
A	Annual taxable income
A_1	Annual net income used to determine the Manitoba and British Columbia tax reduction
B	Bonus, retroactive pay increase, vacation pay when vacation is not taken, and accumulated overtime payment
C	Canada (or Quebec) Pension Plan contributions for the pay period
D	Employee's year-to-date CPP contribution with the employer
D_1	Employee's year-to-date Employment Insurance premium with the employer
E	Total commission expenses deductions reported on Form TD1X
EI	Employment Insurance premiums for the pay period
F	Payroll deductions for employee contributions to a registered pension plan (RPP), a registered retirement savings plan (RRSP), or a retirement compensation arrangement (RCA)
F_1	Annual deductions such as child care expenses and support payments, etc., authorized by a tax services office or tax centre
F_2	Alimony or maintenance payments required by a legal document to be payroll-deducted
F_3	Employee registered pension plan or registered retirement savings plan contributions deducted from the current non-periodic payment. You can also use this field or design another to apply other tax deductible amounts to the non-periodic payment, such as union dues.
F_4	Employee registered pension plan or registered retirement savings plan contributions deducted from the year-to-date non-periodic payments. You can also use this field or design another to apply other tax deductible amounts to the non-periodic payment, such as union dues.
G	Gross commissions amount including gross salary
HD	Annual deduction for living in a prescribed zone as indicated on Form TD1
I	Gross remuneration for the pay period
I_1	Total remuneration for the year reported on Form TD1X
IE	Insurable earnings for the pay period including insurable taxable benefits, bonuses, and retroactive pay increases
K	Federal constant
KP	Provincial or territorial constant
K_1	Federal non-refundable personal tax credit
K_1P	Provincial or territorial non-refundable personal tax credit
K_2	Federal Canada (or Quebec) Pension Plan contributions and Employment Insurance premium tax credits for the year
K_2P	Provincial or territorial Canada (or Quebec) Pension Plan contribution and Employment Insurance premiums tax credits for the year
K_3	Other federal tax credits, such as medical expenses and charitable donations authorized by a tax services office or tax centre
K_3P	Other provincial or territorial tax credits, such as medical expenses and charitable donations authorized by a tax services office or tax centre
K4	Canada Employment Credit
K_4P	Provincial or territorial Canada Employment Credit (applies to Yukon only)
L	Additional tax deductions requested for the pay period
LCF	Federal labour-sponsored funds tax credit
LCP	Provincial or territorial labour-sponsored funds tax credit
M	Accumulated federal and provincial or territorial tax deductions (if any) to the end of the last pay period
M_1	Year-to-date tax deducted on all payments included in B year-to-date
P	The number of pay periods in the year
PI	Pensionable income for the pay period, or the gross income plus any taxable benefits for the pay period
PR	The number of pay periods remaining in the year
R	Federal tax rate applicable to the annual taxable income A

S	Ontario, Manitoba or British Columbia provincial tax reduction
S_1	Annualizing factor
T	Estimated federal and provincial or territorial tax deductions for the pay period
T_1	Annual federal tax deduction
T_2	Annual provincial or territorial tax deduction
T_3	Annual basic federal tax
T_4	Annual basic provincial or territorial tax
TB	Tax deductions on a bonus, retroactive pay increase, etc., payable now
TC	"Total claim amount" reported on federal Form TD1
TCP	"Total claim amount" reported on the provincial or territorial TD1 form
U_1	Union dues for the pay period
V	Provincial or territorial tax rate for the year
V_1	Surtax calculated on the basic provincial or territorial tax
V_2	Additional tax calculated on taxable income (applies to Ontario Health Premium only)
Y	Additional provincial or territorial tax reduction based on applicable amounts reported on the provincial or territorial Form TD1
YTD	Year-to-date

Formula to calculate annual taxable income (A)

A = Annual taxable income
= $[P \times (I - F - F_2 - U_1)] - HD - F_1$
If the result is negative, T = L.

Where:
T = Estimated federal and provincial or territorial tax deductions for the pay period.
L = Additional tax deductions for the pay period requested by the employee or pensioner as indicated on Form TD1.

For employees remunerated by commission only:

A = $I_1 - F^* - F_2^* - HD - F_1 - E$
If the result is negative, T = L.

* Estimated deduction amounts for the year. In the case of registered retirement savings plan (RRSP) contributions included in F, the employer will need to find out from the employee remunerated by commission the estimated or expected annual deduction. It is recommended that employers caution employees not to exceed their RRSP contribution limit for the year.

P = The number of pay periods in the year:

Weekly	P	=	52 (or 53 where applicable)
Bi-weekly	P	=	26 (or 27 where applicable)
Semi-monthly	P	=	24
Monthly	P	=	12
Other	P	=	10, 13, 22, or any other number of pay periods of the employer or payer for the year

I = Gross remuneration for the pay period. This includes overtime earned and paid in the same pay period, pension income, qualified pension income,and taxable benefits, but does not include bonuses, retroactive pay increases, or other non-periodic payments. See the formula called "Optional tax calcaulation formula for bonuses, retroactive pay increases, or other non-periodic payments" on page 34 for the tax deductions calculation on bonuses, retroactive pay increases, or other non-periodic payments.

I_1 = Total remuneration for the year reported on Form TD1X. Total remuneration includes commission payments, salary (where applicable), non-periodic payments, and taxable benefits.

F = Payroll deductions for the pay period for employee contributions to a registered pension plan (RPP) for current and past services, a registered retirement savings plan (RRSP), or a retirement compensation arrangement (RCA).

It is recommended that employers caution employees not to exceed their RRSP contribution limit for the year. For more information about applicable limits, see the section called "Registered retirement income fund (RRIF)."

For tax deductions purposes, employers can deduct amounts contributed to an RPP, RRSP, or RCA by or on behalf of an employee to determine the employee's taxable income.

Since January 1, 2001, you no longer need a letter of authority to reduce the amount of income tax deductions from any remuneration when you withhold a contribution that is paid directly to the recipient's RRSP from any payments including retiring allowances (both eligible and non-eligible portions), and lump-sum payments in excess of $10,000. For more information, see the employers' guide called *Payroll Deductions (Basic Information)*.

F_2 = Alimony or maintenance payments required by a legal document dated before May 1, 1997, to be deducted from the employee's salary for the pay period. The legal document could be a garnishment or a similar order of a court or competent tribunal.

If an employee asks that the alimony or maintenance payments not be used to determine his or her annual taxable income, no authorization from a tax services office or tax centre is needed.

In situations where a garnishment or a similar order of a court or competent tribunal indicates that the alimony or maintenance payment cannot be more than a certain percentage of the employee's net salary (net salary as defined in the garnishment or order), additional calculations may be required, as follows:

1. Calculate the tax deduction amount and the net salary amount using the alimony or maintenance amount shown in the garnishment or order.
2. Determine the alimony or maintenance payment to be withheld (F_2). This will be either the maximum allowable as a percentage of the employee's net salary calculated in (1), or the amount shown in the garnishment or order, whichever is less.
3. Determine the actual tax deduction for the pay period using the F_2 amount in (2).

U_1 = Union dues for the pay period paid to a trade union, an association of public servants, or dues required under the law of a province to a parity or advisory committee or similar body.

HD = Annual deduction for living in a prescribed zone as indicated on Form TD1.

To determine whether or not an individual resided in a prescribed zone, the employee or pensioner should contact the local tax services office or tax centre.

F_1 = Annual deductions (such as child-care expenses, and alimony and maintenance payments not deducted from the employee's salary), requested by an employee or pensioner and authorized by a tax services office or tax centre. The employer or payer will be informed by a tax services office or tax centre of the amount to be used with F_1, when it is applicable.

If the F_1 amount is implemented after the employer's or payer's first pay period in the year, F_1 must be adjusted by using the following formula:

$(P \times F_1) / PR$

Where:
P = The number of pay periods in the year.
F_1 = Annual deduction authorized by a tax services office or tax centre.
PR = The number of pay periods remaining in the year.

E = Total commission expenses deductions reported on Form TD1X.

Formula to calculate basic federal tax (T_3)

T_3 = Annual basic federal tax
= $(R \times A) - K - K_1 - K_2 - K_3 - K_4$
If the result is negative, T_3 = \$0.

R = Federal tax rate applicable to annual taxable income A.

2007 federal tax rates and income thresholds		
Annual taxable income A More than – Not more than	**Rate R**	**Constant K**
\$ 0 – \$ 37,178	0.155	\$ 0
37,178 – 74,357	0.22	2,417
74,357 – 120,887	0.26	5,391
120,887 – and over	0.29	9,017

A = Annual taxable income.

K = Federal constant to adjust the application of the federal tax rate to the annual taxable income A. The constant is the tax overcharged when applying the 22%, 26%, and 29% rates to the total annual taxable income A. See the "2007 federal tax rates and income thresholds" table on page 29.

K_1 = Federal non-refundable personal tax credit
= $0.155 \times TC$

Note
The appropriate percentage for the tax year is 15.5%. The appropriate percentage is the lowest percentage referred to in the "2007 federal tax rates and income thresholds" table above.

Where:
TC = The total claim amount reported on Form TD1. If Form TD1 is not filed by the employee or pensioner, TC is \$8,929, and for non-resident individuals, TC is \$0. If the claim code is E, T = \$0. If you have the federal tax credits amounts for the employee or pensioner for 2006, see the section called "Indexing of personal amounts" on page 16.

Note
If the province is Ontario, even if the claim code is E, the Ontario Health Premium is payable on annual income over \$20,000.

K_2 = Canada Pension Plan contributions and Employment Insurance premiums federal tax credits for the year.
= $[(0.155 \times (P \times C, \text{max. } \$1{,}989.90)) + (0.155 \times (P \times EI, \text{max. } \$720.00))]^*$

For employees in Quebec only:

K_2 = Quebec Pension Plan contributions, Employment Insurance premiums, and provincial parental insurance plan premiums federal tax credits for the year.
= $[(0.155 \times (P \times C, \text{max. } \$1{,}989.90)) + (0.155 \times (P \times EI, \text{max. } \$584.00)) + (0.155 \times (P \times IE \times 0.00416, \text{max. } \$245.44))]^*$

Where:
P = The number of pay periods in the year.
C = Canada (or Quebec) Pension Plan contribution for the pay period. See the section called "Part B – Canada Pension Plan (CPP)" on page 72.
EI = Employment Insurance premium for the pay period. See the section called "Part C – Employment Insurance (EI)" on page 76.
IE = Insurable earnings for the pay period

Note
* Where an employee has already contributed the maximum CPP, EI, or QPIP for the year with the employer, use the maximum CPP, EI, or QPIP deduction to determine the credit for the remainder of the year. Where, during the pay period in which the employee reaches the maximum, the CPP, EI, or QPIP, when annualized, is less than the annual maximum, then use the maximum annual deduction(s) in that pay period.

In either case, for the remaining pay periods in the year, $(P \times C)$ or $(P \times EI)$ or $(P \times IE\ 0.00416)$, as applicable, is replaced by the maximum annual deduction(s). This modification ensures

If you want to use a year-to-date method to calculate CPP, EI, and QPIP federal tax credits, $(P \times C)$ and $(P \times EI)$ can be modified as follows:

$(P \times C)$ is changed to the lesser of:
(i) $1,989.90; and
(ii) Year-to-date C + $(PR \times C)$.

$(P \times EI)$ is changed to the lesser of:
(i) $720.00; and
(ii) Year-to-date EI + $(PR \times EI)$.

For employees in Quebec only:
$(P \times EI)$ is changed to the lesser of:
(i) $584.00; and
(ii) Year-to-date EI + $(PR \times EI)$.

$(P \times IE \times 0.00416)$ is changed to the lesser of:
(i) $245.44; and
(ii) Year-to-date QPIP+ $(PR \times (P \times IE \times 0.00416)$.

Where:
PR = The number of pay periods remaining in the year.

For employees remunerated by commission only:

K_2 = [(0.155 × (0.0495 × (I_1 – $3,500)*, max. $1,989.90)) + (0.155 × (0.018 × I_1, max. $720.00))]
* If the resulting amount is negative, substitute $0.

For employees in Quebec only:

K_2 = [(0.155 × (0.0495 × (I_1 – $3,500)*, max $1,989.90)) + (0.155 × (0.0146 × I_1, max. $584.00)) + (0.155 × (0.00416 × I_1, max $245.44))]
* If the resulting amount is negative, substitute $0.

Note
The preceding is subject to rules in Part B and Part C of this document and the instructions contained in the employers' guide called *Payroll Deductions (Basic Information)*.

I_1 = Total remuneration for the year reported on Form TD1X. Total remuneration includes commission payments, salary (where applicable), non-periodic payments, and taxable benefits.

K_3 = Other federal tax credits, such as medical expenses and charitable donations requested by an employee or pensioner and authorized by a tax services office or tax centre. The employer or payer will be informed by a tax services office or tax centre of the amount to be used as K_3, when applicable.

If the K_3 amount is implemented after the employer's or payer's first pay period in the year, K_3 must be adjusted by using the following formula:

$(P \times K_3) / PR$

Where:
P = The number of pay periods in the year.
K_3 = Annual federal tax credit authorized by a tax services office or tax centre.
PR = The number of pay periods remaining in the year.

K_4 = Canada Employment Credit
= The lesser of:
(i) $0.155 \times A$; and
(ii) $0.155 \times \$1,000$

Note:
For puposes of the Canada Employment Credit, A is the annual gross income from office or employment before deductions. This is the same amount you normally report in box 14 of the T4 slip(s). As administrative relief, you are authorized to use the regular factor A (annual taxable income) for this calculation, except when the total income is superannuation or pension benefits.

Formula to calculate the annual federal tax payable (T_1)

T_1 = Annual federal tax deduction, except for employees in Quebec, outside Canada, and in Canada beyond the limits of any province
= $(T_3 - LCF)$*
* If the result is negative, substitute $0.

For employees in Quebec only:
T_1 = $[(T_3 - LCF)^* - (0.165 \times T_3)]$*
* If the result is negative, substitute $0.

For employees outside Canada and in Canada beyond the limits of any province only:
T_1 = $[T_3 + (0.48 \times T_3) - LCF]$*
* If result is negative, substitute $0.

T_3 = Annual basic federal tax.

LCF = Labour-sponsored funds federal tax credit for the year.
= The lesser of:
(i) $750; and
(ii) 15% of the amount deducted or withheld during the year for the acquisition, by the employee, of approved shares of the capital stock of a prescribed labour-sponsored venture capital corporation.

Note
If the shares are invested in a registered retirement savings plan, then the amount invested can be used to determine the annual taxable income amount.

Tax calculation formula for bonuses, retroactive pay increases, or other non-periodic payments

Introduction

This box has been revised to reflect the two methods of doing a tax calculation for a non-periodic payment under Option 1. It is also revised to show how a deduction specific to a non-periodic payment can be reflected in a formula.

Generally, the tax on a bonus (or retroactive pay increase) is calculated by finding the tax on the total of regular annual income **plus** any previous bonuses **plus** the current bonus and **subtracting** the tax on the total of regular annual income **plus** any previous bonuses. The difference will be the tax on the current bonus.

In the optional year-to-date method outlined below, **instead of annualizing the current income**, you use year-to-date income values and year-to-date deductions as the annual income with and without the bonus. In either case the tax on the bonus is as follows:

TB = Tax on a bonus, a retroactive pay increase, or other non-periodic payments payable now is calculated as follows:
The difference between:
(i) the annual tax amount ($T_1 + T_2$) based on the instructions contained in Step 1 below; and
(ii) the annual tax amount ($T_1 + T_2$) based on the instructions contained in Step 2 below.

(1) Regular bonus calculation

Step 1
Determine the annual tax ($T_1 + T_2$) based on the annual taxable income (factor A) with the non-periodic payment payable now. The formula to calculate this A is as follows:

$A = ([P \times (I - F - F_2 - U_1)] - HD - F_1)^* + (B - F_3)^{**} + (B1 - F_4)^{**}$

* If the result is negative, substitute $0.
** Result cannot be negative and result cannot be negative after deducting CPP and EI.

Step 2
Determine the annual tax ($T_1 + T_2$) based on the annual taxable income (factor A) without the non-periodic payment payable now. The formula to calculate this A is as follows:

$A = ([P \times (I - F - F_2 - U_1)] - HD - F_1)^* + (B_1 - F_4)^{**}$

* If the result is negative, substitute $0.
** Result cannot be negative and result cannot be negative after deducting CPP and EI.

Where:
P = Number of pay periods
I = Gross remuneration for the pay period, excluding bonuses, retroactive pay increases, or other non-periodic payments.
F = Employee registered pension plan or registered retirement savings plan contributions for the pay period.
F_2 = Alimony or maintenance payments deducted at source for the pay period.
U_1 = Union dues for the pay period.
B = Gross bonus, retroactive pay increase, or other non-periodic payment payable now.
F_3 = Employee registered pension plan or registered retirement savings plan contributions deducted from the current non-periodic payment. You can also use this field or design another to apply other tax deductible amounts to the non-periodic payment, such as union dues.
B_1 = Gross bonus, retroactive pay increase, or other non-periodic payments year-to-date (prior to this pay period).
F_4 = Employee registered pension plan or registered retirement savings plan contributions deducted from the year-to-date non-periodic payments. You can also use this field or design another to apply other tax deductible amounts to the non-periodic payment, such as union dues.

If there is no current I, use the most recent I.

(2) Year-to-date bonus calculation (optional)

Step 1

Determine the annual tax ($T_1 + T_2$) based on the annual taxable income (factor A) with the non-periodic payment payable now. The annual taxable income (factor A) is based on a year-to-date concept plus the estimated income for the remaining pay periods in the year. YTD means year-to-date (prior to this pay period). The formula to calculate this A is as follows:

A = [(IYTD – FYTD – F_2YTD – U_1YTD) + (PR × (I – F – F_2 – U_1)) – F_1 – HD]* + (B – F_3)** + (B_1 – F_4)**

* If the result is negative, substitute $0.

** Result cannot be negative and result cannot be negative after deducting CPP and EI.

Step 2

A = [(IYTD – FYTD – F_2YTD – U_1YTD) + (PR × (I – F – F_2 – U_1)) – F_1 – HD]* + (B_1 – F_4)**

* If the result is negative, substitute $0.

** Result cannot be negative and result cannot be negative after deducting CPP and EI.

Where:

IYTD = Gross remuneration year-to-date and excluding non-periodic payments.
FYTD = Employee registered pension plan or registered retirement savings plan contributions year-to-date.
F_2YTD = Alimony or maintenance payments deducted at source year-to-date.
U_1YTD = Union dues year-to-date.
PR = Number of pay periods remaining in the year

Factors I, F, F_2, U_1, F_1, HD, B, F_3, B_1, and F_4 have the meanings given above under "(1) Regular bonus calculation."

Example for year-to-date bonus calculation method

In this example, an employee received a retroactive pay increase from $1,000 to $1,100 per week that applies to 25 weeks. Therefore, a retroactive pay increase payment of $2,500 is payable now. $1,000 will be directed to the employee's RRSP. Thirty pay periods have passed and 22 pay periods remain in the year. Year-to-date income is $30,000, year-to-date RPP is $1,350, and year-to-date union dues are $150. The current income is $1,100 with RPP withheld of $45 and union dues of $5. The employee received a previous bonus of $1,000 with only CPP, EI, and tax withheld from it.

Step 1

A = Annual taxable income with the non-periodic payment payable now
= [(IYTD – FYTD – F_2YTD – U_1YTD) + (PR × (I – F – F_2 – U1)) – F_1 – HD]* + (B – F_3)** + (B_1 – F_4)**
= [($30,000 – $1,350 – $0 – $150) + (22 × ($1,100 – $45 – $0 – $5)) – $0 – $0] + ($2,500 – $1,000] + ($1,000 – 0)
= $28,500 + (22 × $1,050) + $1,500 + $1,000
= $54,100

Step 2

A = Annual taxable income without the non-periodic payment payable now
= [(IYTD – FYTD – F_2YTD – U_1YTD) + (PR × (I – F – F_2 – U1)) – F_1 – HD]* + (B_1 – F_4)**
= [($30,000 – $1,350 – $0 – $150) + (22 × ($1,100 – $45 – $0 – $5)) – $0 – $0] + ($1,000 – 0)
= $28,500 + (22 × $1,050) + $1,000
= $52,600

Once you have calculated the annual taxable income, A, in Steps 1 and 2, calculate the factors T_1 and T_2 in the same manner as for regular remuneration.

Note

The formula above can be used to calculate the tax deductions on non-periodic payments such as accumulated overtime not paid in the same pay period earned, paid vacation not taken by the employee, and bonuses.

Formula to calculate annual basic provincial or territorial tax (T_4)

T_4 = Annual basic provincial or territorial tax
= $(V \times A) - KP - K_1P - K_2P - K_3P - K_4P$

V = Provincial or territorial tax rate for the year (not applicable to Quebec, outside Canada, and in Canada beyond the limits of any province).

A = Annual taxable income.

KP = Provincial or territorial constant.

K_1P = Provincial or territorial non-refundable personal tax credit.

K_2P = Canada (or Quebec) Pension Plan contributions and Employment Insurance premiums provincial or territorial tax credits for the year.

K_3P = Other provincial or territorial tax credits, such as medical expenses and charitable donations authorized by a tax services office or tax centre.

K_4P = Provincial or territorial Canada Employment Credit (applies to Yukon only).

Formulas to calculate annual provincial or territorial tax deduction (T_2)

T_2 = Annual provincial or territorial tax deduction
= $T_4 + V_1 + V2 - S - LCP$
If the result is negative, T_2 = $0.

For employees in Quebec only:
T_2 = $0

For employees outside Canada and in Canada beyond the limits of any province only:
T_2 = $0

T_4 = Annual basic provincial or territorial tax.

V_1 = Provincial or territorial surtax calculated on the basic provincial or territorial tax (applicable to NL, NS, PE, ON, and YT only).

V_2 = Additional tax calculated on taxable income (applies to Ontario Health Premium only)

S = Provincial tax reduction (applicable to ON, MB and BC only).

LCP = Provincial or territorial labour-sponsored funds tax credit (applicable to NL, NS, NB, ON, MB, SK, BC, and YT only).

A_1 = Annual net income used to calculate S (applies to MB and BC only)
= A + HD

For employees remunerated by commission only:

A_1 = $I_1 - F^* - F_2^* - F_1 - E$
If the result is negative, A_1 = $0.

* Estimated deductions amount for the year. In the case of registered retirement savings plan contributions included in F, the employer will need to find out from the employee remunerated by commission the estimated or expected annual deduction. It is recommended that employers caution employees not to exceed their RRSP contribution limits for the year.

Note
When an employee has not filed Form TD1X, tax deductions will be calculated in the same manner as for regular salary.

For Newfoundland and Labrador only:

T_2 = $T_4 + V_1 - S - LCP$
If the result is negative, T_2 = \$0.

Where:
T_4 = $(V \times A) - KP - K_1P - K_2P - K_3P$
Where V and KP are based on the value of A in the 2007 Newfoundland and Labrador tax rates and income thresholds table.

2007 Newfoundland and Labrador tax rates and income thresholds		
Annual taxable income A More than – Not more than	**Rate V**	**Constant KP**
\$ 0 – \$ 29,590	0.1057	\$ 0
29,590 – 59,180	0.1616	1,654
59,180 – and over	0.1802	2,755

K_1P = $0.1057 \times TCP$

Where:
TCP = The total of personal non-refundable tax credits amounts reported on Form TD1NL. If Form TD1NL is not filed, TCP is \$7,410.

K_2P = [(0.1057 × (P × C, max. \$1,989.90)) + (0.1057 × (P × EI, max. \$720.00))]*

* Where an employee reaches the maximum CPP or EI for the year with an employer, the instructions in the note for the K_2 factor on page 32 also apply to the K_2P factor. For employees remunerated by commission, use the federal K_2 formula for commissions and replace the lowest federal rate in the K_2 formula with the lowest tax rate for the province.

K_3P = Other annual provincial non-refundable tax credits, such as medical expenses or charitable donations authorized by a tax services office or tax centre. The tax office will inform the employer or payer of the amount of K_3P when it applies and how to implement the amount after the first pay period of the year.

V_1 = Where $T_4 \leq \$7,032$,
$V_1 = \$0$
Where $T_4 > \$7,032$,
$V_1 = 0.09 \times (T_4 - \$7,032)$

S = \$0

LCP = The lesser of:
(i) \$750; and
(ii) 15% of the amount deducted or withheld during the year for the acquisition by the employee of approved shares of the capital stock of a prescribed labour-sponsored venture capital corporation.

For Nova Scotia only:

T_2 = $T_4 + V_1 - S - LCP$
If the result is negative, T_2 = \$0.

Where:
T_4 = $(V \times A) - KP - K_1P - K_2P - K_3P$
Where V and KP are based on the value of A in the 2007 Nova Scotia tax rates and income thresholds table.

2007 Nova Scotia tax rates and income thresholds		
Annual taxable income A More than – Not more than	Rate V	Constant KP
$ 0 – $ 29,590	0.0879	$ 0
29,590 – 59,180	0.1495	1,823
59,180 – 93,000	0.1667	2,841
93,000 – and over	0.1750	3,613

K_1P = $0.0879 \times TCP$

Where:

TCP = The total of personal non-refundable tax credits amounts reported on Form TD1NS. If Form TD1NS is not filed, TCP is $7,481.

K_2P = $[(0.0879 \times (P \times C, \text{max. } \$1{,}989.90)) + (0.0879 \times (P \times EI, \text{max. } \$720.00))]^{*}$

* Where an employee reaches the maximum CPP or EI for the year with an employer, the instructions in the note for the K_2 factor on page 32 also apply to the K_2P factor. For employees remunerated by commission, use the federal K_2 formula for commissions and replace the lowest federal rate in the K_2 formula with the lowest tax rate for the province.

K_3P = Other annual provincial non-refundable tax credits, such as medical expenses or charitable donations authorized by a tax services office or tax centre. The tax office will inform the employer or payer of the amount of K_3P when it applies and how to implement the amount after the first pay period of the year.

V_1 = Where $T_4 \leq \$10{,}000$,
$V_1 = \$0$
Where $T_4 > \$10{,}000$,
$V_1 = 0.10 \times (T_4 - \$10{,}000)$

S = $0

LCP = The lesser of:
(i) $1000; and
(ii) 20% of the amount deducted or withheld during the year for the acquisition by the employee of approved shares of the capital stock of a prescribed labour-sponsored venture capital corporation.

For Prince Edward Island only:

T_2 = $T_4 + V_1 - S - LCP$
If the result is negative, $T_2 = \$0$.

Where:

T_4 = $(V \times A) - KP - K_1P - K_2P - K_3P$
Where V and KP are based on the value of A in the 2007 Prince Edward Island tax rates and income thresholds table.

2007 Prince Edward Island tax rates and income thresholds		
Annual taxable income A More than – Not more than	Rate V	Constant KP
$ 0 – $ 30,754	0.098	$ 0
30,754 – 61,509	0.138	1,230
61,509 – and over	0.167	3,014

K_1P = $0.098 \times TCP$

Where:
TCP = The total of personal non-refundable tax credits amounts reported on Form TD1PE. If Form TD1PE is not filed, TCP is $7,412.

K_2P = $[(0.098 \times (P \times C, \text{max. } \$1{,}989.90)) + (0.098 \times (P \times EI, \text{max. } \$720.00))]^*$

* Where an employee reaches the maximum CPP or EI for the year with an employer, the instructions in the note for the K_2 factor on page 32 also apply to the K_2P factor. For employees remunerated by commission, use the federal K_2 formula for commissions and replace the lowest federal rate in the K_2 formula with the lowest tax rate for the province.

K_3P = Other annual provincial non-refundable tax credits, such as medical expenses or charitable donations authorized by a tax services office or tax centre. The tax office will inform the employer or payer of the amount of K_3P when it applies and how to implement the amount after the first pay period of the year.

V_1 = Where $T_4 \leq \$5{,}200$,
$V_1 = \$0$
Where $T_4 > \$5{,}200$,
$V_1 = 0.10 \times (T_4 - \$5{,}200)$

S and **LCP** = $0

For New Brunswick only:

T_2 = $T_4 + V_1 - S - LCP$
If the result is negative, $T_2 = \$0$.

Where:
T_4 = $(V \times A) - KP - K_1P - K_2P - K_3P$
Where V and KP are based on the value of A in the 2007 New Brunswick tax rates and income thresholds table.

2007 New Brunswick tax rates and income thresholds		
Annual taxable income A More than – Not more than	**Rate V**	**Constant KP**
$ 0 – $ 34,186	0.0968	$ 0
34,186 – 68,374	0.1482	1,757
68,374 – 111,161	0.1652	2,920
111,161 – and over	0.1784	4,387

K_1P = $0.0968 \times TCP$

Where:
TCP = The total of personal non-refundable tax credits amounts reported on Form TD1NB. If Form TD1NB is not filed, TCP is $8,239.

K_2P = $[(0.0968 \times (P \times C, \text{max. } \$1{,}989.90)) + (0.0968 \times (P \times EI, \text{max. } \$720.00))]^*$

* Where an employee reaches the maximum CPP or EI for the year with an employer, the instructions in the note for the K_2 factor on page 32 also apply to the K_2P factor. For employees remunerated by commission, use the federal K_2 formula for commissions and replace the lowest federal rate in the K_2 formula with the lowest tax rate for the province.

K_3P = Other annual provincial non-refundable tax credits, such as medical expenses or charitable donations authorized by a tax services office or tax centre. The tax office will inform the employer or payer of the amount of K_3P when it applies and how to implement the amount after the first pay period of the year.

V_1 and **S** = \$0

LCP = The lesser of:
(i) \$750; and
(ii) 15% of the amount deducted or withheld during the year for the acquisition by the employee of approved shares of the capital stock of a prescribed labour-sponsored venture capital corporation.

For Quebec only:

Quebec employers whose employees receive income from tips and gratuities should review the section called “Example for employees in the hotel and restaurant business in Quebec” on page 61.

Since Quebec collects its own provincial income tax and Quebec Pension Plan contributions, contact the ministère du Revenu du Québec for information on these subjects. The address and telephone numbers are listed on page 5 of this publication.

For Ontario only:

T_2 = $T_4 + V_1 + V_2 - S - LCP$
If the result is negative, T_2 = \$0.

Where:
T_4 = $(V \times A) - KP - K_1P - K_2P - K_3P$
Where V and KP are based on the value of A in the 2007 Ontario tax rates and income thresholds table.

2007 Ontario tax rates and income thresholds		
Annual taxable income A More than – Not more than	**Rate V**	**Constant KP**
\$ 0 – \$ 35,488	0.0605	\$ 0
35,488 – 70,976	0.0915	1,100
70,976 – and over	0.1116	2,527

K_1P = $0.0605 \times TCP$

Where:
TCP = The total of personal non-refundable tax credits amounts reported on Form TD1ON. If Form TD1ON is not filed, TCP is \$8,553.

K_2P = [(0.0605 × (P × C, max. \$1,989.90)) + (0.0605 × (P × EI, max. \$720.00))]*

* Where an employee reaches the maximum CPP or EI for the year with an employer, the instructions in the note for the K_2 factor on page 32 also apply to the K_2P factor. For employees remunerated by commission, use the federal K_2 formula for commissions and replace the lowest federal rate in the K_2 formula with the lowest tax rate for the province.

K_3P = Other annual provincial non-refundable tax credits, such as medical expenses or charitable donations authorized by a tax services office or tax centre. The tax office will inform the employer or payer of the amount of K_3P when it applies and of how to implement the amount after the first pay period of the year.

V_1 = Where $T_4 \leq \$4,100$,
$V_1 = \$0$
Where $T_4 > \$4,100 \leq \$5,172$,
$V_1 = 0.20 \times (T_4 - \$4,100)$
Where $T_4 > \$5,172$,
$V_1 = 0.20 \times (T_4 - \$4,100) + 0.36 \times (T_4 - \$5,172)$

V_2 = Where $A < \$20,000$, $V_2 = \$0$
Where $A > \$20,000 \leq \$36,000$, V_2 = the lesser of:
(i) \$300; and
(ii) $0.06 \times (A - \$20,000)$
Where $A > \$36,000 \leq \$48,000$, V_2 = the lesser of:
(i) \$450; and
(ii) $\$300 + (0.06 \times (A - \$36,000))$
Where $A > \$48,000 \leq \$72,000$, V_2 = the lesser of:
(i) \$600; and
(ii) $\$450 + (0.25 \times (A - \$48,000))$
Where $A > \$72,000 \leq \$200,000$, V_2 = the lesser of:
(i) \$750; and
(ii) $\$600 + (0.25 \times (A - \$72,000))$
Where $A > \$200,000$, V_2 = the lesser of:
(i) \$900; and
(ii) $\$750 + (0.25 \times (A - \$200,000))$

S = The lesser of:
(i) $T_4 + V_1$; and
(ii) $[2 \times (\$198 + Y)] - [T_4 + V_1]$.
If the result is negative, S = \$0.

Where:
Y = The total of the following amounts:
- \$365 multiplied by the number of disabled dependants as indicated on Form TD1ON; and
- \$365 multiplied by the number of dependants under age 18 for which the employee or pensioner has made a written request.

Note
If Y is not used, any over deduction of tax will be considered when the individual files an income tax return. When possible, the Y factor should be implemented.

LCP = The lesser of:
(i) \$750; and
(ii) 15% of the amount deducted or withheld during the year for the acquisition by the employee of approved shares of the capital stock of a prescribed labour-sponsored venture capital corporation.

For Manitoba only:

T_2 = $T_4 + V_1 - S - LCP$
If the result is negative, T_2 = \$0.

Where:
T_4 = $(V \times A) - KP - K_1P - K_2P - K_3P$
Where V and KP are based on the value of A in the 2007 Manitoba tax rates and income thresholds table.

2007 Manitoba tax rates and income thresholds		
Annual taxable income A More than – Not more than	**Rate V**	**Constant KP**
\$ 0 – \$ 30,544	0.109	\$ 0
30,544 – 65,000	0.130	641
65,000 – and over	0.174	3,501

K_1P = $0.109 \times TCP$

Where:
TCP = The total of personal non-refundable tax credits amounts reported on Form TD1MB. If Form TD1MB is not filed, TCP is \$7,834.

K_2P = $[(0.109 \times (P \times C, \text{max. } \$1{,}989.90)) + (0.109 \times (P \times EI, \text{max. } \$720.00))]^*$

* Where an employee reaches the maximum CPP or EI for the year with an employer, the instructions in the note for the K_2 factor on page 32 also apply to the K_2P factor. For employees remunerated by commission, use the federal K_2 formula for commissions and replace the lowest federal rate in the K_2 formula with the lowest tax rate for the province.

K_3P = Other annual provincial non-refundable tax credits, such as medical expenses or charitable donations authorized by a tax services office or tax centre. The tax office will inform the employer or payer of the amount of K_3P when it applies and of how to implement the amount after the first pay period of the year.

V_1 = $0

S = The lesser of:
(i) T_4; and
(ii) $225 + Y – ($A_1$ × 0.01).
If the result is negative, S = $0.

Where:
A_1 = Net income for the year
= A + HD

Y = The total of the following amounts based on the claim amounts indicated on the employee's Form TD1MB:
- $225 for the spouse or common-law partner amount;
- $225 for the age amount (employee or pensioner and spouse if applicable);
- $300 for each dependant under age 18;
- $300 for an employee or pensioner with a disability; and
- $300 for each dependant with a disability.

Note
If the Y factor is not used, any over deduction of tax will be considered when the individual files an income tax return. When possible, the Y factor should be implemented.

LCP = The lesser of:
(i) $1,800; and
(ii) 15% of the amount deducted or withheld during the year for the acquisition by the employee of approved shares of the capital stock of a prescribed labour-sponsored venture capital corporation.

For Saskatchewan only:

T_2 = $T_4 + V_1 - S - LCP$
If the result is negative, T_2 = $0.

Where:
T_4 = $(V \times A) - KP - K_1P - K_2P - K_3P$
Where V and KP are based on the value of A in the 2007 Saskatchewan tax rates and income thresholds table.

2007 Saskatchewan tax rates and income thresholds		
Annual taxable income A More than – Not more than	**Rate V**	**Constant KP**
$ 0 – $ 38,405	0.11	$ 0
38,405 – 109,729	0.13	768
109,729 – and over	0.15	2,963

K_1P = $0.11 \times TCP$

Where:

TCP = The total of personal non-refundable tax credits amounts reported on Form TD1SK. If Form TD1SK is not filed, TCP is $8,778.

K_2P = $[(0.11 \times (P \times C, \text{max. } \$1{,}989.90)) + (0.11 \times (P \times EI, \text{max. } \$720.00))]$*

* Where an employee reaches the maximum CPP or EI for the year with an employer, the instructions in the note for the K_2 factor on page 32 also apply to the K_2P factor. For employees remunerated by commission, use the federal K_2 formula for commissions and replace the lowest federal rate in the K_2 formula with the lowest tax rate for the province.

K_3P = Other annual provincial non-refundable tax credits, such as medical expenses or charitable donations authorized by a tax services office or tax centre. The tax office will inform the employer or payer of the amount of K_3P when it applies and of how to implement the amount after the first pay period of the year.

V_1 and **S** = $0

LCP = The lesser of:

(1) $1,000; and

(2) the total of:

(A) The lesser of:

(i) $1,000; and

(ii) 20% of the amount deducted or withheld during the year for the acquisition by the employee of approved shares of the capital stock of a prescribed labour-sponsored venture capital corporation registered in Saskatchewan;

and

(B) The lesser of:

(i) $525; and

(ii) 15% of the amount deducted or withheld during the year for the acquisition by the employee of approved shares of the capital stock of a prescribed labour-sponsored venture capital corporation registered federally.

For Alberta only:

T_2 = $T_4 + V_1 - S - LCP$

If the result is negative, T_2 = $0.

Where:

T_4 = $(V \times A) - KP - K_1P - K_2P - K_3P$

Where:

V = 0.10

KP = $0

K_1P = $0.10 \times TCP$

Where:

TCP = The total of personal non-refundable tax credits amounts reported on Form TD1AB. If Form TD1AB is not filed, TCP is $15,435.

K_2P = $[(0.10 \times (P \times C, \text{max. } \$1{,}989.90)) + (0.10 \times (P \times EI, \text{max. } \$720.00))]$*

* Where an employee reaches the maximum CPP or EI for the year with an employer, the instructions in the note for the K_2 factor on page 32 also apply to the K_2P factor. For employees remunerated by commission, use the federal K_2 formula for commissions and replace the lowest federal rate in the K_2 formula with the tax rate for the province.

K_3P = Other annual provincial non-refundable tax credits, such as medical expenses or charitable donations authorized by a tax services office or tax centre. The tax office will inform the employer or payer of the amount of K_3P when it applies and of how to implement the amount after the first pay period of the year.

V_1, **S**, and **LCP** = $0

For British Columbia only:

T_2 = $T_4 + V_1 - S - LCP$
If the result is negative, T_2 = $0.

Where:
T_4 = $(V \times A) - KP - K_1P - K_2P - K_3P$
Where V and KP are based on the value of A in the 2007 British Columbia tax rates and income thresholds table.

2007 British Columbia tax rates and income thresholds		
Annual taxable income A More than – Not more than	**Rate V**	**Constant KP**
$ 0 – $ 34,397	0.0605	$ 0
34,397 – 68,794	0.0915	1,066
68,794 – 78,984	0.1170	2,821
78,984 – 95,909	0.1370	4,400
95,909 – and over	0.1470	5,359

K_1P = $0.0605 \times TCP$

Where:
TCP = The total of personal non-refundable tax credits amounts reported on Form TD1BC. If Form TD1BC is not filed, TCP is $9,027.

K_2P = $[(0.0605 \times (P \times C, \text{max. } \$1{,}989.90)) + (0.0605 \times (P \times EI, \text{max. } \$720.00))]$*

* Where an employee reaches the maximum CPP or EI for the year with an employer, the instructions in the note for the K_2 factor on page 32 also apply to the K_2P factor. For employees remunerated by commission, use the federal K_2 formula for commissions and replace the lowest federal rate in the K_2 formula with the lowest tax rate for the province.

K_3P = Other annual provincial non-refundable tax credits, such as medical expenses or charitable donations authorized by a tax services office or tax centre. The tax office will inform the employer or payer of the amount of K_3P when it applies and how to implement the amount after the first pay period of the year.

V_1 = $0

S = Where $A_1 \leq \$16,646$, S is equal to the lesser of:
(i) T4, and
(ii) $375;

= Where $A_1 > \$16,646 \leq \$27,062.67$, S is equal to the lesser of:
(i) T4, and
(ii) $\$375 - [(A_1 - \$16,646) \times 3.6\%]$;

= Where $A_1 > \$27,062.67$,
S = $0
Where:
A_1 = Net income for the year
= A + HD

LCP = The lesser of:
(i) $2,000; and
(ii) 15% of the amount deducted or withheld during the year for the acquisition by the employee of approved shares of the capital stock of a prescribed labour-sponsored venture capital corporation.

For Yukon only:

T_2 = $T_4 + V_1 - S - LCP$
If the result is negative, $T_2 = \$0$.

Where:
T_4 = $(V \times A) - KP - K_1P - K_2P - K_3P - K_4P$
Where V and KP are based on the value of A in the 2007 Yukon tax rates and income thresholds table.

2007 Yukon tax rates and income thresholds		
Annual taxable income A More than – Not more than	**Rate V**	**Constant KP**
\$ 0 – \$ 37,178	0.0704	\$ 0
37,178 – 74,357	0.0968	981
74,357 – 120,887	0.1144	2,290
120,887 – and over	0.1276	3,886

K_1P = $0.0704 \times TCP$

Where:
TCP = The total of personal non-refundable tax credits amounts reported on Form TD1YT. If Form TD1YT is not filed, TCP is \$8,929.

K_2P = $[(0.0704 \times (P \times C, \text{max. } \$1,989.90)) + (0.0704 \times (P \times EI, \text{max. } \$720.00))]^*$

* Where an employee reaches the maximum CPP or EI for the year with an employer, the instructions in the note for the K_2 factor on page 32 also apply to the K_2P factor. For employees remunerated by commission, use the federal K_2 formula for commissions and replace the lowest federal rate in the K_2 formula with the lowest tax rate for the territory.

K_3P = Other annual territorial non-refundable tax credits, such as medical expenses or charitable donations authorized by a tax services office or tax centre. The tax office will inform the employer or payer of the amount of K_3P when it applies and how to implement the amount after the first pay period of the year.

K_4P = The lesser of:
(i) $0.0704 \times A$ and
(ii) $0.0704 \times \$1,000$

V_1 = Where $T_4 \leq \$6,000$,
$V_1 = \$0$

Where $T_4 > \$6,000$,
$V_1 = 0.05 \times (T_4 - \$6,000)$

S = \$0

LCP = The lesser of:
(i) \$1,250; and
(ii) 25% of the amount deducted or withheld during the year for the acquisition by the employee of approved shares of the capital stock of a prescribed labour-sponsored venture capital corporation.

For the Northwest Territories only:

T_2 = $T_4 + V_1 - S - LCP$
If the result is negative, $T_2 = \$0$.

Where:
T_4 = $(V \times A) - KP - K_1P - K_2P - K_3P$
Where V and KP are based on the value of A in the 2007 Northwest Territories

tax rates and income thresholds table.

2007 Northwest Territories tax rates and income thresholds		
Annual taxable income A More than – Not more than	**Rate V**	**Constant KP**
$ 0 – $ 35,315	0.0590	$ 0
35,315 – 70,631	0.0860	954
70,631 – 114,830	0.1220	3,496
114,830 – and over	0.1405	5,621

K_1P = $0.059 \times TCP$

Where:

TCP = The total of personal non-refundable tax credits amounts reported on Form TD1NT. If Form TD1NT is not filed, TCP is $12,125.

K_2P = $[(0.059 \times (P \times C, \text{max. } \$1{,}989.90)) + (0.059 \times (P \times EI, \text{max. } \$720.00))]$*

* Where an employee reaches the maximum CPP or EI for the year with an employer, the instructions in the note for the K_2 factor on page 32 also apply to the K_2P factor. For employees remunerated by commission, use the federal K_2 formula for commissions and replace the lowest federal rate in the K_2 formula with the lowest tax rate for the territory.

K_3P = Other annual territorial non-refundable tax credits, such as medical expenses or charitable donations authorized by a tax services office or tax centre. The tax office will inform the employer or payer of the amount of K_3P when it applies and how to implement the amount after the first pay period of the year.

V_1, S, and **LCP** = $0

For Nunavut only:

T_2 = $T_4 + V_1 - S - LCP$
If the result is negative, T_2 = $0.

Where:

T_4 = $(V \times A) - KP - K_1P - K_2P - K_3P$
Where V and KP are based on the value of A in the 2007 Nunavut tax rates and income thresholds table.

2007 Nunavut tax rates and income thresholds		
Annual taxable income A More than – Not more than	**Rate V**	**Constant KP**
$ 0 – $ 37,178	0.040	$ 0
37,178 – 74,357	0.070	1,115
74,357 – 120,887	0.090	2,602
120,887 – and over	0.115	5,625

K_1P = $0.040 \times TCP$

Where:

TCP = The total of personal non-refundable tax credits amounts reported on Form TD1NU. If Form TD1NU is not filed, TCP is $11,149.

K_2P = $[(0.040 \times (P \times C, \text{max. } \$1{,}989.90)) + (0.040 \times (P \times EI, \text{max. } \$720.00))]$*

* Where an employee reaches the maximum CPP or EI for the year with an employer, the instructions in the note for the K_2 factor on page 32 also apply to the K_2P factor. For employees remunerated by commission, use the federal K_2 formula for

commissions and replace the lowest federal rate in the K_2 formula with the lowest tax rate for the territory.

K_3P = Other annual territorial non-refundable tax credits, such as medical expenses or charitable donations authorized by a tax services office or tax centre. The tax office will inform the employer or payer of the amount of K_3P when it applies and of how to implement the amount after the first pay period of the year.

V1, S, and **LCP**= $0

For outside Canada and in Canada beyond the limits of any province only:

V, V_1, S, and LCP = $0

Formula to calculate the estimated federal and provincial or territorial tax deductions (T) for the pay period

T = Estimated federal and provincial or territorial tax deductions for the pay period
= $[(T_1 + T_2) / P] + L$
You can round the resulting amount to the nearest multiple of $0.05 or $0.01.

For employees in Quebec, outside Canada, and in Canada beyond the limits of any province only:

T = Estimated federal tax deductions for the pay period*
= $(T_1 / P) + L$
You can round the resulting amount to the nearest multiple of $0.05 or $0.01.

***Note**
Quebec employers whose employees receive income from tips and gratuities should review the section called "Example for employees in the hotel and restaurant business in Quebec" on page 61.

For employees remunerated by commission where Form TD1X is completed:

T = The tax to be deducted on the current commission payment (factor G)
= $[(T_1 + T_2) / (I_1 / G)] + L$
You can round the resulting amount to the nearest multiple of $0.05 or $0.01.

T_1 = Annual federal tax deduction.

T_2 = Annual provincial or territorial tax deduction.

P = The number of pay periods in the year.

L = Additional tax deductions for the pay period requested by the employee or pensioner as indicated on Form TD1.

Note
To cancel the election to have additional tax deducted, the employee or pensioner must file a new Form TD1 entering $0 at the item "Additional tax to be deducted."

G = Gross commission amount including gross salary at the time of payment, plus any taxable benefits for commission-remunerated employees who have completed Form TD1X. When an employee has not filed Form TD1X, tax is calculated in the same manner as regular salary.

Option 1 – Tax calculation examples for periodic payments

Steps to follow – for salary, wages, pensions, or other periodic payments

The growing complexity of determining tax deductions makes the employer's or payer's task of payroll preparation difficult. The following step-by-step method should provide an understandable approach to Option 1 based on the following examples.

Notes

The following examples have been standardized to reflect the same income and deduction amounts for each province and territory. We trust this measure will simplify the process of reviewing and testing calculations.

In addition, the federal calculation has been shown only once, with the portion for each province and territory shown after. This method will avoid duplication and reduce the number of pages in this publication.

For employees remunerated by commission only, see the example on page 59.

Changes in this section are not shaded.

Example – Assumptions and federal calculation

This example is for a married employee who has a dependent spouse and two dependent children (under 18). The total personal non-refundable tax credits amount on Form TD1 is $16,510 ($8,929 + $7,581). For each province and territory we have assumed the maximum claims for these dependants, as shown on the provincial or territorial TD1 forms.

The employee's salary is $57,200 annually, or $1,100 on a weekly payroll (52 pay periods). Registered pension plan contributions are $50 for the pay period, and $20 is deducted for union dues. The employee bought, by payroll deductions, $2,000 of approved shares of the capital stock of a prescribed labour-sponsored venture capital corporation.

Step 1

Determine A using the following formula:

$$\begin{aligned} A &= [P \times (I - F - F_2 - U_1)] - HD - F_1 \\ &= [52 \times (\$1{,}100 - \$50 - \$0 - \$20)] - \$0 - \$0 \\ &= [52 \times \$1{,}030] - \$0 - \$0 \\ &= \$53{,}560 - \$0 - \$0 \\ &= \$53{,}560 \end{aligned}$$

Determine C using the following formula:

C = The lesser of:

(i) $1,989.90 – D; and
= $1,989.90

(ii) $0.0495 \times [PI - (\$3{,}500 / 52)]$
$= 0.0495 \times (\$1{,}100 - \$67.30)$
$= 0.0495 \times \$1{,}032.70$
$= \$51.12$

Determine EI using the following formula:

EI = The lesser of:

(i) $\$720.00 - D_1$; and
= $720.00

(ii) $0.018 \times IE$
$= 0.018 \times \$1{,}100$
$= \$19.80$

Step 2

Determine K_1, K_2, K_3, and K_4 using the following formula:

$$\begin{aligned} K_1 &= 0.155 \times TC \\ &= 0.155 \times \$16{,}510 \\ &= \$2{,}559.05 \end{aligned}$$

$$K_2 = [(0.155 \times (P \times C, \text{max. } \$1{,}989.90)) + (0.155 \times (P \times EI, \text{max. } \$720.00))]$$

$= [(0.155 \times (52 \times \$51.12, \text{max. } \$1{,}989.90)) + (0.155 \times (52 \times \$19.80, \text{max. } \$720.00))]$
$= [(0.155 \times (\$2{,}658.24, \text{max. } \$1{,}989.90)) + (0.155 \times (\$1{,}029.60, \text{max. } \$720.00))]$
$= (0.155 \times \$1{,}989.90) + (0.155 \times \$720.00)$
$= \$308.43 + \$111.60$
$= \$420.03$

$K_3 = \$0$

$K_4 =$ The lesser of:
(i) $0.155 \times A$; and
(ii) $0.155 \times \$1{,}000$
$0.155 \times \$1{,}000$
$= \$155.00$

Step 3

Determine the annual basic federal tax, $(R \times A) - K - K_1 - K_2 - K_3 - K_4$. Locate the corresponding values of R and K based on A from the "2007 federal tax rates and income thresholds" table on page 31 and calculate the basic federal tax:

A =	\$	53,560.00
Federal R	×	0.22
	\$	11,783.20
Less federal constant K	–	2,417.00
Federal tax	\$	9,366.20
Less federal tax credits, $K_1 + K_2 + K_3 + K_4$	–	3,134.08
Basic federal tax T_3	\$	6,232.12

Step 4

Determine the federal labour-sponsored funds tax credit:

LCF = The lesser of:
(i) \$750; and
(ii) 15% of the purchase of approved shares.
$0.15 \times \$2{,}000$ .... – 300.00

Annual federal tax deduction, except for employees in Quebec, outside Canada, and in Canada beyond the limits of any province (T_1) .... \$ 5,932.12

Example 1 – For Newfoundland and Labrador

See the section called "Example – Assumptions and federal calculation" on page 48 for more details.

Step 5

Determine the basic provincial tax (T_4) using the following formula:

$(V \times A) - KP - K_1P - K_2P - K_3P$

$(V \times A) = 0.1616 \times \$53{,}560$	\$	8,655.30
$KP = \$1{,}654$	–	1,654.00
$K_1P = 0.1057 \times TCP$		
$= 0.1057 \times \$13{,}465$	–	1,423.25
$K_2P = [(0.1057 \times (P \times C, \text{max. } \$1{,}989.90)) + (0.1057 \times (P \times EI, \text{max. } \$720.00))]$		
$= [(0.1057 \times \$1{,}989.90) + (0.1057 \times \$720.00)]$		
$= \$210.33 + \$76.10$	–	286.43
$K_3P = \$0$		0.00
Basic provincial tax for the year (T_4)	\$	5,291.62

Determine the annual provincial tax deduction using the following formula:

$T_2 = T_4 + V_1 - S - LCP$

Where $T_4 \leq \$7{,}032$,
$V_1 = \$0$ 0.00

$S = \$0$ 0.00

LCP = The lesser of:
(i) $750; and
(ii) 15% of the purchase of approved shares.
0.15 × $2,000 .... – 300.00

Net provincial tax deduction for the year (T_2) .... $ 4,991.62

Step 6

Total federal and provincial tax deductions for the year:
T_1 (see federal portion of example) $5,932.12 + T_2 .... $ 10,923.74

T = Tax prorated for the pay period .... $ 210.07

Example 2 – For Nova Scotia

See the section called "Example – Assumptions and federal calculation" on page 48 for more details.

Step 5

Determine the basic provincial tax (T_4) using the following formula:
$(V \times A) - KP - K_1P - K_2P - K_3P$
$(V \times A) = 0.1495 \times \$53,560$ .... $ 8,007.22

KP = $1,823 .... – 1,823.00

$K_1P = 0.0879 \times TCP$
$= 0.0879 \times \$13,833$ .... – 1,215.92

$K_2P = [(0.0879 \times (P \times C, \text{max. } \$1,989.90)) + (0.0879 \times (P \times EI, \text{max. } \$720.00))]$
$= [(0.0879 \times \$1,989.90) + (0.0879 \times \$720.00)]$
$= \$174.91 + \$63.29$ .... – 238.20

K_3P = $0 .... 0.00

Basic provincial tax for the year (T_4) .... $ 4,730.10

Determine the annual provincial tax deduction using the following formula:
$T_2 = T_4 + V_1 - S - LCP$

Where $T_4 \leq \$10,000$,
V_1 = $0 .... 0.00

S = $0 .... 0.00

Net provincial tax deduction for the year before LCP .... $ 4,730.10

LCP = The lesser of:
(i) $1,000; and
(ii) 20% of the purchase of approved shares.
0.20 × $2,000 .... – 400.00

Net provincial tax deduction for the year (T_2) $ 4,330.10

Step 6

Total federal and provincial tax deductions for the year:
T_1 (see federal portion of example) $5,932.12 + T_2 .... $ 10,262.22

T = Tax prorated for the pay period .... $ 197.35

Example 3 – For Prince Edward Island

See the section called "Example – Assumptions and federal calculation" on page 48 for more details.

Step 5

Determine the basic provincial tax (T_4) using the following formula:
$(V \times A) - KP - K_1P - K_2P - K_3P$
$(V \times A) = 0.138 \times \$53,560$ .... $ 7,391.28

$KP = \$1,230$		–	1,230.00
$K_1P = 0.098 \times TCP$			
$= 0.098 \times \$13,706$		–	1,343.19
$K_2P = [(0.098 \times (P \times C, \text{max. } \$1,989.90)) + (0.098 \times (P \times EI, \text{max. } \$720.00))]$			
$= [(0.098 \times \$1,989.90) + (0.098 \times \$720.00)]$			
$= \$195.01 + \$70.56$		–	265.57
$K_3P = \$0$			0.00
Basic provincial tax for the year (T_4)		$	4,552.52

Determine the annual provincial tax deduction using the following formula:
$T_2 = T_4 + V_1 - S - LCP$

Where $T_4 \leq \$5,200$,		
$V_1 = \$0$		0.00
S and LCP = $0		0.00
Net provincial tax deduction for the year (T_2)	$	4,552.52

Step 6

Total federal and provincial tax deductions for the year:

T_1 (see federal portion of example) $5,932.12 + T_2	$	10,484.64
T = Tax prorated for the pay period	$	201.63

Example 4 – For New Brunswick

See the section called “Example – Assumptions and federal calculation” on page 48 for more details.

Step 5

Determine the basic provincial tax (T_4) using the following formula:
$(V \times A) - KP - K_1P - K_2P - K_3P$

$(V \times A) = 0.1482 \times \$53,560$	$	7,937.59
$KP = \$1,757$	–	1,757.00
$K_1P = 0.0968 \times TCP$		
$= 0.0968 \times \$15,235$	–	1,474.75
$K_2P = [(0.0968 \times (P \times C, \text{max. } \$1,989.90)) + (0.0968 \times (P \times EI, \text{max. } \$720.00))]$		
$= [(0.0968 \times \$1,989.90) + (0.0968 \times \$720.00)]$		
$= \$192.62 + \$69.70$	–	262.32
$K_3P = \$0$		0.00
Basic provincial tax for the year (T_4)	$	4,443.52

Determine the annual provincial tax deduction using the following formula:
$T_2 = T_4 + V_1 - S - LCP$

V_1 and S = $0		0.00
Net provincial tax deduction for the year before LCP	$	4,443.52
LCP = The lesser of:		
(i) $750; and		
(ii) 15% of the purchase of approved shares.		
$0.15 \times \$2,000$	–	300.00
Net provincial tax deduction for the year (T_2)	$	4,143.52

Step 6

Total federal and provincial tax deductions for the year:

T_1 (see federal portion of example) $5,932.12 + T_2	$	10,075.64
T = Tax prorated for the pay period	$	193.76

Example 5 – For Quebec

See the section called "Example – Assumptions and federal calculation" on page 48 for more details.

Step 5

Total federal tax deduction for the year **using Quebec K_2 values** (before the Quebec tax abatement)	$	5,918.66
Less Quebec tax abatement of 16.5% ($0.165 \times T_3$)	–	1,026.08
Net federal tax deduction for the year (T_1)	$	4,892.58
T = Tax prorated for the pay period	$	94.09

Example 6 – For Ontario

See the section called "Example – Assumptions and federal calculation" on page 48 for more details.

Step 5

Determine the basic provincial tax (T_4) using the following formula:
$(V \times A) - KP - K_1P - K_2P - K_3P$

$(V \times A) = 0.0915 \times \$53,560$	$	4,900.74
KP = $1,100	–	1,100.00
$K_1P = 0.0605 \times TCP$ $= 0.0605 \times \$15,815$	–	956.81
$K_2P = [(0.0605 \times (P \times C, \text{max. } \$1,989.90)) + (0.0605 \times (P \times EI, \text{max. } \$720.00))]$ $= [(0.0605 \times \$1,989.90) + (0.0605 \times \$720.00)]$ $= \$120.39 + \$43.56$	–	163.95
$K_3P = \$0$		0.00
Basic provincial tax for the year (T_4)	$	2,679.98

Determine the annual provincial tax deduction using the following formula:
$T_2 = T_4 + V_1 + V_2 - S - LCP$

Where $T_4 \leq \$4,100$ $V_1 = \$0$		0.00
Sub-total	$	2,679.98
V_2 = Where $A > \$48,000 \leq \$72,000$, V_2 = the lesser of: = (i) $600; and		600.00
(ii) $\$450 + (0.25 \times (A - \$48,000))$ $= \$450 + (0.25 \times (\$53,560 - \$48,000))$ $= \$450 + \$5,560$ $= \$6,010$		
S = The lesser of: (i) $T_4 + V_1$; = $2,679.98; and (ii) $[2 \times (\$198 + Y)] - [T_4 + V_1]$ $= [2 \times (\$198 + \$730)] - [\$2,679.98 + \$0]$ $= [2 \times \$928] - \$2,679.98$ $= \$1,856 - \$2,679.98$ $= - \$823.98$ If the result is negative, S = $0		0.00
Net provincial tax deduction for the year before LCP	$	3,279.98
LCP = The lesser of: (i) $750; and (ii) 15% of the purchase of approved shares. $0.15 \times \$2,000$	–	300.00

Net provincial tax deduction for the year (T_2) .... $ 2,979.98

Step 6

Total federal and provincial tax deductions for the year:
T_1 (see federal portion of example) $5,932.12 + T_2 .... $ 8,912.10

T = Tax prorated for the pay period .... $ 171.39

Example 7 – For Manitoba

See the section called "Example – Assumptions and federal calculation" on page 48 for more details.

Step 5

Determine the basic provincial tax (T_4) using the following formula:
$(V \times A) - KP - K_1P - K_2P - K_3P$
$(V \times A) = 0.13 \times \$53,560$ .... $ 6,962.80

$KP = \$641$ .... – 641.00

$K_1P = 0.109 \times TCP$
$= 0.109 \times \$14,316$ .... – 1,560.44

$K_2P = [(0.109 \times (P \times C, \text{max. } \$1,989.90)) + (0.109 \times (P \times EI, \text{max. } \$720.00))]$
$= [(0.109 \times \$1,989.90) + (0.109 \times \$720.00)]$
$= \$216.90 + \$78.48$ .... – 295.38

$K_3P = \$0$ 0.00

Basic provincial tax for the year (T_4) $ 4,465.98

Determine the annual provincial tax deduction using the following formula:
$T_2 = T_4 + V_1 - S - LCP$

$V_1 = \$0$ 0.00

S = The lesser of:
(i) T_4
= $4,465.98; and
(ii) $\$225 + Y - (A_1 \times 0.01)$
= $225 + $825 – $535.60
= $514.40
If the result is negative, S = $0 .... – 514.40

Net provincial tax deduction for the year before LCP .... $ 3,951.58

LCP = The lesser of:
(i) $1,800; and
(ii) 15% of the purchase of approved shares.
$0.15 \times \$2,000$ .... – 300.00

Net provincial tax deduction for the year (T_2) .... $ 3,651.58

Step 6

Total federal and provincial tax deductions for the year:
T_1 (see federal portion of example) $5,932.12 + T_2 $ 9,583.70

T = Tax prorated for the pay period .... $ 184.30

Example 8 – For Saskatchewan

See the section called "Example – Assumptions and federal calculation" on page 48 for more details.

Step 5

Determine the basic provincial tax (T_4) using the following formula:

$(V \times A) - KP - K_1P - K_2P - K_3P$

$(V \times A) = 0.13 \times \$53{,}560$	$	6,962.80
KP = $768	–	768.00
K_1P = 0.11 × TCP = 0.11 × $23,042	–	2,534.62
K_2P = [(0.11 × (P × C, max. $1,989.90)) + (0.11 × (P × EI, max. $720.00))] = [(0.11 × $1,989.90) + (0.11 × $720.00)] = $218.89 + $79.20	–	298.09
K_3P = $0		0.00
Basic provincial tax for the year (T_4)	$	3,362.09

Determine the annual provincial tax deduction using the following formula:

$T_2 = T_4 + V_1 - S - LCP$

V_1 and S = $0		0.00
Net provincial tax deduction for the year before LCP	$	3,362.09

LCP = The lesser of:
- (1) $1,000; and
- (2) the total of:
  - (A) The lesser of:
    - (i) $1,000; and
    - (ii) 20% of the purchase of approved shares of the capital stock of a prescribed labour-sponsored venture capital corporation registered in Saskatchewan;
      0.20 × $0 .... – 0.00

  And
  - (B) The lesser of:
    - (i) $525: and
    - (ii) 15% of the purchase of approved shares of the capital stock of a prescribed labour-sponsored venture capital corporation registered federally.
      0.15 × $2,000 .... – 300.00

Net provincial tax deduction for the year (T_2)	$	3,062.09

Step 6

Total federal and provincial tax deductions for the year:

T_1 (see federal portion of example) $5,932.12 + T_2	$	8,994.21
T = Tax prorated for the pay period	$	172.97

Example 9 – For Alberta

See the section called "Example – Assumptions and federal calculation" on page 48 for more details.

Step 5

Determine the basic provincial tax (T_4) using the following formula:

$(V \times A) - KP - K_1P - K_2P - K_3P$

$(V \times A) = 0.10 \times \$53{,}560$	$	5,356.00
KP = $0		0.00

K_1P = 0.10 × TCP		
= 0.10 × $30,870	–	3,087.00
K_2P = [(0.10 × (P × C, max. $1,989.90)) + (0.10 × (P × EI, max. $720.00))]		
= [(0.10 × $1,989.90) + (0.10 × $720.00)]		
= $198.99 + $72.00	–	270.99
K_3P = $0		0.00
Basic provincial tax for the year (T_4)	$	1,998.01

Determine the annual provincial tax deduction using the following formula:
$T_2 = T_4 + V_1 – S – LCP$

V_1, S, and LCP = $0		0.00
Net provincial tax deduction for the year (T_2)	$	1,998.01

Step 6

Total federal and provincial tax deductions for the year:

T_1 (see federal portion of example) $5,932.12 + T_2	$	7,930.13
T = Tax prorated for the pay period	$	152.50

Example 10 – For British Columbia

See the section called “Example – Assumptions and federal calculation” on page 48 for more details.

Step 5

Determine the basic provincial tax (T_4) using the following formula:
$(V \times A) – KP – K_1P – K_2P – K_3P$

(V × A) = 0.0915 × $53,560	$	4,900.74
KP = $1,066	–	1,066.00
K_1P = 0.0605 × TCP		
= 0.0605 × $16,756	–	1,013.74
K_2P = [(0.0605 × (P × C, max. $1,989.90)) + (0.0605 × (P × EI, max. $720.00))]		
= [(0.0605 × $1,989.90) + (0.0605 × $720.00)]		
= $120.39 + $43.56	–	163.95
K_3P = $0		0.00
Basic provincial tax for the year (T_4)	$	2,657.05

Determine the annual provincial tax deduction using the following formula:
$T_2 = T_4 + V_1 – S – LCP$

V_1 = $0		0.00
S = Where A_1 > $27,062.67		
= $0		0.00
Net provincial tax deduction for the year before LCP	$	2,657.05
LCP = The lesser of:		
(i) $2,000; and		
(ii) 15% of the purchase of approved shares.		
0.15 × $2,000	–	300.00
Net provincial tax deduction for the year (T_2)	$	2,357.05

Step 6

Total federal and provincial tax deductions for the year:

T_1 (see federal portion of example) $5,932.12 + T_2	$	8,289.17
T = Tax prorated for the pay period	$	159.41

Example 11 – For Yukon

See the section called "Example – Assumptions and federal calculation" on page 48 for more details.

Step 5

Determine the basic territorial tax (T_4) using the following formula:
$(V \times A) - KP - K_1P - K_2P - K_3P - K_4P$

$(V \times A) = 0.0968 \times \$53{,}560$	$	5,184.61
$KP = \$981$	–	981.00
$K_1P = 0.0704 \times TCP$ $= 0.0704 \times \$16{,}510$	–	1,162.30
$K_2P = [(0.0704 \times (P \times C, \text{max. } \$1{,}989.90)) + (0.0704 \times (P \times EI, \text{max. } \$720.00))]$ $= [(0.0704 \times \$1{,}989.90) + (0.0704 \times \$720.00)]$ $= \$140.09 + \$50.69$	–	190.78
$K_3P = \$$	–	0.00
$K_4P =$ The lesser of: (i) $0.0704 \times A$; and (ii) $0.0704 \times \$1{,}000$ $0.0704 \times \$1{,}000$	–	70.40
Basic territorial tax for the year (T_4)	$	2,780.13

Determine the annual territorial tax deduction using the following formula:
$T_2 = T_4 + V_1 - S - LCP$

Where $T_4 \leq \$6{,}000$, $V_1 = \$0$		0.00
$S = \$0$		0.00
Net territorial tax deduction for the year before LCP	$	2,780.13
$LCP =$ The lesser of: (i) $1,250; and (ii) 25% of the purchase of approved shares. $0.25 \times \$2{,}000$	–	500.00
Net territorial tax deduction for the year (T_2)	$	2,280.13

Step 6

Total federal and territorial tax deductions for the year:

T_1 (see federal portion of example) $5,932.12 + T_2	$	8,212.25
T = Tax prorated for the pay period	$	157.93

Example 12 – For Northwest Territories

See the section called "Example – Assumptions and federal calculation" on page 48 for more details.

Step 5

Determine the basic territorial tax (T_4) using the following formula:
$(V \times A) - KP - K_1P - K_2P - K_3P$

$(V \times A) = 0.086 \times \$53{,}560$	$	4,606.16
$KP = \$954$	–	954.00
$K_1P = 0.059 \times TCP$ $= 0.059 \times \$24{,}250$	–	1,430.75

K_2P = [(0.059 × (P × C, max. \$1,989.90)) + (0.059 × (P × EI, max. \$720.00))] = [(0.059 × \$1,989.90) + (0.059 × \$720.00)] = \$117.40 + \$42.48	–	159.88
K_3P = \$0		0.00
Basic territorial tax for the year (T_4)	\$	2,061.53

Determine the annual territorial tax deduction using the following formula:
$T_2 = T_4 + V_1 - S - LCP$

V_1, S, and LCP = \$0		0.00
Net territorial tax deduction for the year (T_2)	\$	2,061.53

Step 6
Total federal and territorial tax deductions for the year:

T_1 (see federal portion of example) \$5,932.12 + T_2	\$	7,993.65
T = Tax prorated for the pay period	\$	153.72

Example 13 – For Nunavut

See the section called “Example – Assumptions and federal calculation” on page 48 for more details.

Step 5
Determine the basic territorial tax (T_4) using the following formula:
$(V \times A) - KP - K_1P - K_2P - K_3P$

(V × A) = 0.07 × \$53,560	\$	3,749.20
KP = \$1,115	–	1,115.00
K_1P = 0.04 × TCP = 0.04 × \$22,298	–	891.92
K_2P = [(0.04 × (P × C, max. \$1,989.90)) + (0.04 × (P × EI, max. \$720.00))] = [(0.04 × \$1,989.90) + (0.04 × \$720.00)] = \$79.60 + \$28.80	–	108.40
K_3P = \$0		0.00
Basic territorial tax for the year (T_4)	\$	1,633.88

Determine the annual territorial tax deduction using the following formula:
$T_2 = T_4 + V_1 - S - LCP$

V_1, S, and LCP = \$0		0.00
Net territorial tax deduction for the year (T_2)	\$	1,633.88

Step 6
Total federal and territorial tax deductions for the year:

T_1 (see federal portion of example) \$5,932.12 + T_2	\$	7,566.00
T = Tax prorated for the pay period	\$	145.50

Example 14 – For outside Canada and in Canada beyond the limits of any province

See the section called "Example – Assumptions and federal calculation" on page 48 for more details.

Step 5

Total federal tax deduction for the year before surtax for outside Canada or in Canada beyond the limits of any province (see federal portion of example)	$	5,932.12
Additional federal tax of 48% for employees working outside Canada or in Canada beyond the limits of any province (0.48 × T_3)		2,991.42
Total federal tax deduction for the year (T_1)...	$	8,923.54
T = Tax prorated for the pay period..	$	171.61

Example for employees remunerated by commission only

This example is for an employee remunerated by commission and working in the province of Saskatchewan. The total of personal tax credits amounts on Form TD1 is $8,929 and on Form TD1SK $8,778. On Form TD1X, the employee has indicated total remuneration (I_1) of $60,000 and total expenses (E) of $4,000. Registered pension plan contributions are $2,000 for the year. The employee has purchased, by payroll deductions, $3,000 of approved shares of the capital stock of prescribed labour-sponsored venture capital corporations. ($2,000 of a prescribed labour-sponsored venture capital corporation registered federally plus $1,000 of a prescribed labour-sponsored venture capital corporation registered in Saskatchewan.) The employer has received authorization from a tax services office to reduce the amount subject to income tax withholdings by a $7,800 annual deduction. The current commission payment (G) is $1,500.

Step 1

Determine A using the following formula:

$$\begin{aligned} A &= I_1 - F - F_2 - HD - F_1 - E \\ &= \$60{,}000 - \$2{,}000 - \$0 - \$0 - \$7{,}800 - \$4{,}000 \\ &= \$46{,}200.00 \end{aligned}$$

Step 2

Determine K_1, K_2, K_3 and K_4 using the following formulas:

$$\begin{aligned} K_1 &= 0.155 \times TC \\ &= 0.155 \times \$8{,}929 \\ &= \$1{,}384.00 \end{aligned}$$

$$\begin{aligned} K_2 &= [(0.155 \times (0.0495 \times (I_1 - \$3{,}500)^*, \text{max. } \$1{,}989.90)) + \\ &\quad (0.155 \times ((0.018 \times I_1), \text{max. } \$720.00))] \\ &\quad \text{* If the result is negative, substitute \$0.} \\ &= [(0.155 \times (0.0495 \times (\$60{,}000 - \$3{,}500)^*, \text{max. } \$1{,}989.90)) + \\ &\quad (0.155 \times (0.018 \times \$60{,}000, \text{max. } \$720.00))] \\ &= [(0.155 \times (0.0495 \times \$56{,}500, \text{max. } \$1{,}989.90)) + (0.155 \times (\$1{,}080, \text{max. } \$720.00))] \\ &= [(0.155 \times (\$2{,}796.75, \text{max. } \$1{,}989.90)) + (0.155 \times \$720.00)] \\ &= [(0.155 \times \$1{,}989.90) + \$111.60] \\ &= \$308.43 + \$111.60 \\ &= \$420.03 \end{aligned}$$

$$K_3 = \$0$$

$$\begin{aligned} K_4 &= \text{The lesser of:} \\ &\quad \text{(i) } 0.155 \times A\text{; and} \\ &\quad \text{(ii) } 0.155 \times \$1{,}000 \\ &= 0.155 \times \$1{,}000 \\ &= \$155.00 \end{aligned}$$

Step 3

Determine the annual basic federal tax, $(R \times A) - K - K_1 - K_2 - K_3 - K_4$. Locate the corresponding values of R and K based on A, from the "2007 federal tax rates and income thresholds" table on page 31 and calculate the basic federal tax:

A =	$	46,200.00
Federal R	×	0.22
	$	10,164.00
Less federal constant K	–	2,417.00
Federal tax	$	7,747.00
Less federal tax credits, $K_1 + K_2 + K_3 + K_4$	–	1,959.03
Basic federal tax (T_3)	$	5,787.97

Step 4

Determine the federal labour-sponsored funds tax credit:

LCF = the lesser of:
- (i) $750; and
- (ii) 15% of the purchase of approved shares.

$0.15 \times \$3{,}000$	–	450.00
Annual federal tax deduction, except for employees in Quebec, outside Canada, and in Canada beyond the limits of any province (T_1)	\$	5,337.97

Step 5

Determine the basic provincial tax (T_4) using the following formula:
$(V \times A) - KP - K_1P - K_2P - K_3P$

$(V \times A) = 0.13 \times \$46{,}200$	\$	6,006.00
$KP = \$768$	–	768.00
$K_1P = 0.11 \times TCP$ $= 0.11 \times \$8{,}778$	–	965.58
$K_2P = [(0.11 \times (0.0495 \times (I_1 - \$3{,}500)^*, \text{max. } \$1{,}989.90)) +$ $(0.11 \times ((0.018 \times I_1), \text{max. } \$720.00))]$ * If the result is negative, substitute \$0. $= [(0.11 \times (0.0495 \times (\$60{,}000 - \$3{,}500)^*, \text{max. } \$1{,}989.90)) +$ $(0.11 \times (0.018 \times \$60{,}000, \text{max. } \$720.00))]$ $= [(0.11 \times (0.0495 \times \$56{,}500, \text{max. } \$1{,}989.90)) +$ $(0.11 \times (\$1{,}080, \text{max. } \$720.00))]$ $= [(0.11 \times (\$2{,}796.75, \text{max. } \$1{,}989.90)) + (0.11 \times \$720.00)]$ $= [(0.11 \times \$1{,}989.90) + \$79.20]$ $= \$218.89 + \$79.20$ $= \$298.09$	–	298.09
$K_3P = \$0$		0.00
Basic provincial tax for the year (T_4)	\$	3,974.33

Determine the annual provincial tax deduction using the following formula:
$T_2 = T_4 + V_1 - S - LCP$

V_1 and $S = \$0$		0.00
Net provincial tax deduction for the year before LCP	\$	3,974.33

Step 6

Determine the provincial labour-sponsored funds tax credit:
LCP = The lesser of:
- (1) \$1,000; and
- (2) the total of:
  - (A) The lesser of:
    - (i) \$1,000; and
    - (ii) 20% of the purchase of approved shares of the capital stock of a prescribed labour-sponsored venture capital corporation registered in Saskatchewan;

$0.20 \times \$1{,}000$	–	200.00

and

  - (B) The lesser of:
    - (i) \$525; and
    - (ii) 15% of the purchase of approved shares of the capital stock of a prescribed labour-sponsored venture capital corporation registered federally.

$0.15 \times \$2{,}000$	–	300.00
Net provincial tax deduction for the year (T_2)	\$	3,474.33

Step 7

Calculate the tax to be deducted on the commission payment of \$1,500, factor G:

$T = [(T_1 + T_2) / (I_1 / G)] + L$
$= [(\$5{,}337.97 + \$3{,}474.33 / (\$60{,}000 / \$1{,}500)] + \$0$
$= \$8{,}812.30 / 40 + \$0$
$= \$220.31$

Step 8
For all later payments (such as commission, salary, and bonus) change the G value amount of $1,500 in Step 7 to calculate the appropriate amount of tax deduction at source.

Example for employees in the hotel and restaurant business in Quebec

As a result of legislation introduced in the province of Quebec, employees in the hotel and restaurant business who receive income from tips and gratuities have to declare this income to their employers. Since January 1, 1998, you have to include tips declared by these employees when you calculate insurable earnings for purposes of Employment Insurance (EI). You have to include these tips when you determine federal income tax deductions. Report the tips and deductions on the T4 slip.

When you include the declared tips and gratuities in income, the deductions may be greater than the cash salary or wages paid. Payroll deductions cannot be more than the amount of salary and wages paid. To make sure that the deductions are not more than the salary or wages, you will have to reduce the deductions until the net pay is no longer negative.

When you reduce the payroll deductions, you have to reduce them in a particular order, as specified in the Quebec legislation. First reduce Quebec provincial tax, and then reduce in the following order, union dues, Quebec parental insurance premiums, and Quebec Pension Plan contributions. If the net pay is still negative, reduce the federal tax withholding. Any shortfall of federal or provincial tax will be determined when the individuals file their personal tax returns.

In some cases, when QPP and QPIP are is reduced, you may have to increase federal tax to reflect the change in the federal tax credit for QPP and QPIP contributions (factor K_2). The following will explain how to recalculate the federal tax to allow a credit more closely approximating the actual QPP and QPIP deduction for the pay period.

After you have calculated the QPP, EI, and federal tax deductions based on the total income (tips plus salary) for the pay period, check whether there is enough net pay available to cover the full QPP contribution. Find:

N = Net pay available for QPP deduction. If negative, N = $0.
= This will be the cash net pay after all deductions including EI premiums and federal tax, but before QPP and QPIP contributions and Quebec provincial tax. If N is negative or $0, or if it is greater than the QPP contribution required, you will not need to adjust the K_2 tax credit, since recalculation will not change the federal tax deduction.

Next, find:

CQ = The maximum QPP deduction based on available net pay
= The lesser of:
(i) C, the QPP contribution for the pay period, and
(ii) N, the net pay available for the QPP deduction.

Next, recalculate the employee's federal tax by replacing C in the K_2 tax credit calculation with factor CQ. For this calculation routine, you will need to recalculate K_2, T_3, and T_1 based on the QPP deduction for the pay period, instead of the QPP contribution normally calculated. Use factors called **K_2Q**, **T_3Q**, and **T_1Q** for these calculations. The formulas for these factors are shown in the example below.

Once you find T_1Q, determine the federal tax deduction, as follows:

T = The greater of:
(i) $(T_1 / P) + L$, and
(ii) $(T_1Q / P) + L$.

Example
This is an example of an employee in the hotel and restaurant business in Quebec. The employer uses 26 (bi-weekly) pay periods. The employee is paid $90 in wages and declares $700 in tips and gratuities. Other factors, such as F, F_1, and U_1 are $0. The employee claims the basic personal amount on Form TD1. This example uses the formulas in effect on January 1, 2007.

Step 1 – Regular payroll deductions calculations
For simplicity of presentation, only the results of the regular calculations are shown in this step.

A = $20,540.00 **EI** = $11.53 **$K_2$** = $190.46

C = \$32.44 **K_1** = \$1,384.00 **T_1** = \$1,214.29
K_4 = \$155.00

Step 2 – Additional calculations for employees in the hotel and restaurant business in Quebec

N = Net pay available for QPP deduction. If negative, N = \$0.
= Cash income for the pay period minus EI premiums for the pay period minus federal tax for the pay period
= \$90 – \$11.53 – (\$1,214.29 / 26). If negative, N = \$0.
= \$90 – \$11.53 – \$46.70
= \$31.77

CQ = The maximum QPP deduction based on available net pay
= The lesser of:
(i) \$32.44, the QPP contribution for the pay period, and
(ii) \$31.77, the net pay available for the QPP deduction.
= \$31.77

K_2Q = Federal tax credit for the year based on the QPP deduction (CQ)
= [(0.155 × (P × CQ, max. \$1,989.90)) + (0.155 × (P × EI, max. \$720.00))]
= [(0.155 × (26 × \$31.77, max. \$1,989.90)) + (0.155 × (26 × \$11.53, max. \$720.00))]
= (0.155 × \$826.02 + (0.155 × \$299.78)
= \$128.03 + \$46.47
= \$174.50

T_3Q = Basic federal tax based on K_2Q
= (R × A) – K – K_1 – K_2Q – K_3 – K_4, if the result is negative, T_3Q = \$0.
= (0.155 × \$20,540) – \$0 – \$1,384.00 – \$174.50 – \$0 – \$155.00
= \$3,183.70 – \$1,384.00 – \$174.50 – \$155.00
= \$1,470.20

T_1Q = Annual federal tax for Quebec based on T_3Q
= (T_3Q – LCF)* – (T_3Q × 0.165)
*If the result is negative, substitute \$0.
= (\$1,470.20 – \$0) – (\$1,470.20 × 0.165)
= \$1,470.20 – \$242.58
= \$1,227.62

Step 3 – Adjusted federal tax deduction for the pay period

T = The greater of:
(i) (T_1 / P) + L,
= (\$1,214.29 / 26) + \$0
= \$46.70, and
(ii) (T_1Q / P) + L
= (\$1,227.62 / 26) + \$0
= \$47.22
= \$47.22

Step 4 – Adjusted QPP deduction for the pay period

For purposes of the employee's pay statement, determine the actual QPP deduction based on the new available net pay. The new available net pay = \$90 – \$11.53 (EI) – \$47.22 (revised tax) = \$31.25 (available net pay). Therefore, the employee's QPP deduction is \$31.25.

Although this QPP deduction is less than the \$31.77 QPP amount used in the revised tax calculation, a second or subsequent recalculation of federal tax is not required.

Include the \$31.25 QPP deduction in your remittance to the ministère du Revenu du Québec. Include the \$11.53 EI deduction and the \$47.22 federal tax deduction in your remittance to the Canada Revenue Agency.

Option 2 – Tax formula based on cumulative averaging

Option 2 formulas are intended for employees whose remuneration fluctuates considerably from one pay period to the next. In the Option 2 formulas, the amount of tax to be deducted is based on the projected annual taxable income (including bonuses) compared to the amount of tax previously deducted in the year. Option 2 works well for employees who are employed for a full calendar year. If the employee's income is relatively stable for each pay period, there will not be a significant difference in the tax deductions with Option 2 compared to Option 1.

The following sections will explain in detail how Option 2 works. The acronym **YTD** used in this option means **year-to-date**, and will include payments or deductions for the current year, but will exclude the payment payable now and the deductions for the current pay period.

Calculation of income

In Option 2, the actual year-to-date income plus the current income is projected over the remaining pay periods in the year. For example, an employee received $20,000 total in 20 previous pay periods and $500 in the current pay period, and there are 5 pay periods remaining. The projected income for the year using Option 2 will be $25,380.95 [($20,000 + $500) × 26 / 21].

When you determine year-to-date income, you have to use the year-to-date taxable income. Therefore, you will have to store and use the year-to-date values for each pay period factor, such as RPP (factor F) and union dues (U_1).

Calculation of tax for the pay period

When you calculate tax in Option 2, you calculate the tax on the projected income for the year, then find the tax amount that is proportional to the number of pay periods that have actually occurred (including the current pay period). Compare the result to the tax actually deducted in the year-to-date. The difference is the tax payable on the current income.

Continuing the above example, if the total federal and provincial or territorial tax on $25,380.95 is $3,560.17, the proportional year-to-date tax is $2,875.52 ($3,560.17 / 26 × 21.) If the total tax deducted year-to-date is $2,736.40, the tax on the current income of $500 is $139.12 ($2,875.52 – $2,736.40.) The tax values used in this example are fictitious.

Special situations

Within Option 2 there is an alternative method of calculating tax on a bonus or non-periodic payment separately from the tax on the regular income. This is called the "Optional tax calculation for bonuses, retroactive pay increases, or other non-periodic payments" and you will find more details under the descriptions of some of the factors, in the box on page 68, and in the step-by-step example on page 69.

When the employer changes tax options during the year, it is recommended that the employer reset the S_1 factor to the first pay period. For example, if an employer's pay period is weekly and the tax option is changed for the first pay period after July 1, then S_1 should be reset to 52/1 instead of 52/27. In this way, the tax deductions that have been made under the previous option are not considered when calculating the deductions under the new option. This modification could also apply when an employee commences employment with you during the year.

When there are tax changes during the year, the first pay period after the change will show a significant adjustment to balance the new annual tax with the tax deducted at the old rates. It is recommended that you reduce this impact by resetting the S_1 factor or by averaging the tax increase or decrease of the remaining pay periods.

Note
If an employee or a pensioner has income from another source from which no tax has been deducted (for example, investment income or support payments), a possible tax liability could exist when filing an individual income tax return for the year. The employee or pensioner may ask for additional tax deductions, factor L, using Form TD1.

Formula to calculate annual taxable income (A)

A = Projected annual taxable income
= $[S_1 \times (I - F - F_2 - U_1)] + B - HD - F_1$
If the result is negative, A = $0.

S_1 = Annualizing factor
= This is a set of two numbers: the number of the employer's or payer's total pay periods (or, optionally, the employee's pay periods where the periods worked are less than the employer's or payer's total pay periods), divided by the applicable number of the current pay period. See the chart below for examples. See also the additional information under "Special situations" on page 63.

Examples	52pp	26pp	24pp	12pp
1st pay period, S_1 =	52/1	26/1	24/1	12/1
2nd pay period, S_1 =	52/2	26/2	24/2	12/2
3rd pay period, S_1 =	52/3	26/3	24/3	12/3
Etc., last pay period, S_1 =	52/52	26/26	24/24	12/12

I = Gross remuneration for the pay period. This includes overtime earned and paid in the same pay period, pension income, qualified pension income, and taxable benefits, plus I_{YTD}, but does not include amounts in factor B.

F = Payroll deductions for the pay period for employee contributions to a registered pension plan (RPP) for current and past services, a registered retirement savings plan (RRSP), or a retirement compensation arrangement (RCA) plus F_{YTD}.

Note
We have not repeated the entire explanation for this factor. Refer to the description under Option 1 for full details.

F_2 = Alimony or maintenance payments required by a legal document dated before May 1, 1997, to be deducted at source from the employee's salary for the pay period plus $F2_{YTD}$. The legal document could be a garnishment or a similar order of a court or competent tribunal.

Note
We have not repeated the entire explanation for this factor. Refer to the description under Option 1 for full details.

U_1 = Union dues for the pay period plus $U1_{YTD}$.

B = Bonus, retroactive pay increase, vacation pay when vacation is not taken, and accumulated overtime payment plus B_{YTD}.

Note
For overtime earned and paid in the same pay period, the payment is included with the I factor. Also, when the employee receives vacation pay and takes vacation, the income is included in the I factor. If you wish to deduct the full amount of tax payable on the non-periodic payment at the time of payment, use the "Optional tax calculation for bonuses, retroactive pay increases, or other non-periodic payments" on page 68. If you wish to make deductions like RRSP contributions from the bonus payment then you may do so, please refer to page 34 for further details.

HD = Annual deduction for living in a prescribed zone as indicated on Form TD1.

To determine whether or not he or she resided in a prescribed zone, an employee or pensioner should contact the local tax services office or tax centre.

F_1 = Annual deductions (such as child care expenses, and alimony and maintenance payments not deducted at source from the employee's salary) requested by an employee or pensioner and authorized by a tax services office or tax centre. The employer or payer will be informed by a tax services office or tax centre of the amount to be used with F_1, when it is applicable.

Formula to calculate basic federal tax (T_3)

T_3 = Annual basic federal tax
= $(R \times A) - K - K_1 - K_2 - K_3 - K_4$
If the result is negative, T_3 = $0.

R = Federal tax rate applicable to the annual taxable income A. See the "2007 federal tax rates and income thresholds" table below.

2007 federal tax rates and income thresholds		
Annual taxable income A More than – Not more than	**Rate R**	**Constant K**
$ 0 – $ 37,178	0.155	$ 0
37,178 – 74,357	0.22	2,417
74,357 – 120,887	0.26	5,391
120,887 – and over	0.29	9,017

A = Projected annual taxable income.

K = Federal constant to adjust application of the federal rate to the total annual taxable income A. See the "2007 federal tax rates and income thresholds" table above.

K_1 = Non-refundable personal tax credit
= $0.155 \times TC$

Note
0.155 = The appropriate percentage for the year. The appropriate percentage is the lowest percentage referred to in the "2007 federal tax rates and income thresholds" table above.

Where:
TC = The total personal tax credits amounts reported on Form TD1. If Form TD1 is not filed by the employee or pensioner, TC is $8,929, and for non-resident individuals, TC is $0. If the claim code is E, T = $0. If you have the federal tax credit amount for the employee or pensioner for 2006, see the section called "Indexing of personal amounts" on page 16.

Note
If the province is Ontario, even if the claim code is E, the Ontario Health Premium is payable on annual income over $20,000.

K_2 = Canada (or Quebec) Pension Plan contribution and Employment Insurance premium federal tax credits for the year.

= $[(0.155 \times (0.0495 \times ((S_1 \times I) + B - \$3{,}500)^*, \text{max. } \$1{,}989.90)) +$
$(0.155 \times (0.018 \times ((S_1 \times I) + B), \text{max. } \$720.00))]$

For employees in Quebec only:

K_2 = Quebec Pension Plan contributions, Employment Insurance premiums, and provincial parental insurance plan premiums federal tax credits for the year.
= $[(0.155 \times (0.0495 \times ((S_1 \times I) + B - \$3{,}500)^*, \text{max. } \$1{,}989.90)) +$
$(0.155 \times (0.0146 \times ((S_1 \times I) + B), \text{max. } \$584.00)) +$
$(0.155 \times (0.00416 \times S_1 \times I) + B), \text{max } \$245.44))]$

Note
* If the result is negative, substitute $0.

The above is subject to the rules contained in Part B and Part C of this publication and instructions contained in the employers' guide called *Payroll Deductions (Basic Information)*.

K_3 = Other federal tax credits, such as medical expenses and charitable donations requested by an employee or pensioner and authorized by the tax services office or tax centre. The tax services office or tax centre will inform the employer or payer of the amount to be used with K_3. If no amount has been authorized, K_3 = $0.

K_4 = Canada Employment Credit
= The lesser of:
(i) $0.155 \times A$; and
(ii) $0.155 \times \$1,000$

Note:
For puposes of the Canada Employment Credit, A is the annual gross income from office or employment before deductions. This is the same amount you normally report in box 14 of the T4 slip(s). As administrative relief, you are authorized to use the regular factor A (annual taxable income) for this calculation, except when the total income is superannuation or pension benefits.

Formula to calculate the federal tax payable (T_1)

T1 = Annual federal tax deduction except for Quebec, outside Canada, and in Canada beyond the limits of any province.
= (T3 – LCF)*
* If the result is negative, substitute $0.

For Quebec only:

T_1 = $(T_3 - LCF)^* - (0.165 \times T_3)$
* If the result is negative, substitute $0.

For outside Canada or in Canada beyond the limits of any province only:

T_1 = $[T_3 + (0.48 \times T_3) - LCF]^*$
* If the result is negative, substitute $0.

T_3 = Annual basic tax.

LCF = Labour-sponsored funds federal tax credit
= The lesser of:
(i) $750; and
(ii) 15% of the amount deducted or withheld during the year for the acquisition by the employee of approved shares of the capital stock of a prescribed labour-sponsored venture capital corporation.

Note
If the shares are invested in an RRSP, then the amount invested can be used to determine the annual taxable income amount.

Formula to calculate provincial and territorial tax payable (T_2)

We have not repeated the entire explanation for the provincial and territorial variables. Effective January 1, 2007, the variables for Option 2 are the same as Option 1, except for factor K_2P, which is as follows:

K_2P = [(Lowest provincial or territorial tax rate × (0.0495 × ((S_1 × I) + B – $3,500)*, max. $1,989.90)) + (lowest provincial or territorial tax rate × (0.018 × ((S_1 × I) + B), max. $720.00))]
* If the result is negative, substitute $0.

Replace the lowest provincial or territorial tax rate with the appropriate rate for the province or territory that is applicable to the employee or pensioner.

For Quebec only:

T_2 = $0

For outside Canada or in Canada beyond the limits of any province only:

T_2 = \$0

Formula to calculate tax deductions (T) for the pay period

T = Estimated federal and provincial or territorial tax deduction for the pay period

= $[((T_1 + T_2) / S_1) – M]^* + L$

* If the result is negative, T = L.

The resulting amount can be rounded to the nearest multiple of \$0.05 or \$0.01.

For employees in Quebec, outside Canada, and in Canada beyond the limits of any province only:

T = Estimated federal tax deduction for the pay period**

= $[(T_1 / S_1) – M]^* + L$

* If the result is negative, T = L.

The resulting amount can be rounded to the nearest multiple of \$0.05 or \$0.01.

** **Note**

Quebec employers whose employees receive income from tips and gratuities should review the section called "Example for employees in the hotel and restaurant business in Quebec" on page 61.

T_1 = Annual federal tax deduction.

T_2 = Annual provincial or territorial tax deduction.

S_1 = Annualizing factor.

M = Accumulated federal and provincial (or territorial) tax deductions, if any, to the last pay period (exclude any year-to-date additional tax deductions for the year requested by the employee, factor L).

The M factor contains the year-to-date tax previously deducted on salary, taxable benefits, and non-periodic payments.

If you want to deduct the full amount of tax payable on a non-periodic payment at the time of payment, use the "Optional tax calculation for non-periodic payments" on page 68. Under the optional calculation formula, the year-to-date tax on non-periodic payments is separated from the year-to-date tax on regular salary. The year-to-date tax on non-periodic payments is kept in a separate field identified as M_1. Consequently, the T factor (tax deduction for the pay period) will not include the tax on the non-periodic payment. The tax to be deducted on the non-periodic payment is kept in another field (TB).

Factor I (year-to-date salary and non-periodic payments), which is used to determine the annual taxable income, is not affected by the above modifications when determining the federal and provincial or territorial tax payable for the year. For more information, see the section called "Option 2 – Step-by-step example when calculating tax deductions on non-periodic payments at the time of payment" on page 69.

L = Additional tax deductions for the pay period as reported on Form TD1.

Note

To cancel the election to have additional tax deducted, the employee or pensioner must file a new Form TD1 entering \$0 at the item "Additional tax to be deducted."

Optional tax calculation for non-periodic payments

If you use this alternative tax calculation for bonuses, retroactive pay increases, or other non-periodic payments, Option 2 will require changes to calculate factor T. Two new factors are used to calculate the full amount of tax to be deducted from the bonus and non-periodic payments at the time of payment.

Factor M will not include the tax to be deducted from the bonus and non-periodic payments, factor B. Include the tax that applies to B in a separate field identified in the formula as "TB." The year-to-date tax on bonuses and non-periodic payments will be identified as "M_1."

If you are paying an employee both regular pay and a bonus amount in the same pay period, you must treat them as two separate calculations (as indicated in Step 1 and Step 2 below). Step 1 includes the bonus payable now and the bonus year-to-date. Step 2 includes all previously paid bonuses year-to-date but does not include the bonus payable now. All other factors in Option 2 remain unchanged. For more details, see the examples following the provincial and territorial factors.

The changes to Option 2 are as follows:

T = Estimated federal and provincial or territorial tax deductions for the pay period
= $[((T_1 + T_2 - M_1) / S_1) - M]^* + L$
* If the result is negative, T = L.

For employees in Quebec, outside Canada, and in Canada beyond the limits of any province only:
$T = [((T_1 - M_1) / S_1) - M]^* + L$
* If the result is negative, T = L.

Where:
M_1 = Year-to-date tax deduction on all payments included in B year-to-date.

TB = Tax deduction on a bonus, retroactive pay increase, etc., payable now.
= The difference between Step 1 and Step 2 below.

M = Accumulated federal and provincial or territorial tax deductions (if applicable) to the last pay period (exclude any year-to-date additional tax deductions for the year requested by the employee, factor L).

Step 1
Compute $T_1 + T_2$ on A and A_1. The A and A_1 used to calculate T_1 and T_2 include B payable now + B year-to-date or BYTD. For example, if A or A_1 is $15,330.71, B payable now is $500, and BYTD is $150, then $T_1 + T_2$ is calculated on $15,980.71.

Step 2
Compute $T_1 + T_2$ using the same A and A_1 as in Step 1 but exclude B payable now. For example, if A or A_1 is $15,330.71 and BYTD is $150, then $T_1 + T_2$ is calculated on $15,480.71.

The tax on the bonus or retroactive pay increase is Step 1 minus Step 2.

Option 2 – Step-by-step example when calculating tax deductions on non-periodic payments at the time of payment

The following example (based on pay period 14) has been prepared to help verify the accuracy of your program based on the information in Option 2. Since it is more difficult to present an example similar to Option 1, only the final amount that applies to each factor in the example has been used. The example uses 26 bi-weekly pay periods and the "Optional tax calculation for non-periodic payments" formula on page 68 to calculate the tax. The Nova Scotia tax rate has been used to calculate the provincial tax payable for the year.

In this example, the TD1 forms filed by the employee are for January 2007. They show total federal personal tax credits of $8,929 (TC) and provincial personal tax credits of $7,581 (TCP).

The employee's salary is subject to CPP and EI deductions. The employee has received three non-periodic payments in the year. The F, F_2, U_1, HD, F_1, and K_3 are $0. The year-to-date income (I) is $9,055 and the employee has received $150 in previous bonuses (B). The year-to-date tax deducted (M) from pay period 13 is $896.73 and the year-to-date tax on bonuses (M_1) is $33.98.

Changes in this section are not shaded.

Step 1

Determine the projected annual taxable income A:

A = Projected annual taxable income
= $[S_1 \times (I - F - F_2 - U_1)] + B - HD - F_1$
= [26/14 × ($9,455 – $0 – $0 – $0)] + $150 – $0 – $0
= $17,559.29 + $150
= $17,709.29

Step 2

Determine the K_1, K_2, K_3, and K_4 credits:

K_1 = Net federal non-refundable personal tax credit
= 0.155 × TC
= 0.155 × $8,929
= $1,384.00

K_2 = CPP and EI federal tax credits
= [(0.155 × (0.0495 × ((S_1 × I) + B – $3,500)*, max. $1,989.90)) +
(0.155 × (0.018 × ((S_1 × I) + B), max. $720.00))]
* If the result is negative, substitute $0.
= [(0.155 × (0.0495 × ($17,709.29 – $3,500)*, max. $1,989.90)) +
(0.155 × (0.018 × $17,709.29, max. $720.00))]
= [(0.155 × (0.0495 × $14,209.29, max. $1,989.90)) + (0.155 × $318.77)]
= [(0.155 × $703.36) + $49.41]
= $109.02 + $49.41
= $158.43

K_3 = $0

K_4 = The lesser of:
(i) 0.155 × A; and
(ii) 0.155 × $1,000
= 0.155 × $1,000
= $155.00

Step 3

Determine T_3, annual basic federal tax:

T_3 = $(R \times A) - K - K_1 - K_2 - K_3 - K_4$
= (0.155 × $17,709.29) – $0 – $1,384.00 – $158.43 – $0 – $155.00
= $2,744.94 – $0 – $1,384.00 – $158.43 – $0 – $155.00
= $1,047.51

Step 4

Determine the total federal tax deduction for the year:

T_1 = (T_3 – LCF)*
* If the result is negative, substitute \$0.
= \$1,047.51 – \$0
= \$1,047.51

Step 5

Determine the total provincial tax deduction for the year:

T_2 = T_4 + V_1 – S – LCP
If the result is negative, T_2 = \$0.

Where:
T_4 = (V × A) – KP – K_1P – K_2P – K_3P
Where V and KP are determined based on the value of A in the “2007 Nova Scotia tax rates and income thresholds” table.

(V × A) = 0.0879 × \$17,709.29
= \$1,556.65

KP = \$0

K_1P = 0.0879 × TCP
= 0.0879 × \$7,481
= \$657.58

K_2P = [(0.0879 × (0.0495 × ((S_1 × I) + B – \$3,500)*, max. \$1,989.90)) + (0.0879 × (0.018 × ((S_1 × I) + B), max. \$720.00))]
* If the result is negative, substitute \$0.
= [(0.0879 × (0.0495 × (\$17,709.29 – \$3,500)*, max. \$1,989.90)) + (0.0879 × (0.018 × \$17,709.29, max. \$720.00))]
= [(0.0879 × (0.0495 × \$14,209.29, max. \$1,989.90)) + (0.0879 × \$318.77)]
= [(0.0879 × \$703.36) + \$28.02]
= \$61.83 + \$28.02
= \$89.85

K_3P = \$0

T_4 = (V × A) – KP – K_1P – K_2P – K_3P
= \$1,556.65 – \$0 – \$657.58 – \$89.85 – \$0
= \$809.22

T_2 = T_4 + V_1 – S – LCP
If the result is negative, T_2 = \$0.
= \$809.22 + \$0 – \$0 – \$0
= \$809.22

Step 6

Determine the federal and provincial tax for the pay period:

T = [((T_1 + T_2 – M_1) / S_1) – M] + L
If the result is negative, T = \$0.
= [((\$1,047.51 + \$809.22 – \$33.98) × 14 / 26) – \$896.73] + \$0
= [(\$1,822.75 × 14 / 26) – \$896.73] + \$0
= [\$981.48 – \$896.73] + \$0
= \$84.75

Tax deduction on the bonus at time of payment when using the “Optional tax calculation for non-periodic payments”

The following example demonstrates how to calculate tax on a \$500 bonus payable at pay period 14. To simplify the presentation, only the final amount that applies to each factor indicated below has been shown.

Step A – Compute $T_1 + T_2$ based on A calculated in Step 1 on page 69, including the $500 bonus payable

A = $17,709.29 + $500
= $18,209.29

K_2 = CPP and EI federal tax credits
= [(0.155 × (0.0495 × ((S_1 × I) + B – $3,500)*, max. $1,989.90)) + (0.155 × (0.0180 × ((S_1 × I) + B), max. $720.00))]
* If the result is negative, substitute $0.
= [(0.155 × (0.0495 × ($18,209.29 – $3,500)*, max. $1,989.90)) + (0.155 × (0.018 × $18,209.29, max. $720.00))]
= $163.66

T_3 = (R × A) – K – K_1 – K_2 – K_3 – K_4
= (0.155 × $18,209.29) – $0 – $1,384.00– $163.66 – $0 – $155.00
= $1,119.78

T_1 = T_3 – LCF
= $1,119.78 – $0
= $1,119.78

T_2 = T_4 + V_1 – S – LCP
If the result is negative, T_2 = $0.

Where:
T_4 = (V × A) – KP – K_1P – K_2P – K_3P
Where V and KP are determined based on the value of A in the "2007 Nova Scotia tax rates and income thresholds" table.
(V × A) = 0.0879 × $18,209.29
= $1,600.60

KP = $0

K_1P = 0.0879 × TCP
= 0.0879 × $7,481
= $657.58

K_2P = [(0.0879 × (0.0495 × ((S_1 × I) + B – $3,500)*, max. $1,989.90)) + (0.0879 × (0.018 × ((S_1 × I) + B), max. $720.00))]
* If the result is negative, substitute $0.
= [(0.0879 × (0.0495 × ($18,209.29 – $3,500)*, max. $1,989.90)) + (0.0879 × (0.018 × $18,209.29, max. $720.00))]
= $92.81

K_3P = $0

T_4 = (V × A) – KP – K_1P – K_2P – K_3P
= $1,600.60 – $0 – $657.58 – $92.81 – $0
= $850.21

T_2 = T_4 + V_1 – S – LCP
If the result is negative, T_2 = $0.
= $850.21 + $0 – $0 – $0
= $850.21

$T_1 + T_2$ = $1,119.78 + $850.21
= $1,969.99

Step B – Use $T_1 + T_2$ calculated in Step 4 and Step 5 on page 70

$T_1 + T_2$ = Annual tax without the $500 bonus payable now
= $1,047.51 + $809.22
= $1,856.73

Step C – Tax to be deducted on the $500 bonus at pay period 14

$T_1 + T_2$ calculated in Step A	$	1,969.99
Less $T_1 + T_2$ calculated in Step B		1,856.73

The difference is the tax to be deducted on the bonus at time of payment .... $ 113.26

Part B – Canada Pension Plan (CPP)

Employee and employer CPP contributions for 2007

For 2007, the Canada Pension Plan (CPP) maximum pensionable earnings are **$43,700**, and the basic exemption for the year is **$3,500**. The contribution rate for employees is **4.95%**.

An employee's maximum contribution for the year is **$1,989.90**. The employer's contribution is an amount equal to the total of the employee's contribution.

For insurance companies that need the year's maximum pensionable earnings before rounding, the amount for 2007 is **$43,744.30**.

Each employer needs to deduct CPP contributions based on the employee's pensionable income, without regard to any other earnings the employee may have had with another employer in the same year. Accordingly, you must use the maximums above even if the employee works for you less than 12 months. Similarly, you are not entitled to a refund of the employer's share of CPP if the employee works for you less than 12 months. When the employee turns 18 or 70 years of age during the year, the maximum contribution for the year is prorated. See the section called "When age is a factor" on page 73 for further details.

For payments where the employee receives a bonus, retroactive pay increase, accumulated overtime pay, or a director's fee, and the payment is not included with the remuneration for the current pay period, you should introduce a code with the record. You do this to avoid allowing the basic exemption for the pay period (**$3,500 / P**) in the formula described below. The basic exemption has already been allowed with the regular pay.

You can determine how much to deduct for the required contribution "C" by referring to the amount of contributions for the year-to-date and the maximum contribution required for the year, based on the following formula:

Formula to determine CPP contributions for employees receiving salary or wages

C = The lesser of:
- (i) $1,989.90 – D; and
- (ii) 0.0495 × [PI – ($3,500 / P)]

  If the result is negative, C = $0.

Formula to determine CPP contributions for employees remunerated by commission only

C = The lesser of:
- (i) $1,989.90 – D; and
- (ii) 0.0495 × [G – ($3,500 × N / 365, minimum $67.30)]

  If the result is negative, C = $0.

Note
For both formulas, round the resulting amount to the nearest $0.01. The maximum amount for the year (amount (i) above) will vary subject to the rules in items (e) and (f) on page 73.

Where:

C = Canada Pension Plan contribution (deduction) for the pay period.

D = Year-to-date CPP contribution (deduction) with the employer. This amount cannot be greater than the annual maximum.

PI = Pensionable income for the pay period, or the gross income plus any taxable benefits for the pay period, including bonuses and retroactive pay increases where applicable. For more information about income subject to Canada Pension Plan contributions, see the employers' guide called *Payroll Deductions (Basic Information)*.

P = The number of pay periods in the year.

G = Gross commission amount including gross salary at the time of payment, plus any taxable benefits for commission-remunerated employees. Commission payments are the commissions included in the estimated annual amount reported by the employee on Form TD1X, under the heading "Statement of remuneration."

N = The number of days since the last commission payment. The minimum basic exemption amount of $67.30 is included in the formula to conform with CPP legislation.

Notes
For pay periods other than weekly pay periods, the basic exemption amount ($3,500 / P) used to determine the employee's contributions for the pay period has to remain the same throughout the year, regardless of whether or not an employee has worked in each week of your pay period.

Also, the employer should determine the number of pay periods at the beginning of the year (e.g., for weekly, 52 or 53 pay periods may apply, and, for bi-weekly, 26 or 27 pay periods may apply.) This is to ensure that you have deducted the employees' contributions properly.

When age is a factor

At the start of a calendar year or when the employee is hired, the payroll record for the employee for the year should be coded for the number of months he or she is required to contribute to the Canada Pension Plan (CPP):

(a) usually 12 months; or

(b) in the case of an employee becoming 18 years old during the year, the number of months in the year following the month the employee reaches age 18. For example, if the date of birth is March 8, CPP contributions will start April 1, and the number of months is 9; or

(c) in the case of an employee becoming 70 years old during the year, the number of months before and including the month the employee reaches age 70. For example, if the date of birth is November 9, CPP contributions will stop November 30, and the number of months is 11. (The maximum contribution for the year could be reached before November 30.)

You will then be able to determine the maximum contribution for the year as follows:

(d) for 2007, the maximum contribution is $1,989.90; or

(e) in the case of an employee becoming 18 years old during the year, it is $165.83 times the number of months following the month the employee reaches age 18. For example, in (b) above, the number is 9 and the maximum contribution for that employee is $165.83 × 9 = $1,492.47; or

(f) in the case of an employee becoming 70 years old during the year, it is $165.83 times the number of months before and including the month the employee reaches age 70. For example, in (c) above, the number is 11 and the maximum contribution for that employee is $165.83 × 11 = $1,824.13.

Year-end calculation of deductions for employee's Canada Pension Plan (CPP) contributions

The following year-end calculation will help you verify an employee's CPP contributions before you complete and file the T4 slips. This optional calculation is the only one we authorize. It is not, however, applicable to employees who have earnings listed in section B below and who earned more than the annual maximum pensionable earnings. For these employees, prorate the maximum contribution for the year. We based the calculation on information contained in the employers' guide called *Payroll Deductions (Basic Information)* and in Part B of this publication. 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 CPP deduction, follow these steps:

A. Enter the salary and wages from the employee's payroll master file that you will include in box 14 of the T4 slip, "Employment income" .... $________ 1

B. Subtract from line 1, the following earnings of the employee:

- the amount the employee received before and including the month the employee reached age 18.......... $________
- the amount the employee received after the month the employee reached age 70.......... $________
- the amount the employee received during 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 the CPP or QPP.......... $________
- the amount received after the month the employee died .... $________

Total earnings not subject to CPP contributions.......... $________ 2

C. Pensionable earnings for the period of employment, 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, "Pensionable earnings," on the T4 slip.

D. Enter the basic exemption for the pay period (see the table on the next 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 applicable to the earnings listed in section B above.......... ×________

Pro-rated basic exemption that applies to the period of pensionable employment (The amount cannot be more than the maximum basic yearly exemption amount shown in the table on the next page).......... $________ 4

E. CPP contributory earnings for the period of pensionable employment, line 3 minus line 4.......... $________ 5

F. Enter the CPP contribution rate for the year.......... ×________ 6

G. Employee's required CPP contribution for the period of pensionable employment, (line 5 multiplied by the rate on line 6).......... $________ 7

H. Enter the CPP contributions that you have deducted for the period of pensionable employment shown in the employee's payroll master file.......... $________ 8

I. 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. If this is the case, add lines 8 and 9 and include the total in box 16, "Employee's CPP contributions," on the T4 slip.

If the amount at line 9 is negative, you have over deducted. If this is the case, verify the employee's master file to ensure that the amounts on lines 1 and 3 are correct. For information on refunding CPP overpayments, see chapter 2 of the employers' guide called *Payroll Deductions (Basic Information)*.

Employee's CPP basic exemption for various pay periods for 2007

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 (2000)	1.75

Part C – Employment Insurance (EI)

Employee and employer EI premiums for 2007

For **2007**, the maximum annual insurable earnings are **$40,000** and the premium rate is **1.80%** for a maximum annual premium of **$720.00** for the country except for Quebec and **1.46%** for a maximum annual premium of **$584.00** for Quebec.

As an employer, your contribution is 1.4 times the amount of the employee's premiums for the pay period. However, if you have a wage-loss replacement plan, you can ask to have your contribution rate reduced.

If you need more information about the employer's reduced EI premiums, contact:

Human Resources Skills Development Canada (HRSDC)
Premium Reduction Program
120 Harbourview Boulevard
P.O. Box 11000
Bathurst NB E2A 4T5

Telephone:........................1-800-561-7923
Fax:....................................(506) 548-7473

We no longer use the concept of minimum or maximum insurable earnings or hours for a pay period. You withhold EI premiums from each dollar of insurable earnings up to the yearly maximum. Once you have deducted the maximum for the year, do not deduct any more premiums.

You need to deduct EI premiums based on the employee's insurable earnings, without regard to any other insurable earnings the employee may have had with another employer in the same year. Similarly, employers are not entitled to a refund of premiums if the employee leaves the employment during the year.

Employees who earn $2,000 or less in a year can claim a refund on their personal tax returns for all the EI premiums they paid. However, the employer cannot reduce or refund premiums on this basis, nor is the employer entitled to a refund for such employees.

For purposes of the *Record of Employment*, the employer will also need to determine the hours of employment. If the income is not directly related to hours, the earnings are insurable and subject to withholding, while the hours are not considered to be insurable hours. Consult Human Resources Skills Development Canada for help and instructions on completing a Record of Employment.

There is no age limit for contributing to Employment Insurance.

For more information on Employment Insurance withholding, see the employers' guide called *Payroll Deductions (Basic Information)*.

Formula to calculate the EI premiums for 2007

The formula below will allow computer users to determine, in their payroll calculations, the premium payable by an insured person under the *Employment Insurance Act*. The formula is:

EI = the lesser of:
(i) $720.00 – D_1; and
(ii) $0.0180 \times IE$

For employees in Quebec only:

EI = the lesser of
(i) $584.00 – D_1; and
(ii) $0.0146 \times IE$*

* Round the resulting amount(s) in (ii) to the nearest $0.01.

Note

When an employee changes province of employment with the same employer during the year, the maximum premium for the year is based on the province where the first $40,000 of insurable earnings are paid. In this case, you need to determine the maximum premium for the employee at the time of change of province of employment.

Example:

An employee makes $30,000 of insurable earnings in Ontario and changes his province of employment to Quebec and makes an additional $40,000 with the same employer. The employee's maximum premium is calculated as follows:

In Ontario:	$30,000	×	1.80%	=	$540.00
In Quebec:	$10,000	×	1.46%	=	$146.00
Totals:	$40,000			=	$686.00

Canada Revenue Agency and Revenu Québec will reconcile adjustments to EI and QPIP premiums for trans-border employees. It is anticipated that adjustments between the EI and QPIP deductions will be resolved through the filing of the income tax return and an annual year-end adjustment process.

Where:

EI = Employee's Employment Insurance premium deduction for the pay period.

D1 = Employee's year-to-date Employment Insurance premium with the employer (D1 cannot be more than the maximum annual premium.)

IE = Insurable earnings for the pay period including insurable taxable benefits, bonuses, and retroactive pay increases.

Year-end calculation of deductions for employee's Employment Insurance premiums

The following year-end calculation will help you verify an employee's Employment Insurance (EI) premiums before you complete and file the T4 slips. This optional calculation is the only one we authorize. We have based the calculation on information contained in the employers' guide called *Payroll Deductions (Basic Information)* and in Part C of this publication. You can get the information you need to complete this calculation from each employee's payroll master file.

The purpose of this calculation is to 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 annual maximum insurable earnings for the year .... $ __________1

B. Enter the employee's EI premium rate for the year.................................... × __________2

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 EI premium for the year .... $ __________3

D. Enter the employee's EI premium deduction for the period of insurable employment as indicated in the employee's payroll master file .... __________4

E. Subtract line 4 from line 3. The result should be zero .... $ __________5

If the amount on line 5 results in a difference, and it is positive, you have to make an adjustment. Add lines 4 and 5, and include the total in box 18, "Employee's EI premiums," on the T4 slip.

If the amount on line 5 is negative, you have over deducted. If this is the case, verify the employee's master file to ensure that the amount on line 1 is correct. Refer to the employers' guide called *Payroll Deductions (Basic Information)*, for information on refunding EI overpayments.