



Canada Revenue  
Agency

Agence du revenu  
du Canada

Employers' Guide

# Payroll Deductions (Basic Information)

## Dates to Remember

### Information returns

You have to file T4, T4A, and T4F information returns as applicable and give information slips to your employees **each year by the last day of February following the calendar year to which the information returns apply.**

#### Note

If the last day of February is a Saturday or Sunday, your information return is due on the next business day.

### Regular remitter

If you are a new employer, or your average monthly remittance two years ago was less than \$15,000 you are considered a regular remitter. We **have to receive** your deductions on or before the 15th day of the month following the month you made them.

Remit your payment to your Canadian financial institution or any tax centre.

#### Note

If the 15th day of the month is a Saturday, Sunday or statutory holiday, your remittance is due on the next business day. See [www.cra.gc.ca/duedates](http://www.cra.gc.ca/duedates) for a list of public holidays.

### Quarterly remitter

If you are eligible for quarterly remitting, you have to remit your deductions so we **receive** them on or before the 15th day of the month immediately following the end of each quarter.

The quarters are:

- January to March;
- April to June;
- July to September; and
- October to December.

Remit your payment to your Canadian financial institution or any tax centre.

#### Note

If the 15th day of the month is a Saturday, Sunday or statutory holiday, your remittance is due on the next business day.

### Accelerated remitter

#### Threshold 1

If your average monthly remittance two years ago, (including the ones from your associated corporations), was equal to or more than \$15,000 but less than \$50,000, you have to remit amounts you deduct or withhold from remuneration you pay by the following dates:

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

#### Note

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

Threshold 1 employers can make payments at their Canadian financial institution or any tax centre.

#### Threshold 2

If your average monthly remittance two years ago, (including the ones from your associated corporations), was \$50,000 or more, you have to remit amounts you deduct or withhold from remuneration you pay any time during the month by the third working day (not counting Saturdays, Sundays or statutory holidays) after the end of the following periods:

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

Threshold 2 employers have to make payments at their Canadian financial institution.

### More information

For more information on remitting deductions, see the publication called *Remitting Payroll Deductions* (RC4163).

### Do you use an automated teller machine?

If you use an automated teller machine (ATM) to send us a payment, please allow time for the financial institution to process the payment. The institution will debit your account when you use the ATM. However, you should allow time for us to receive the payment. An ATM receipt is **not** proof of payment by the due date.

## Do you need more information?

If you need more help after you read this publication, visit our Web site at [www.cra.gc.ca](http://www.cra.gc.ca) or call 1-800-959-5525.

You can get forms and publications from our Web site at [www.cra.gc.ca/forms](http://www.cra.gc.ca/forms) or by calling 1-800-959-2221.

## Related publications:

- *Filing the T4 Slip and Summary Form* (RC4120)
- *Deducting Income Tax on Pension and Other Income, and Filing the T4A Slip and Summary Form* (RC4157)
- *Remitting Payroll Deductions* (RC4163)
- *Filing the T4F Slip and Summary Form* (RC4200)
- *Employee or Self-Employed?* (RC4110)
- *Taxable Benefits* (T4130)

## Teletypewriter users

If you use a teletypewriter (TTY), you can call our toll-free, bilingual enquiry service at 1-800-665-0354.

## Your opinion counts!

If you have any comments or suggestions on the information contained in this guide, we want to hear from you.

Please send your comments to:

Client Services Directorate  
Canada Revenue Agency  
Lancaster Road  
Ottawa ON K1A 0L5

Visually impaired persons can get our publications in braille, large print, or etext (computer diskette), or on audio cassette from our Web site at [www.cra.gc.ca/alternate](http://www.cra.gc.ca/alternate) or by calling 1-800-267-1267 weekdays from 8:15 a.m. to 5:00 p.m. (Eastern Time).

Major changes that have taken place since last year are outlined in red.

In this publication, we use the name "Canada Revenue Agency" and the acronym "CRA" to represent the Canada Customs and Revenue Agency. This reflects recent changes in the structure of the Agency.

La version française de ce guide est intitulée *Renseignements de base sur les retenues sur la paie*.

# Table of contents

	Page		Page
Where to find.....	5	EI overpayment.....	19
Notice.....	6	Recovering EI premiums.....	19
<b>Chapter 1 – General information</b> .....	6	Establishing the number of insurable hours for record of employment purposes.....	20
Who should use this guide?.....	6	EI and the <i>Record of Employment</i> .....	20
Employer-employee relationships.....	7	<b>Chapter 4 – Deducting income tax</b> .....	20
What are your responsibilities as an employer?.....	7	Employer’s responsibility.....	20
Social insurance number (SIN).....	7	Forms TD1, <i>Personal Tax Credits Return</i> .....	21
What are the remittance due dates?.....	8	Form TD1X, <i>Statement of Commission Income and Expenses for Payroll Tax Deductions</i> .....	21
Employer Visits Program.....	8	Form TD3F, <i>Fisher’s Election to Have Tax Deducted at Source</i> .....	22
Estate executors or liquidators, and administrators.....	8	Remuneration subject to tax at source.....	22
Director’s liability.....	8	Reducing remuneration subject to tax at source.....	22
Penalties and interest.....	8	RRSP contributions you withhold from remuneration you pay an employee.....	23
Waiving penalties and interest.....	9	Contributions to a registered pension plan (RPP).....	23
How do you appeal an assessment?.....	9	How do you calculate tax deductions you have to deduct?.....	23
How do you appeal CPP and EI rulings?.....	9	Non-resident employees who perform services in Canada.....	24
Confidentiality.....	9	<b>Chapter 5 – Special payments</b> .....	24
Payroll deductions tables.....	9	Bonuses and retroactive pay increases.....	24
Employment in Quebec.....	10	Directors’ fees.....	26
What should you do if an employee leaves?.....	10	Employees profit sharing plan (EPSP).....	26
What should you do if you do not have any employees for a period of time?.....	10	Overtime pay.....	27
What should you do if your business stops operating?.....	11	Retirement compensation arrangements.....	27
When should a trustee deduct, report, and remit deductions?.....	11	Retroactive lump-sum payments.....	27
Keeping records.....	11	Salary deferral arrangements.....	28
What happens if you change your business status?.....	11	Vacation pay and statutory holidays.....	29
What should you do if your business goes through a restructure or a reorganization?.....	11	Wages in lieu of termination notice.....	29
<b>Chapter 2 – Canada Pension Plan contributions</b> .....	11	Wage-loss replacement plans.....	29
Under what conditions do you deduct CPP contributions?.....	12	Workers’ compensation awards.....	30
Amounts subject to CPP contributions.....	12	Special payments chart.....	32
Employment and amounts not subject to CPP contributions.....	12	<b>Chapter 6 – Special situations</b> .....	33
Employee and employer CPP contributions.....	13	Barbers, hairdressers, taxi drivers, and drivers of other passenger-carrying vehicles.....	33
How do you determine the CPP contributions to deduct?.....	14	Fishers and Employment Insurance.....	34
Prorating the maximum contribution for the year.....	14	Placement and employment agency workers.....	34
Commissions paid at irregular intervals.....	15	Employees of a temporary-help service firm.....	34
Employees who are between 60 and 70 years old.....	15	Employing a caregiver, baby-sitter, or maid.....	34
CPP overpayment.....	15	Employees with power saws or tree trimmer.....	35
Recovering CPP contributions.....	15	Emergency volunteers.....	35
CPP coverage by foreign employers.....	16	Status Indian employees.....	35
International agreements with foreign governments.....	16	Seasonal agricultural workers program.....	37
<b>Chapter 3 – Employment Insurance premiums</b> .....	17	Employment outside or partly outside Canada.....	37
What is insurable employment?.....	17	Employment by a trustee.....	38
Which amounts are insurable?.....	17	Repayment of salary paid in error.....	38
Which employment and payments are not subject to EI premiums?.....	17	Repayment of salary or wages by an employee.....	38
EI premiums.....	18	Year-end calculation of deductions for employee CPP contributions (2004).....	39
How can you reduce the rate of your EI premiums if you have a short-term disability plan?.....	18	Employee’s CPP basic exemption for various 2004 pay periods.....	40
How do you determine the EI premiums to deduct?.....	19	Year-end calculation of deductions for employee EI premiums (2004).....	40

## Where to find...

	Page		Page
Accelerated remitter (thresholds 1 and 2).....	2	Recovering EI premiums.....	19
Amount subject to Part XIII (NR4 return).....	24	Reducing the employer's rate.....	18
Approval of computer formulas.....	10	Year-end calculation of EI.....	6, 40
Assignment.....	11	Employment not at arm's length.....	17
Automated teller machine.....	2	Employment of a spouse or common-law partner.....	12
<b>B</b> aby-sitters.....	6, 34	Employment outside Canada.....	37
Bankruptcy.....	11	Employment partly outside Canada.....	37
Barbers and hairdressers.....	33	Estate executors or liquidators and administrators.....	8
Bonuses.....	24, 32	<b>F</b> iling date of information returns.....	2
Books and records.....	11	Fishers and Employment Insurance.....	34
Business stops operating.....	11	<b>F</b> orms	
<b>C</b> anada Pension Plan (CPP)		TD1.....	21
Amounts not subject to CPP contributions.....	12	TD1-IN.....	36
Amounts subject to CPP contributions.....	12	TD1X.....	21, 23
Basic yearly exemption.....	13	TD3F.....	22
Commissions paid at irregular intervals.....	15	<b>H</b> iring a person who is not a Canadian citizen or a permanent resident of Canada (see "SIN number").....	7
CPP coverage by foreign employers.....	16	<b>I</b> f you do not have any employees for a period of time.....	10
CPP overpayment.....	15	<i>Immigration Act</i> .....	8
Employees between 60 and 70 years old.....	15	Interest.....	9
Excluded benefits and payments.....	13	International agreements with foreign governments.....	16
Excluded employment.....	12	<b>L</b> abour-sponsored funds tax credits.....	24
How to appeal a ruling.....	9	Letter of authority.....	22
How to appeal an assessment.....	9	Liquidation.....	11
Prorating the maximum contribution for the year.....	14	<b>M</b> aids.....	6, 34
Rate for calculating deductions.....	13	Manicurists.....	33
Recovering CPP contributions.....	15	<b>N</b> on-resident employees who perform services in Canada.....	24
Year-end calculation of CPP.....	6, 39	<b>O</b> verseas employment tax credit.....	37
Canadian International Development Agency (CIDA).....	38	Overtime.....	27, 32
Caregivers.....	34	<b>P</b> ayroll deductions tables.....	9
Change-in-business status.....	11	Penalties.....	8
Confidentiality.....	9	Pension adjustment (PA).....	11
Contract of service.....	17	Placement and employment agency workers.....	34
CSST (Commission de la santé et de la sécurité au travail).....	31	Power saw or tree trimmer.....	35
<b>D</b> eduction for living in a prescribed zone.....	21	Prescribed persons.....	8
Deferred profit sharing plan (DPSP).....	11	Provincial or territorial tax tables.....	10
Designated employer.....	22	<b>Q</b> uarterly remitters.....	2
Directors' fees.....	26, 32	Quebec Pension Plan (QPP).....	10, 16
Director's liability.....	8	<b>R</b> ecord of Employment (ROE).....	7, 10, 20, 34
<b>E</b> mergency volunteers.....	35	Registered pension plan (RPP).....	11
Employees profit sharing plan (EPSP).....	26	Contributions to an RPP for current and past service.....	11, 23
Employer (definition).....	7	Registered retirement savings plan (RRSP).....	23
Employer-employee relationships.....	7	Regular remitter.....	2
Employer responsibilities.....	7	Remittance due dates.....	2, 8
Employer Visits Program.....	8	Repayment of salary or wages by an employee.....	38
Employment in Quebec (QPP).....	10	Repayment of salary paid in error.....	38
Employment Insurance (EI)		Restructure and reorganization.....	11
Age limit for deducting premiums.....	17	Retirement compensation arrangements (RCA).....	22, 27, 32
Amounts subject to EI premiums.....	17	Retiring allowances.....	22, 24
EI overpayment.....	19		
Employment and payments not subject to EI premiums.....	17		
How to appeal a ruling.....	9		
How to appeal an assessment.....	9		
Insurable employment (definition).....	17		
Premium rates (see "EI premiums").....	18		
Record of Employment (ROE).....	7, 10, 20, 34		

	Page
Retroactive lump-sum payments .....	27
Withholding rates for lump-sum payments.....	27
Retroactive pay increases .....	24, 32
<b>Salary deferral arrangements .....</b>	<b>28, 32</b>
Seasonal agricultural workers program .....	37
Self-employed persons.....	7
Social insurance number (SIN) .....	7
Special payments chart .....	32
Status Indian.....	35
Application for coverage under CPP .....	36
Statutory holidays .....	29, 32
Suggestions for improving this guide.....	3
Support payments .....	22
<b>T4A-RCA.....</b>	<b>27</b>
T4A-RCA Summary .....	27

	Page
<b>Tax</b>	
How do you calculate tax deductions you have to deduct? .....	23
Reducing remuneration subject to tax at source .....	22
Remuneration subject to tax at source .....	22
Request for more tax deductions .....	21
Taxi drivers and drivers of other passenger-carrying vehicles .....	33
Temporary-help service firms .....	34
Tips and gratuities .....	12, 22
Trustee (employment by a).....	38
Trustee in bankruptcy .....	13
Vacation pay .....	29, 32
<b>Wage-loss replacement plan .....</b>	<b>18, 29</b>
Wages in lieu of termination notice .....	12, 22, 29, 32
Waiving penalties and interest.....	9
Workers' compensation awards.....	30

## Notice

### Year-end calculation of CPP contributions and EI premiums

The only year-end calculations of CPP contributions and EI premiums we authorize are the ones we provide at the end of this guide. These calculations also appear in the publication called *Payroll Deductions Formulas for Computer Programs* (T4127).

### Our Web site

You can get general information by visiting the Business section of our Web site at [www.cra.gc.ca](http://www.cra.gc.ca).

### Caregiver, baby-sitter, or maid

If you hire a caregiver, baby-sitter, or maid, you may be considered to be the employer of that person. As an employer, you have responsibilities in the employment relationship between you and the person. For information, see Chapter 6.

### Construction businesses

Construction businesses have to record amounts paid or credited to subcontractors for goods and services rendered in connection with construction activities, and report these payments in a T5018 information return. They can report payments on either a calendar or fiscal-year basis. Information returns have to be filed six months from the end of the reporting period.

### Business Number (BN)

The BN is a numbering system that simplifies and streamlines the way businesses deal with the federal government. The BN is based on a simple principle: "one business, one number."

All new businesses will get a BN (a 15 digit number) when they open different accounts with us, for example:

- corporate income tax;
- import/export;
- payroll deductions; or
- goods and services tax/harmonized sales tax (GST/HST).

The BN also includes accounts for registered charities, registered Canadian amateur athletic associations, and national arts service organizations. For more information, see the publication called *The Business Number and Your Canada Revenue Agency Accounts* (RC2).

### Business Registration On-line

Business Registration On-line is a one-stop, self-serve application that allows most users to register for a new BN, as well as for four major programs (corporate income tax, goods and services tax/harmonized sales tax, payroll deductions, and import/export accounts).

## Chapter 1 – General information

### Who should use this guide?

You should use this guide if you are:

- an employer;
- a trustee; or
- a payer of other amounts (e.g., a trustee in bankruptcy).

We also provide guidelines for estate executors, liquidators, administrators, and corporate directors.

For information on taxi and other drivers, and barbers and hairdressers, see Chapter 6.

If you are **self-employed** and you want information about your coverage under the Canada Pension Plan, see the *General Income Tax and Benefit Guide*.

## Employer-employee relationships

We generally consider you to be an **employer** if:

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

An employer-employee relationship exists if you have the right to control and direct the person or people who perform the services. Although a written contract might indicate that an individual is **self-employed**, we may not consider the individual as such if there is evidence of an employer-employee relationship.

The written contract and working conditions must be examined to determine if an employer-employee relationship exists. For more information, see the publication called *Employee or Self-Employed?* (RC4110). If you or an employee have any doubt whether an employer-employee relationship exists, you can ask for a ruling. Complete Form CPT1, *Request for a Ruling as to the Status of a Worker Under the Canada Pension Plan or Employment Insurance Act*, and send it to Revenue Collections at any tax services office.

A ruling for purposes of the *Employment Insurance Act* or *Canada Pension Plan* has to be requested before June 30 of the year following the year in which the activity or services in question took place.

## What are your responsibilities as an employer?

Your responsibilities are to:

- deduct Canada Pension Plan (CPP) contributions, Employment Insurance (EI) premiums, and income tax from amounts you pay to your employees;
- remit these deductions **along with** your share of CPP contributions and EI premiums that you have to pay throughout the year on your employees' behalf [see the publication called *Remitting Payroll Deductions* (RC4163)]; and
- report the employees' income and deductions on the appropriate information return **by the end of February of the following calendar year** (see the publications listed on page 3).

In Quebec, remit provincial deductions and your share of the Quebec pension plan contributions to Revenu Québec.

### Note

As an employer or payer, you hold payroll deductions in trust for the Receiver General. You have to keep these amounts separate from the operating funds of your business. They must not be part of an estate in liquidation, assignment, receivership, or bankruptcy.

## Social insurance number (SIN)

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

Under the *Canada Pension Plan Regulations*, you have to tell your employees who don't have a SIN card how to get a SIN. Refer them to their local Human Resources and Skills Development Canada office within three days of the day they start work and ask them to provide you with their new SIN once they receive it.

**Every person employed in pensionable or insurable employment has to show their SIN card to their employer.** Make sure you always use the correct name and number as shown on the employee's SIN card. An incorrect SIN can affect an employee's future CPP benefits if the record of earnings file is not accurate. Also, if you report an incorrect SIN on a T4 slip that has a pension adjustment (PA) amount, the employee may receive an inaccurate annual RRSP deduction limit statement. In addition, the related information on the employee's *Notice of Assessment* will be inaccurate.

When an employee has an interruption in earnings, you have to record the correct SIN on a *Record of Employment* (ROE) for EI purposes (for details on the ROE, see Chapter 3). If you don't, you could be fined up to \$2,000, imprisoned for up to six months, or both.

If an employee **refuses** to give you his or her SIN or to apply for one, you still have to make deductions and file your information returns no later than the last day of February. If you do not, you may be subject to a **penalty** for late filing.

For more information, see Information Circular 82-2, *Social Insurance Number Legislation That Relates to the Preparation of Information Slips* or visit the Human Resources and Skills Development Canada Web site at [www.hrsdc.gc.ca](http://www.hrsdc.gc.ca).

## SIN beginning with the number "9"

A person who is not a Canadian citizen or a permanent resident of Canada and who applies for a SIN will get a SIN beginning with the number "9." That person will be authorized to work only for a particular employer, and must have a valid employment authorization issued by Citizenship and Immigration Canada.

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

- the person's SIN begins with the number "9";
- the SIN card has an expiry date; and
- the person has a valid employment authorization which states that he or she will work only for you.

Under the *Immigration Act*, only the following persons are authorized to work in Canada:

- Canadian citizens;
- permanent residents; or
- persons who have a valid employment authorization.

Hiring someone else could lead to penalties under the *Immigration Act*.

#### Note

Starting April 3, 2004, if a SIN begins with a "9" and the SIN card does not have an expiry date, the card is no longer valid. Refer the person to their local Human Resources and Skills Development Canada office.

## What are the remittance due dates?

New employers are considered to be regular remitters for at least one calendar year. Generally, regular remitters have to send in deductions so we **receive** them on or before the 15th of the month following the month that the deductions are made. Small employers who meet certain conditions can choose to remit payroll deductions once every three months. Payments can be made at your Canadian financial institution or any tax centre.

Accelerated remitters usually have to send in deductions more than once a month. There are two groups (also called thresholds) of these employers. Threshold 1 employers can make payments at their Canadian financial institution or any tax centre. Threshold 2 employers can only make payments at their Canadian financial institution. For more information see "Dates to Remember" at the beginning of the guide.

For more information on remitting deductions, see the publication called *Remitting Payroll Deductions* (RC4163).

## Employer Visits Program

We offer an on-site consultative service to provide any help you may need with payroll deductions. As part of this program, we can visit you to help with problems you have. If you would like information about this service, contact any tax services office.

## Estate executors or liquidators, and administrators

Fees paid to executors or liquidators and administrators are either **income from office or employment or business income**, depending on whether the executor or administrator acts in this capacity in the regular course of business. For more information about your obligations as an executor or administrator, see "Amounts subject to CPP contributions" in Chapter 2 and "Employment by a trustee" in Chapter 6.

## Director's liability

If a corporation (including for-profit or non-profit corporations) fails to deduct, withhold, remit, or pay amounts held in trust for the Receiver General (CPP, EI, income tax, and GST/HST), the **directors** of the corporation at the time of the failure **may be held personally liable**

along with the corporation to pay the amount due. This amount includes penalties and interest.

However, if the directors take action to ensure the corporation makes the necessary deductions or remittances, we will not hold the directors personally responsible.

For more information, see Information Circular 89-2, *Directors' Liability – Section 227.1 of the Income Tax Act and Section 323 of the Excise Tax Act*.

## Penalties and interest

### Penalty – Failure to deduct or withhold

We can assess a penalty of **10%** of the amount you failed to deduct or withhold when you fail to deduct or withhold the required amount of CPP, EI, or income tax.

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

### Penalty – Failure to remit

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

- we receive the amounts you withheld past the due date; for example:
  - a remittance that was due on January 15 of the current year (for deductions you made in December of the previous year) is paid with the previous year's information return (T4, T4A, T4F), and this return is filed after January 15;
  - you have not paid by the prescribed date the total deductions reported and you include with your return (T4, T4A, T4F), the balance due indicated in box 86 of the T4A Summary form;
- you withhold the amounts, but do not remit them.

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

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

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

### Prescribed person

A prescribed person is:

- a person or partnership who remits amounts on behalf of one or more employers and whose total average monthly remittance is \$50,000 or more in the second preceding taxation year (Threshold 2); or
- all other employers who remit an average monthly amount of \$50,000 or more in the second preceding taxation year (Threshold 2).

As a prescribed person, you have to remit payments at your Canadian financial institution. We can assess you a penalty



of either 10% or 20% of an outstanding amount for failing to remit at a Canadian financial institution.

For information on Threshold 2, see “Accelerated remitter” in the publication called *Remitting Payroll Deductions* (RC4163).

## Offences and punishment

If you fail to comply with the above requirements (filing, withholding and remitting), you may be prosecuted. You could be fined from \$1,000 up to \$25,000, or you could be fined and imprisoned for a term of up to 12 months.

## Interest

We can charge interest from the day your payment is due. For due dates, see “Dates to Remember” at the beginning of this guide.

## Waiving penalties and interest

The fairness provisions of the *Income Tax Act* give us certain discretion to cancel or waive all or a part of interest charges and penalties. This flexibility allows us to consider extraordinary circumstances that may have prevented you from fulfilling your obligations under the *Income Tax Act*, *Employment Insurance Act*, and *Canada Pension Plan*. For more information, see Information Circular 92-2, *Guidelines for the Cancellation and Waiver of Interest and Penalties*.

## How do you appeal an assessment?

If you receive an assessment for CPP contributions, EI premiums, or income tax that you do not agree with, you have 90 days after the date of the assessment to appeal. However, before you file an appeal, you may want to contact any tax services office or tax centre to discuss the matter. This could solve your problem and save you the time and trouble of appealing.

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

- file Form T400A, *Objection – Income Tax Act*; or
- write to the Chief of Appeals at any tax services office or tax centre. State the reasons why you do not agree with the assessment, and give all the related facts.

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

- file Form CPT100, *Appeal Under the Canada Pension Plan and/or Employment Insurance Act* (you have to complete Part II of the form, and attach a copy of the *Notice of Assessment*); or
- write to the Chief of Appeals at any tax services office. Attach a copy of the assessment, state the reasons why you do not agree with the assessment, and give all the related facts.

For more information on how to appeal a CPP and/or EI assessment, see the publication called *Your Appeal Rights – Employment Insurance and Canada Pension Plan Coverage* (P133).

## How do you appeal CPP and EI rulings?

If you have received a rulings letter and you disagree with the decision, you can appeal the ruling no later than 90 days after being notified of the ruling. An appeal can be filed by an employer, employee, or authorized representative.

To appeal a rulings decision, you can:

- file Form CPT100, *Appeal Under the Canada Pension Plan and/or Employment Insurance Act* (complete Part I of the form and attach a copy of the ruling you are appealing); or
- write to the Chief of Appeals at any tax services office. Attach a copy of the ruling, state the reasons why you do not agree with the ruling, and give all related facts.

For more information on how to appeal a CPP and/or EI ruling, see the publication called *Your Appeal Rights – Employment Insurance and Canada Pension Plan Coverage* (P133).

## Confidentiality

If you want to authorize a representative to discuss your tax matters, send us a completed Form RC59, *Business Consent Form*, or a letter of authorization. This allows us to get the information to your representative without delay.

## Payroll deductions tables

Our payroll deductions tables have information to help you calculate CPP contributions, EI premiums, and the amount of federal, provincial (except Quebec), and territorial income tax that you have to deduct for your employees or for retired persons.

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

- **Payroll Deductions Tables (T4032) and Payroll Deductions Supplementary Tables (T4008)** – You can use these tables to calculate your employees’ payroll deductions. You can download and print any selected pages you need of the tables or you can order the paper copy of the tables from our Web site at [www.cra.gc.ca](http://www.cra.gc.ca) or by calling 1-800-959-2221.

### Note

Payroll deductions tables for all provinces and territories are now available on our Web site. The tables are on the Web site three or more weeks before the printed copies are available.

- **Tables on Diskette (TOD) (T4143)** – The tables on diskette are an electronic version of the *Payroll Deductions Tables* (T4032) and *Payroll Deductions Supplementary Tables* (T4008). TOD calculates payroll deductions for all provinces (except Quebec) and territories. TOD calculates the deductions for any pay period, for commission income, for special payments such as bonuses and most taxable automobile benefits. TOD calculates the federal, provincial (except Quebec), and territorial income tax, Canada Pension Plan contributions, and Employment Insurance premiums that you withhold from an employee’s or pensioner’s income.

#### Note

TOD (T4143) is available on our Web site. It is also available on the Electronic Document Distribution System (EDDS). For more information, see the *Payroll Deductions Tables* (T4032).

- **Payroll Deductions Formulas for Computer Programs (T4127)** – If you have a computer, you may want to use these formulas instead of the printed tables to calculate your employees' payroll deductions. This publication contains formulas to calculate CPP contributions, EI premiums, and federal, provincial (except Quebec), and territorial income tax amounts.

#### Note

If the **computer formulas** you want to use are different from the ones in the publication called *Payroll Deductions Formulas for Computer Programs* (T4127), you have to submit them to any tax services office or tax centre for approval.

All the payroll deductions tables are available for each province and territory, and also for employees working outside Canada.

### Which provincial or territorial tax tables should you use?

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

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

#### Example 1

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

#### Example 2

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

If you do not require your employee to report for work at your place of business, the employee's province or territory of employment is the province or territory where your business is located and from where you pay your employee's salary.

#### Example

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

#### Note

An employee who lives in one province or territory but works in another one may be subject to excessive tax deductions. If so, he or she can ask for a reduction in tax deductions, by getting a letter of authority from any tax services office. For more information, see "Letter of authority" in Chapter 4.

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

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

### Employment in Quebec

The Quebec provincial government administers its own provincial pension plan called the Quebec Pension Plan (QPP) and its own provincial income tax.

Visit the Gouvernement du Québec Web site at [www.revenu.gouv.qc.ca](http://www.revenu.gouv.qc.ca) or write to Revenu Québec, 3800 de Marly Street, Sainte-Foy QC G1X 4A5, if one of the following situations applies and you need more information:

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

### What should you do if an employee leaves?

We suggest that you calculate the employee's earnings and deductions for the year to date, and give the employee a T4 slip. Keep our copy of the slip and include it with your T4 Summary when you file it **by the last day of February of the following year**. In addition, you have to prepare a *Record of Employment* (ROE) for each former employee. For more information, see Chapter 3 or the publication called *How to complete the Record of Employment* (ROE) which is available at the nearest Human Resources and Skills Development Canada office or on their Web site at [www.hrsdc.gc.ca](http://www.hrsdc.gc.ca).

### What should you do if you do not have any employees for a period of time?

#### TeleReply

Our TeleReply service allows you to reply by telephone if you do not have any payroll deductions remittance to make for the period. TeleReply is fast, easy, and secure, and it reduces the need to provide paper remittance vouchers.

The service is available six days a week, Monday to Friday from 8:00 a.m. to 7:30 p.m., and Saturday from 8:00 a.m. to 4:30 p.m., local time in all time zones. You cannot use TeleReply on statutory holidays.

You just need to complete the back of a paper copy of Form PD7A, *Statement of Account for Current Source Deductions*, and call the toll-free TeleReply number at 1-800-959-2256.

For more information, see the publication called *Remitting Payroll Deductions* (RC4163).

## What should you do if your business stops operating?

Send all CPP contributions, EI premiums, and income tax deductions to your tax centre within seven days of the day your business ends. For more information on how to send us your deductions, see the publication called *Remitting Payroll Deductions* (RC4163).

Complete the necessary T4 slips and T4 Summary and send them to the Ottawa Technology Centre within 30 days of the day your business ends. You have to calculate the **pension adjustment (PA)** that applies to your former employees who accrued benefits for the year under your **registered pension plan (RPP)** or **deferred profit sharing plan (DPSP)**. Distribute copies of the T4 slips to your former employees. For more information on how to complete a T4 slip and T4 Summary form, see the publication called *Filing the T4 Slip and Summary Form* (RC4120).

Prepare and give a *Record of Employment* (ROE) to each former employee. For more information, see Chapter 3.

## When should a trustee deduct, report, and remit deductions?

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

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

If a trustee carries on the bankrupt employer's business, the trustee has to continue to deduct and remit the necessary CPP contributions, EI premiums, and income tax according to the bankrupt employer's remittance schedule.

### Note

Based on a decision made by the Quebec Court of Appeal, we consider amounts paid by a trustee to employees of a bankrupt corporation to settle claims for wages that the bankrupt employer did not pay to be taxable income. However, they are not subject to payroll deductions (CPP, EI, and income tax) and have to be reported in box 28, "Other income," of the T4A slip.

## Keeping records

Employers and payers who have to withhold or deduct CPP contributions, EI premiums, and taxes have to keep books and records of what they have done. They must also allow our officers to verify these books and records on request.

You have to keep books and records, including books and records you keep electronically, for at least six years after the year for which they relate. However, if you want to destroy them before the period is over, complete Form T137, *Request for Destruction of Books and Records*. If you need more information, see Information Circular 78-10, *Books and Records Retention/Destruction*.

## What happens if you change your business status?

If you change your business status, we consider you to be a **new employer**. Therefore, you need to use a new account number when you remit and report employee deductions.

The following are some examples of changes to business status:

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

## What should you do if your business goes through a restructure or a reorganization?

If your business went through a restructure or a reorganization and you know that some employees paid the maximum CPP/EI deductions for the year before the change, you may want to ask for administrative relief for your employees. To do so, contact any tax services office.

Changes have been proposed for employer contributions to the CPP and EI.

The legislation (which would be effective January 1, 2004) proposes that if, during the year, your business goes through a restructure or a reorganization and there was no interruption of the employees' service, you will have to take into account the amounts that were previously deducted before the restructure or the reorganization.

## Chapter 2 – Canada Pension Plan contributions

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

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

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

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

## Under what conditions do you deduct CPP contributions?

You have to deduct CPP contributions from an employee’s remuneration if that employee:

- is 18 or older, but **younger than 70**;
- is in pensionable employment during the year; **and**
- does not receive a CPP retirement or disability pension.

### Note

For information on the QPP, see the *Guide for Employers – Source Deductions and Contributions*, which you can get from Revenu Québec.

## Amounts subject to CPP contributions

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

- salary, wages, commissions, or other remuneration, **wages in lieu of termination notice**, bonuses.
- most taxable benefits and allowances, certain rent-free and low-rent housing, the value of board and lodging (other than an exempt allowance paid to an employee at a special work site or remote work location), interest-free and low-interest loans, employer contributions to an employee’s registered retirement savings plan (RRSP), group term life insurance premiums, personal use of an automobile that you as the employer own or lease, holiday trips, subsidized meals, and certain gifts, prizes, and awards;
- honorariums from employment or office, a share of profit that an employer paid, incentive payments, directors’ fees, management fees, fees paid to board or committee members, and executor’s, liquidator’s, or administrator’s fees earned to administer an estate (as long as the executor, liquidator, or administrator does not act in this capacity in the regular course of business);
- certain **tips** and gratuities received for services performed;
- remuneration received while retired, on vacation, furlough, sabbatical, or sick leave, or for lost-time pay from a union, vacation pay, payments received under a supplementary unemployment benefit (SUB) plan that **does not** qualify as a SUB plan under the *Income Tax Act* (for example., employer paid maternity and parental top up amounts), and payments for sick leave credits;

- wage-loss benefits that an employee receives from a wage-loss replacement plan (these benefits may or may not be subject to CPP contributions—for more information, see Chapter 5);
- benefits derived from stock option plans; and
- the **salary** you continue to pay to an employee before or after a workers’ compensation board claim is decided, as well as:
  - any **advance** or **loan** you make that is more than the workers’ compensation award;
  - any **advance** or **loan** not repaid to you; or
  - a **top-up amount** you pay in addition to the workers’ compensation award paid by a workers’ compensation board.

For information on workers’ compensation, see Chapter 5.

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

## Employment and amounts not subject to CPP contributions

There are some types of employment, benefits, and payments from which you do **not** have to deduct CPP contributions.

### Excluded employment

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

- employment by an employer in agriculture, an agricultural enterprise, horticulture, fishing, hunting, trapping, forestry, logging, and lumbering, **unless**:
  - you paid a worker \$250 or more in a year; and
  - you will be paying the worker cash remuneration for 25 or more working days<sup>1</sup> in a calendar year—the 25 or more days do not have to be consecutive;
- casual employment if it is for a purpose other than your usual trade or business;
- employment as a teacher on exchange from a foreign country;
- **employment of a spouse or common-law partner** if you cannot deduct the remuneration paid as an expense under the *Income Tax Act*;
- employment of your child or a person that you maintain if no cash remuneration is paid;
- employment of a person you do not regularly employ if that person helps you in a rescue operation or in reducing the effects of a disaster;

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<sup>1</sup> When the employee works 25 days or more, the employment is pensionable from the first day of work.

- employment of a person in connection with a circus, fair, parade, carnival, exposition, exhibition, or other similar activity, **except for entertainers**, if that person:
  - is not your regular employee; and
  - works for less than seven days<sup>1</sup> in the year;
- employment by a government body as an election worker if the worker:
  - is not a regular employee of the government body; and
  - works for less than 35 hours<sup>2</sup> in a calendar year;
- employment of a member of a religious order who has taken a vow of perpetual poverty. This applies whether the remuneration is paid directly to the order or the member pays it to the order.

## Excluded benefits and payments

Do **not** deduct CPP contributions from:

- pension payments, lump-sum payments from a pension plan, death benefits, amounts that a trustee allocated under a profit sharing plan or that a trustee paid under a deferred profit sharing plan, benefits received under a supplementary unemployment benefit (SUB) plan that qualifies as a SUB plan under the *Income Tax Act*, and retiring allowances or severance payments received upon or after retirement to recognize long service, or for loss of office or employment;
- wage-loss benefits that an employee receives from a wage-loss replacement plan (these benefits may or may not be subject to CPP contributions—for information, see Chapter 5);
- payments you make after an employee dies, except for amounts the employee earned and was owed before the date of death;
- an **advance** or a **loan** equal to a workers' compensation award you pay to an employee, before or after the workers' compensation board claim is decided (for information on situations when CPP contributions are required, see "Amounts subject to CPP contributions" discussed earlier in this chapter—for information on workers' compensation, see Chapter 5); and
- amounts for the residence of clergy members if the clergy members receive a tax deduction for their residence.

## Employee and employer CPP contributions

Both you and your employees have to make CPP contributions. You have to deduct CPP contributions from the amounts you pay your employees. In addition, as an employer, you have to contribute the **same amount** that you deduct from your employees' remuneration.

<sup>1</sup> When the employee works seven days or more, the employment is pensionable from the first day of work.

<sup>2</sup> When the employee works 35 hours or more, the employment is pensionable from the first day worked.

### Example

CPP contributions you deducted	
from your employees in the month .....	\$240.40
Your share of CPP contributions.....	\$240.40
Total amount you send in for CPP contributions .....	\$480.80

### Note

The annual maximum for pensionable earnings (\$40,500 for 2004) applies to each job the employee holds with **different employers** (different business numbers). If an employee leaves one employer during the year to start work with another employer, the new employer also has to deduct CPP contributions without taking into account what was paid by the previous employer. This is the case even if the employee has paid the maximum premium amount during the previous employment.

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

You may have a place of business in Quebec and in another province or territory. If you transfer an employee from Quebec to another province or territory, you have to prepare **two** T4 slips:

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

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

## CPP amounts and rate

You deduct employees' CPP contributions from salary, wages, or other remuneration. This includes any taxable benefits and allowances you pay or provide. Each year, we determine:

- a **maximum amount of pensionable earnings** from which you deduct CPP (\$40,500 for 2004);
- a **basic yearly exemption**, which is a base amount from which you do not deduct CPP contributions (\$3,500 for 2004); and
- a **rate** you use to calculate the amount to deduct from your employees (4.95% for 2004).

### Note

For information on QPP, see the *Guide for Employers – Source Deductions and Contributions*, which you can get from Revenu Québec.

## How do you determine the CPP contributions to deduct?

You can determine the CPP contributions you have to deduct by using the following methods:

### The tables on diskette (TOD) method

See “Payroll deductions tables” in Chapter 1.

### The table method

See the instructions in Part A of the *Payroll Deductions Tables* (T4032).

### The formula method

See “Payroll deductions tables” in Chapter 1.

### The manual calculation method

To use the manual calculation method, follow these steps:

**Step 1:** Calculate the basic pay-period exemption that applies. To do this, divide the basic yearly exemption (\$3,500 for 2004) by the number of pay periods in the year.

**Step 2:** Subtract the result of Step 1 from the employee’s gross pay and taxable benefits and allowances for each pay period.

**Step 3:** Multiply the result of Step 2 by the current year’s CPP contribution rate (4.95% for 2004). Make sure you do not exceed the maximum for the year. The result is the amount of contributions you should withhold from the employee. As an employer, you have to pay the same amount as your employee.

#### Example

Weekly salary.....	\$500
Taxable benefit.....	\$ 50
Total.....	<u>\$550</u>

**Step 1:**  $\$3,500 \div 52 = \$67.30$  (do not round off)

**Step 2:**  $\$550 - \$67.30 = \$482.70$

**Step 3:**  $\$482.70 \times 4.95\% = \$23.89$

In this case, you would have to send in CPP contributions of:

Employee’s contribution.....	\$23.89
Employer’s contribution.....	<u>\$23.89</u>
Total.....	<u>\$47.78</u>

#### Notes

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

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

## Prorating the maximum contribution for the year

### When to prorate

You will have to prorate the maximum contribution for the year when:

- an employee turns 18 in the year (use the number of months after the month the employee turns 18);
- an employee turns 70 in the year (use the number of months up to and including the month the employee turns 70);
- a retirement pension is payable to an employee under the CPP (use the number of months before the month the pension is payable—for information, see “Employees who are between 60 and 70 years old,” later in this chapter);
- an employee is considered to be disabled under the CPP (use the number of months up to and including the month the person was considered to be disabled and the number of months following the month the person ceased to be disabled); or
- an employee dies in the year (use the number of months up to and including the month of death).

#### Note

In some cases, the requirements are different for QPP. For information, see the *Guide for Employers – Source Deductions and Contributions*, which you can get from Revenu Québec.

### How to prorate

To prorate the maximum contribution for the year, follow these steps:

**Step 1:** Deduct the year’s basic exemption (\$3,500 for 2004) from the year’s maximum pensionable earnings (\$40,500 for 2004).

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

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

**Step 4:** Multiply the result of Step 3 by the CPP rate that applies for the year (4.95% for 2004).

#### Example 1

Brent turned 18 on May 15, 2004. He receives \$2,000 a month (\$24,000 a year). This amount is less than the maximum pensionable earnings (\$40,500) that are subject to CPP contributions.

#### January to May 2004:

No CPP contributions

#### June to December 2004:

- Pay period: monthly
- Earnings: \$2,000
- Basic yearly CPP exemption: \$3,500
- Prorate basic yearly exemption per month:  
 $\$3,500 \div 12 = \$291.66$  (do not round off)

- Monthly deduction:  $\$2,000 - \$291.66 = \$1,708.34$ ;  
 $\$1,708.34 \times 4.95\% = \$84.56$

**Prorated maximum contribution for 2004:**

$7/12 \times (\$40,500 - \$3,500) \times 4.95\% = \$1,068.37$

Brent's CPP contributions for 2004 should not be more than \$1,068.37.

**Example 2**

Maria turned 70 on February 15, 2004. She receives \$800 per week (\$41,600 per year). This amount is more than the maximum pensionable earnings (\$40,500) that are subject to CPP contributions.

**January to February 2004:**

- Pay period: weekly
- Earnings: \$800
- Basic yearly CPP exemption: \$3,500
- Prorate basic exemption per week:  $\$3,500 \div 52 = \$67.30$  (do not round off)
- Weekly deduction:  $\$800 - \$67.30 = \$732.70$ ;  
 $\$732.70 \times 4.95\% = \$36.27$

**March to December 2004:**

No CPP contributions

**Maximum contribution for 2004:**

$2/12 \times (\$40,500 - \$3,500) \times 4.95\% = \$305.25$

Maria's CPP contributions for 2004 should not be more than \$305.25. Her employer should not deduct more than this amount.

**Note**

For information on QPP, see the *Guide for Employers – Source Deductions and Contributions*, which you can get from Revenu Québec.

- The amount you have to send in is:

Employee's contribution .....	\$52.65
Employer's contribution .....	<u>\$52.65</u>
Total .....	<u>\$105.30</u>

## Employees who are between 60 and 70 years old

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

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

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

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

For information on eligibility for a CPP retirement pension, contact Human Resources and Skills Development Canada.

**Note**

The requirements are different for QPP. For information on QPP, see the *Guide for Employers – Source Deductions and Contributions*, which you can get from Revenu Québec.

## Commissions paid at irregular intervals

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

**Example**

Sylvie, your employee, always works on commission. You pay her only when she sells something. However, this does not occur regularly. On June 1, 2004, you paid her a \$1,800 commission. The last time you paid her a commission was March 16, 2004. There are 77 days between these two payments.

Calculate the required contribution for 2004 as follows:

- Prorate the basic yearly exemption:  
 $77 \div 366 \text{ (days)} \times \$3,500 = \$736.34$  (do not round off)
- You have to deduct CPP contributions of:  
 $\$1,800 - \$736.34 = \$1,063.66$ ;
- $1,063.66 \times 4.95\% = \$52.65$

## CPP overpayment

If, during a year, you have overdeducted CPP contributions from your employee's remuneration (e.g., the maximum amount of pensionable earnings was reached, or the employee was not employed in pensionable employment), you should reimburse the employee the amount deducted in error and adjust your payroll records to reflect the reduced deduction. This will result in a credit on the CRA payroll account equal to the employee and employer portion of the overdeduction. You may then reduce a future remittance in the same calendar year. Do not include the reimbursed amount on the T4 slip. If you cannot reimburse the overpayment, show the total CPP contributions deducted and the correct pensionable earnings on the T4 slip of the employee. If you reported the employee's overpayment on the T4 slip, you can ask for a refund by completing Form PD24, *Application For a Refund of Overdeducted CPP Contributions and/or EI Premiums*. Your request must be made no later than four years from the end of the year in which the overpayment occurred. For information, contact any tax services office or tax centre.

## Recovering CPP contributions

If you receive a *Notice of Assessment* or if you discover that you have underdeducted CPP contributions, you can recover the employee's contributions from later payments to the employee. The deductions can be equal to, but not

more than, the amount you should have deducted from each payment.

However, you **cannot** recover a contribution amount that has been outstanding for more than 12 months.

The employer's share is your responsibility.

If you should have made a deduction in a previous year and you recover it through a deduction in the current year, do not report the recovered amount on the current year's T4 slip. Instead, amend the previous year's T4. The recovered amount does not affect the current year-to-date CPP contributions.

#### Example

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

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

- b) After auditing the records, we issue a *Notice of Assessment* as follows:

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

- c) The following year, you can recover \$95.60 for CPP from the employee as follows:

	Current deduction	Employer's recovery	
April	\$24.70	\$23.40	(for September)
May	\$24.70	\$23.40	(for October)
June	\$25.10	\$24.10	(for November)
July	\$25.10	<u>\$24.70</u>	(for December)
<b>Total</b>		<b><u>\$95.60</u></b>	

## CPP coverage by foreign employers

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

You can get more information on extended coverage from a CPP/EI rulings officer at any tax services office.

## International agreements with foreign governments

Canada has reciprocal social security agreements with other countries. These agreements ensure that only one plan covers an employee—CPP or a foreign social security plan. If you would like information about the agreement between Canada and the United States, get Information Circular 84-6, *Canada-United States Social Security Agreement*.

Canada has agreements with the following countries:

Country	Date in force	CPT form number
Antigua and Barbuda	January 1, 1994	111
Austria	November 1, 1987	112
Barbados	January 1, 1986	113
Belgium	January 1, 1987	121
Chile	June 1, 1998	114
Croatia	May 1, 1999	115
Cyprus	May 1, 1991	116
Czech Republic	January 1, 2003	137
Denmark	January 1, 1986	117
Dominica	January 1, 1989	118
Finland	February 1, 1988	128
France	March 1, 1981	52
Germany	April 1, 1988	130
Greece	December 1, 1997	54
Grenada	February 1, 1999	119
Guernsey	January 1, 1994	120
Hungary	October 1, 2003	141
Iceland	October 1, 1989	49
Israel	September 1, 2003	140
Ireland	January 1, 1992	50
Italy	January 1, 1979	51
Jamaica	January 1, 1984	57
Jersey	January 1, 1994	120
Korea	May 1, 1999	58
Luxembourg	April 1, 1990	60
Malta	March 1, 1992	61
Mexico	May 1, 1996	62
Netherlands	October 1, 1990	63
Norway	January 1, 1987	127
Philippines	March 1, 1997	64
Portugal	May 1, 1981	55
St. Kitts and Nevis	January 1, 1994	65
Saint Lucia	January 1, 1988	67
Saint Vincent and the Grenadines	November 1, 1998	66
Slovakia	January 1, 2003	138
Slovenia	January 1, 2001	68
Spain	January 1, 1988	125
Sweden	January 1, 1986	129
Switzerland	October 1, 1995	69
Trinidad and Tobago	July 1, 1999	70
United Kingdom	April 1, 1998	71
United States	August 1, 1984	56
Uruguay	January 1, 2002	136

You can get application forms for coverage or for extending coverage under the CPP from any tax services office or tax centre. These forms are also available on our Web site.

#### Note

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

Ministère des Relations avec les citoyens et de l'immigration  
Régie des rentes du Québec  
Bureau des ententes de sécurité sociale  
1055, boul. René-Lévesque Est, 13<sup>e</sup> étage  
Montréal QC H2L 4S5



## Chapter 3 – Employment Insurance premiums

You have to withhold Employment Insurance (EI) premiums from each dollar of insurable earnings up to the yearly maximum. Once you have deducted the maximum for the year, you should not deduct any more premiums. For 2004, the maximum annual insurable earnings is \$39,000.

### What is insurable employment?

You and your employee have to pay EI premiums on gratuities and remuneration from insurable employment. Insurable employment includes most employment in Canada under a **contract of service** (employer-employee relationship). There is **no age limit** for deducting EI premiums. Some employment outside Canada is also insurable (see Chapter 6).

#### Notes

For information on employer-employee relationships, see the publication called *Employee or Self-Employed?* (RC4110).

Certain workers who are not employees might be considered to be in insurable employment. Examples of such workers are **taxi and other passenger-vehicle drivers, barbers and hairdressers, and fishers**. For information, see Chapter 6.

### Which amounts are insurable?

Most earnings (including **tips**) and allowances that you pay completely or partly in cash to an employee are insurable.

#### Note

Employer contributions to employees' registered retirement savings plans (RRSPs) are considered to be a benefit in cash and are insurable. As a result, you have to deduct EI premiums from these amounts.

In cases where the employees cannot withdraw amounts from the group RRSP until they retire or cease to be employed, your contributions are not insurable.

For information about workers' compensation awards, see Chapter 5.

**Wage-loss benefits** that an employee receives from a wage-loss replacement plan may or may not be subject to EI premiums. For information, see Chapter 5.

### Which employment and payments are not subject to EI premiums?

Some types of employment are not included in insurable employment. Also, some types of payments are not subject to EI premiums.

#### Employment for which you do not deduct EI premiums

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

- **casual** employment if it is not for your **usual** trade or business;
- employment when you and your employee **do not deal** with each other **at arm's length**. This includes individuals connected by blood relationship, marriage, common-law relationship, or adoption. However, an employee who does not deal with you at arm's length can be in insurable employment if you would have negotiated a similar contract with a person that you deal with at arm's length.
- when a corporation employs a person who controls more than 40% of the corporation's voting shares;
- employment that is an exchange of work or services;
- employment by an employer in agriculture, in an agricultural enterprise, or in horticulture when:
  - the person receives no cash remuneration; **or**
  - works less than seven days<sup>1</sup> with the same employer during the year;
- employment of a person connected with a circus, fair, parade, carnival, exposition, exhibition, or other similar activity, **except for entertainers**, if that person:
  - is not your regular employee; and
  - works for less than seven days<sup>1</sup> in the year;
- employment of a person in a rescue operation, as long as you do not regularly employ that person for that purpose;
- employment by a government body as an election worker if the worker:
  - is not a regular employee of the government body; and
  - works for less than 35 hours<sup>2</sup> in a calendar year;
- employment in Canada under an exchange program if the employer paying the remuneration is not resident in Canada;
- employment of a member of a religious order who has taken a vow of poverty (this applies whether the remuneration is paid directly to the order, or the member pays it to the order);
- any employment when premiums have to be paid according to the unemployment insurance laws of any state of the United States, the District of Columbia, Puerto Rico, or the Virgin Islands, or according to the *Railroad Unemployment Insurance Act* of the United States;
- employment in Canada of a non-resident person if the unemployment insurance laws of any foreign country require someone to pay premiums for that employment;
- employment in Canada by a foreign government or an international organization, **except** when the foreign government or international organization agrees to cover its Canadian employees under Canada's EI legislation

<sup>1</sup> If the employee works seven days or more, the employment is insurable from the first day of work.

<sup>2</sup> If the employee works 35 hours or more, the employment is insurable from the first hour worked.

(in this case, the employment is insurable if Human Resources and Skills Development Canada agrees); or

- employment under the “Self-employment assistance” and “Job creation partnerships” employment benefits established by the Canada Employment and Immigration Commission under section 59 of the *Employment Insurance Act*, or under a similar benefit that a provincial government or other organization provides and is the subject of an agreement under section 63 of the *Employment Insurance Act*.

If you have any doubts as to whether or not you should deduct EI premiums when employing family members, we suggest that you request a ruling from Revenue Collections at any tax services office.

## Payments for which you do not deduct EI premiums

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

- a supplementary unemployment benefit (SUB) payment, except for other types of benefits paid under a SUB, such as benefits for a temporary stoppage of work;
- any non-cash benefit including contributions to an employees’ locked in RRSP, except the value of board and lodging that individuals received for their employment in a pay period if you pay them cash remuneration during the pay period;
- any amount excluded as income under paragraph 6(1)(a) or (b) or subsection 6(6) or (16) of the *Income Tax Act*;
- a **retiring allowance** – for information on the make-up of a retiring allowance, see the publication called *Deducting Income Tax on Pension and Other Income, and Filing the T4A Slip and Summary Form (RC4157)*;
- amounts you pay to an employee to cover the waiting period or to increase the **maternity, parental or compassionate care** benefits if the following two conditions are met:
  - the total amount of your payment and the EI maternity parental or compassionate care weekly benefits does not exceed the employee’s normal weekly gross salary; and
  - your payment does not reduce any other accumulated employment benefits such as banked sick leave, vacation leave credits, or severance pay.
- an **advance** or a **loan** equal to the workers’ compensation award that you pay to employees before or after the workers’ compensation board claim is decided (see Chapter 5);
- a **top-up amount** you pay to an employee in addition to the workers’ compensation award paid by a workers’ compensation board after the workers’ compensation board is decided (see Chapter 5); and
- top-ups to wage-loss replacement plans that are not subject to EI premiums (see Chapter 5).

## EI premiums

Both you and your employee have to pay EI premiums on insurable earnings.

You have to deduct and remit the employee’s premiums, and pay and remit the employer’s premiums.

You have to withhold EI premiums only until the annual maximum is reached. For 2004, the annual maximum is \$39,000.

**You can find the employee’s rate in each version of the Payroll Deductions Tables, usually available in mid-December each year. Your premiums are 1.4 times the amount of the employee’s premiums.**

The annual maximum for insurable earnings applies to **each job** the employee holds with **different employers**. If an employee leaves one employer during the year to start work with another employer, the new employer also has to deduct EI premiums without taking into account what was paid by the previous employer. This is the case even if the employee has paid the maximum premium amount during the previous employment.

We will refund any overpayments to employees when they file their income tax and benefit return. Employers are not entitled to a refund.

## How can you reduce the rate of your EI premiums if you have a short-term disability plan?

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

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

- an initial application, which you can find in the publication called *Guide for Employers – EI Premium Reduction Program*; and
- a copy of the short-term disability plan provided to your employees.

You can get the *Guide for Employers – EI Premium Reduction Program* publication from your local Human Resources and Skills Development Canada office or by contacting:

Human Resources and Skills Development Canada  
Premium Reduction Program  
P.O. Box 11000  
Bathurst NB E2A 4T5

Telephone: **1-800-561-7923**  
Fax: **(506) 548-7473**  
Web site: **www.hrsdc-rhdcc.gc.ca/prp-prtc**

The employer’s EI premiums are reduced only in respect of employees covered by the approved plan (this includes employees serving an eligibility period under the plan of three months or less). These employees will continue to be reported under the current account, which will be set at a

reduced rate. **An officer of the EI Premium Reduction Program will ask the employer to get an additional payroll deductions account to make a separate remittance for employees not covered by the plan.**

You have to file a separate T4 return (T4 Summary form and related T4 slips) for each payroll deductions account.

- Report your employees covered by the plan (this includes employees serving an eligibility period under the plan of three months or less) using your payroll deductions account at the reduced EI premium rate.
- Report your employees not covered by the plan using your other payroll deductions account at the standard rate of 1.4 times the employee's premiums.

Where an employee was reported under both accounts in the same calendar year, file a separate T4 slip for each period.

## How do you determine the EI premiums to deduct?

You can determine the EI premiums you have to deduct by using the following methods:

### The tables on diskette (TOD) method

See "Payroll deductions tables" in Chapter 1.

### The table method

See the instructions in Part A of the *Payroll Deductions Tables* (T4032).

### The formula method

See the heading "Payroll deductions tables" in Chapter 1.

### The manual calculation method

Use this method to determine the amount of EI premiums to deduct from your employees' remuneration if you pay them more than the maximum amount that appears in Part C of the *Payroll Deductions Tables* (T4032).

To calculate the amount using this method, follow these steps:

1. Enter the employee's insurable earnings ..... \$ \_\_\_\_\_
2. Multiply the amount in item 1 by the employee's EI premium rate, which you can find in the *Payroll Deductions Tables* for the appropriate year ..... × \_\_\_\_\_%
3. EI premium to be deducted ..... \$ \_\_\_\_\_

#### Note

The employee's maximum EI premium amount cannot be more than the maximum EI premium amount for the year. The yearly maximum appears in Part C of the *Payroll Deductions Tables* (usually available in mid-December each year). Stop deducting when you reach the maximum EI premium amount.

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

## EI overpayment

If, during a year, you have overdeducted EI premiums from your employee (e.g., the maximum amount of insurable earnings was reached, or the employee was not employed in insurable employment), you should reimburse the employee the amount deducted in error and adjust your payroll records to reflect the reduced deduction. This will result in a credit on the CRA payroll account equal to the employee and employer portion of the overdeduction. You may reduce a future remittance in the same calendar year. Do not include the reimbursed amount on the T4 slip. If you cannot refund the overpayment, show the total EI premiums deducted and the correct insurable earnings on the T4 slip of the employee. Once you have reported the employee's overpayment on the T4 slip, you can ask us for a refund by completing Form PD24, *Application For a Refund of Overdeducted CPP Contributions or EI Premiums*. Your request must be made no later than three years from the end of the year in which the overpayment occurred.

## Recovering EI premiums

If you receive a *Notice of Assessment* or discover that you have underdeducted EI premiums, you can recover the employee's premiums from later payments to the employee. The deductions you recover can be equal to, but not more than, the amount you should have deducted from each payment.

However, you **cannot** recover a contribution amount that has been outstanding for more than 12 months.

The employer's share is your responsibility.

If you should have made a deduction in a previous year and you recover it through a deduction in the current year, do not report the recovered amount on the current year's T4 slip. Instead, amend the previous year's T4 slip.

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

### Example

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

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

- b) After auditing the records, we issue a *Notice of Assessment* as follows:

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

The employer premiums are 1.4 × employee premiums. Penalty and interest are added to that amount.

- c) The following year, you can recover \$301.00 for EI premiums from the employee as follows:

	Current deduction	Employer's recovery	
April	\$74.00	\$74.00	(for September)
May	\$78.00	\$74.00	(for October)
June	\$74.00	\$78.00	(for November)
July	\$80.00	<u>\$75.00</u>	(for December)
<b>Total</b>		<b>\$301.00</b>	

## Establishing the number of insurable hours for record of employment purposes

Hours of work are used to determine if workers are entitled to benefits and for how long. Employers have to keep records of and report total hours of insurable employment for the last 53 consecutive weeks (or less if the period of employment is shorter).

The number of insurable hours is determined as follows:

**For an employee who is paid hourly** – The number of insurable hours is the number of hours actually worked and paid.

**For an employee who is not paid hourly** – If the employer knows the number of hours that the employee actually worked and for which he or she was paid, we consider the employee to have that number of insurable hours. For example, an employee who is paid on an annual basis but whose employment contract specifies 32 hours as the usual hours of work per week would be credited with 32 insurable hours.

If the employer does not know the actual number of hours worked, the employer and the employee can agree on the number of insurable hours of work for which he or she is paid. Take piecework as an example. If the employer does not know the actual number of hours worked, the employer and the employee can agree on the value of the piecework in hours, and this would be the number of insurable hours.

If the employer does not know the actual number of hours worked and no contract or agreement on hours exists or can be reached, we determine the number of insurable hours by dividing the insurable earnings by the minimum wage. The result cannot be more than seven hours per day or 35 hours per week.

**Hours limited by federal or provincial statutes** – Full-time employees who are limited by law to less than 35 hours per week will be credited 35 insurable hours per week. Part-time employees in these circumstances are credited with a proportionate number of hours.

**Military and police** – Full-time members of the Armed Forces or a police force will be credited 35 insurable hours per week, unless the employer keeps and provides the actual number of hours worked on the *Record of Employment*.

**Overtime** – One hour of overtime work equals one hour of insurable employment, even if the rate of pay is higher.

**Worker called in to work** – The number of insurable hours equals the number of hours paid.

**Stand-by hours** – Standby hours are insurable if:

- the standby hours are paid at a rate equal to or above the rate paid for the hours the employees would have worked; or
- the employee is present at the employer's premises, waiting for the employer to request his services, as required under a contract of employment, and these hours are paid, regardless of the rate paid.

**Statutory holiday** – One hour of work during a statutory holiday equals one hour of insurable employment, even if the rate of pay is higher. For more information contact your Human Resources and Skills Development Canada office.

**Paid leave** – One hour of vacation time taken, paid sick leave, or compensatory time off is considered to be one insurable hour.

**Remuneration paid with no hours attached** – An employee who receives vacation pay without actually taking any leave does not generate any insurable hours. This also applies to such remuneration as bonuses, gratuities, lieu-of-notice payments, severance pay, and retiring allowances. Payments of banked overtime with no hours related to them are not insurable.

## EI and the Record of Employment

You have to complete Form INS 2106, *Record of Employment (ROE)*, when an employee stops working for you (this is considered an **interruption of earnings**). This happens when the employment ends or an employee leaves because of pregnancy, injury, illness, adoption leave, layoff, leave without pay, or dismissal.

For full details on the ROE, see the publication called *How to Complete the Record of Employment (ROE) Form*, which is available from any Human Resources and Skills Development Canada office.

## Chapter 4 – Deducting income tax

### Employer's responsibility

As an employer, you are responsible for deducting income tax from the remuneration you pay to your employees. We have forms to help you determine how much income tax to deduct:

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

## Forms TD1, *Personal Tax Credits Return*

These forms outline the credits that individuals can claim when filing their income tax and benefit returns.

Individuals who will receive salary, wages, commissions, Employment Insurance benefits, pensions, or other remuneration **have to** complete a federal and provincial or territorial Form TD1, *Personal Tax Credits Return* (for Quebec, see “Employment in Quebec”).

Employees should complete new TD1 forms within seven days of any changes to a situation that will affect their income tax and benefit returns. Employees who do not complete new forms may be subject to a penalty of \$25 for each day the form is late. The minimum penalty is \$100; the maximum is \$2,500.

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

The provincial or territorial Form TD1 that the employee completes should be the form for the province or territory of employment. Chapter 1 of this guide explains how to determine the province or territory of employment, under the heading “Which provincial or territorial tax tables should you use?”. The same section also explains what to do if the employee lives in one province or territory and works in another. If the income is not employment income (e.g., pension income), use the provincial or territorial Form TD1 for the recipient’s province or territory of residence.

It is a serious offence to knowingly accept a Form TD1 that contains false or deceptive statements. If you think a Form TD1 contains incorrect information, contact any tax services office or tax centre.

Make sure you have a completed Form TD1 on file for **each** of your employees. We may ask to see it.

### Employment in Quebec

If applicable, individuals who work in the province of Quebec have to complete a federal Form TD1, *Personal Tax Credits Return*, and a provincial Form TP1015.3-V, *Source Deductions Return*, which is available from Revenu Québec.

### Claim codes

You will find a listing of the claim codes in each version of the payroll deductions tables. In some cases, you will find a federal claim code for Form TD1 as well as the provincial or territorial form.

The claim amounts that correspond to the federal claim codes may not be the same as the claim amounts that correspond to the provincial or territorial claim codes. Therefore, you have to use the federal claim codes to determine the federal tax to withhold and the provincial or territorial claim codes to determine the provincial or territorial tax to withhold.

If you use *Tables on Diskette (TOD)*, you will find a listing of the claim codes on the “Help Menu” by selecting “Index,” and then “What’s New?”.

## Request for more tax deductions from employment income

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

You should advise part-time employees that it could be beneficial to have more income tax deducted from the remuneration they receive by completing Form TD1. In this way, they can avoid having to pay a large amount of tax when they file their income tax and benefit returns, especially if they have worked part-time for different employers during the year.

### Deduction for living in a prescribed zone

A person who lives in a prescribed zone during a continuous period of at least six months (that begins or ends in the taxation year) may be entitled to claim this deduction when filing a tax and benefit return.

Individuals who are eligible to claim this deduction can claim it on Form TD1.

For more information, see the publication called *Taxable Benefits* (T4130).

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

There is **only one** Form TD1X for federal, provincial, and territorial tax purposes (except Quebec).

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

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

Employees who elect to complete Form TD1X have to give it to you by one of the following dates:

- on or before January 31;
- within one month of the date their employment starts;
- within one month of the date their personal situation changes; or
- within one month of the date any change occurs that will substantially change the amounts previously reported.

#### Note

An employee may choose, at any time during the year, to revoke in writing the election he or she made by completing Form TD1X.

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

When a fisher sells a catch, the fisher can elect to have the buyer, also known as the **designated employer**, deduct tax from the proceeds of the sale. To do this, the fisher should complete Form TD3F with the designated employer. The designated employer deducts 20% of the amount of sale. The designated employer has to follow the rules in this guide to deduct, remit, and report tax. In addition, the designated employer has to send one copy of Form TD3F to a tax centre.

## Remuneration subject to tax at source

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

- salary and wages including retroactive payments and wages in lieu of termination notice;
  - Note**  
Salary or wages include advances against future earnings, cashed-out sick leave credits, the value of free board and lodging, and **any** other taxable allowances or benefits that you should prorate to your pay period.
- tips and gratuities;
- bonuses and vacation pay (including cashed-out vacation pay);
- pensions, retiring allowances (also called severance pay), and death benefits;
- benefits under a supplementary unemployment benefit plan (including maternity and parental top-up payments);
- fees and commissions; and
- additional amounts that you as an employer pay while participating in a job creation project that Human Resources and Skills Development Canada has approved.

## Reducing remuneration subject to tax at source

Certain amounts you withhold from the remuneration you pay an employee in a year automatically reduce the amount of gross remuneration on which you have to deduct income tax for the pay period. You do **not** need a letter of authority (see "Letter of authority" following) to deduct less tax if you withhold any of the following amounts:

- employees' contributions to a registered pension plan (RPP)—for details on how to determine the exact amount of these contributions, see the section called "Contributions to a registered pension plan (RPP)" later in this chapter;
- union dues;
- contributions to a retirement compensation arrangement (RCA) or certain pension plans;
- deductible support payments (see note below); or

- contributions to a registered retirement savings plan (RRSP) provided you have reasonable grounds to believe the contribution can be deducted by the employee for the year (see the section called "RRSP contributions you withhold from remuneration you pay an employee").

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

### Note

For information on support payments, see the publication called *Support Payments* (P102).

### Example

David is paid weekly (52 pay periods per year) and receives taxable benefits. He contributes to a registered pension plan (RPP), pays union dues, and lives in a prescribed zone. Calculate the amount of remuneration subject to tax deductions at source that David receives weekly, as follows:

Basic salary (weekly) .....	\$500
<b>Plus:</b> taxable benefits .....	<u>\$ 50</u>
Gross remuneration .....	\$550

**Minus:** weekly deductions for:

■ RPP contributions .....	\$25.00
■ union dues .....	\$ 5.50
■ living in a prescribed zone (\$7.50 per day × 7 days) .....	\$52.50 .....
	<u>\$ 83</u>
Remuneration subject to tax deductions at source .....	<u>\$467</u>

### Note

For information on determining remuneration subject to tax deductions at source, see the section called "Step-by-step calculation of tax deductions" in Part A of the *Payroll Deductions Tables* (T4032), the *Tables on Diskette* (TOD) (T4143), or the *Payroll Deductions Formulas for Computer Programs* (T4127).

## Letter of authority

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

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

It takes us about four to six weeks to process a request of this type. We usually issue a letter of authority for a specific tax year. If an employee has a balance owing or has not

filed outstanding income tax and benefit returns, we will not usually issue a letter of authority.

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

## RRSP contributions you withhold from remuneration you pay an employee

As indicated earlier, a registered retirement savings plan (RRSP) contribution that you withhold from remuneration you pay an employee in a year automatically reduces the remuneration on which you have to deduct tax. However, you have to have reasonable grounds to believe that the contribution can be deducted by the employee for the year. This applies to an RRSP contribution you withhold from any taxable remuneration you pay an employee, regardless of the amount of the payment or whether it is paid periodically or in a lump sum. For example, it applies to remunerations such as ordinary salary and wages, bonus payments, cashed-out vacation or sick leave credits, and the eligible and non-eligible parts of a retiring allowance. You can find a detailed list of types of remuneration in the section called “Remuneration subject to tax at source” on page 22.

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

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

Confirmation of the employee’s RRSP deduction limit is not needed for the **eligible** part of a retiring allowance because a special deduction under paragraph 60(j.1) of the *Income Tax Act* applies to this amount. For information on how to calculate the eligible part of a retiring allowance, see the publication called *Deducting Income Tax on Pension and Other Income, and Filing the T4A Slip and Summary Form* (RC4157).

### Example

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

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

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

### Minus:

- Retiring allowance eligible for transfer to RRSP ..... \$12,000

- Transfer to RRSP based on Colette’s deduction limit:  
Retiring allowance non-eligible for transfer to RRSP ..... \$11,000 ..... \$23,000

Remuneration subject to tax deductions at source ..... \$12,000

You do **not** need a letter of authority from the CRA to reduce the tax withheld from the amounts of the payment that were transferred to Colette’s RRSP.

## Contributions to a registered pension plan (RPP)

You have to determine the amount of contributions to an RPP that employees can deduct on their income tax and benefit returns. You have to do this before you can calculate the amount of tax to withhold. In addition to contributions for current service, make sure you consider any contributions for past service.

For information on contributions to an RPP for current or past service, see Interpretation Bulletin IT-167, *Registered Pension Plans – Employee’s Contributions*, and the publication called *RRSPs and Other Registered Plans for Retirement* (T4040).

You have to report these contributions on a T4 slip. For information on how to report RPP contributions on a T4 slip, see “Box 20 – RPP contributions” in Chapter 3 of the publication called *Filing the T4 Slip and Summary Form* (RC4120).

## How do you calculate tax deductions you have to deduct?

You can calculate tax deductions you have to deduct by using the following methods:

- the manual calculation method;
- the tables on diskette (TOD) method;
- the table method; or
- the formula method.

For information on the manual calculation method, see the instructions in the section called “Step-by-step calculation of tax deductions” in Part A of the *Payroll Deductions Tables* (T4032). For information on the different versions of the payroll deductions tables, see the section called “Payroll deductions tables,” in Chapter 1.

## Tax deductions from commission remuneration (Form TD1X)

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

- **Employees who earn commission without expenses**  
If you pay commission to an employee at the same time you pay salary, add the amount of the commission to the salary, then use the regular tax table method.

If you pay commission periodically, you may want to use the **bonus** method to determine the tax to deduct from the commission payment. See “Bonuses and retroactive pay increases” in Chapter 5 of this guide to find out how to do this.

■ **Employees who earn commission with expenses**

Employees who incur expenses to earn commission income can choose to complete Form TD1X. To calculate the amount of tax to deduct, you can use our *Payroll Deductions Formulas for Computer Programs* or our *Tables on Diskette (TOD)*. For information on TOD, see “Payroll deductions tables” in Chapter 1. You can also manually calculate the tax to deduct by following the “Step-by-step calculation of tax deductions” in Part A of the *Payroll Deductions Tables (T4032)*.

If an employee does not file Form TD1X, or revokes in writing—during the year—the election he or she made in completing Form TD1X, calculate the tax deductions as explained above under the heading “Employees who earn commission without expenses.”

**Tax deductions on other types of income**

For tax deductions on other types of income, such as bonuses and directors’ fees, see Chapter 5. For lump-sum payments and retiring allowances, see the publication called *Deducting Income Tax on Pension and Other Income, and Filing the T4A Slip and Summary Form (RC4157)*.

**Labour-sponsored funds tax credits**

Tax deductions at source can be reduced by the tax credit that applies to the purchase by the employee of approved shares of capital stock in a labour-sponsored venture capital corporation. For information on the labour-sponsored funds tax credit, see Part A of the *Payroll Deductions Tables (T4032)*.

**Non-resident employees who perform services in Canada**

Employees not resident in Canada, who are in regular and continuous employment in Canada, are subject to tax deductions in the same way as Canadian residents. This applies whether or not the employer is a resident of Canada. A tax treaty between Canada and the country of residence of a non-resident employee providing service in Canada may provide relief from Canadian tax deductions. To reduce remuneration on which you have to deduct tax, you need a letter of authority from any tax services office.

**Notes**

Payments to non-resident individuals, partnerships, or corporations for services rendered in Canada (that they did not perform in the ordinary course of an office or employment) are subject to a 15% withholding tax. For more information, see Information Circular 75-6, *Required Withholding From Amounts Paid to Non-Resident Persons Performing Services in Canada*, or the *Non-resident Withholding Tax Guide (T4061)*.

Since 2001, a 23% withholding tax under Part XIII of the *Income Tax Act* applies to amounts paid, credited, or provided as a benefit to a non-resident person (either the non-resident actor or a corporation related to the actor)

in respect of film and video acting services rendered in Canada. The non-resident can choose to have the acting service payments taxed under Part I of the *Act* as Canadian-source business or employment income, in which case the 23% tax withheld will be treated as a payment on account of Part I tax. If the non-resident tax is more than the amount of tax payable calculated on the return, the excess will be refunded to the non-resident.

**Amounts subject to Part XIII of the Income Tax Act**

If you pay or credit an amount to a non-resident of Canada, such as interest, a dividend, rental income, a royalty, pension income, retiring allowances, or other similar types of passive income, or if you pay, credit, or provide an amount as a benefit in respect of film or video acting services rendered in Canada, see the publication called *Non-Resident Withholding Tax Guide (T4061)*. You can get more information from Information Circular 77-16, *Non-Resident Income Tax*, and Information Circular 76-12, *Applicable Rate of Part XIII Tax on Amounts Paid or Credited to Persons in Treaty Countries*, and its Special Release.

**Chapter 5 – Special payments**

For all your withholdings, use the rates in force on the date you make your payment.

**Bonuses and retroactive pay increases**

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

- Canada Pension Plan (CPP) contributions (without taking into consideration the annual basic exemption);
- Employment Insurance (EI) premiums; and
- income tax.

**CPP contributions**

If you have already **deducted the yearly maximum** CPP contribution from an employee’s income, **do not** deduct more contributions. In addition, do not take into account any contributions that a previous employer deducted in the same year.

**Example**

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

Maximum CPP contribution for the year.....	\$1,831.50
Contributions to date for the year.....	<u>\$ 300.00</u>
Balance that you can deduct for Joseph for the rest of the year .....	<u>\$1,531.50</u>
Multiply the retroactive pay increase of \$450 × the CPP rate of 4.95% .....	<u>\$22.28</u>



You should deduct CPP contributions of \$22.28 from Joseph's retroactive pay increase.

## EI premiums

You have to deduct EI premiums from bonuses and retroactive pay increases. Make sure that you do not deduct more than the maximum for the year. In addition, do not take into account any contributions that a previous employer deducted in the same year.

## Income tax

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

- registered pension plan contributions;
- union dues;
- a deduction for living in a prescribed zone; and
- an amount that a tax services office or court order has authorized.

If the result is **\$5,000 or less**, deduct 15% tax (10% in Quebec) from the bonus or retroactive pay increase.

If the result is **more than \$5,000**, the amount you deduct depends on whether the bonus is paid once a year or more than once a year. Examples 1 and 2 show you how to determine the amount to deduct in the case of a bonus.

Example 3 shows you how to determine this amount in the case of a retroactive pay increase.

### Note

*Tables on Diskette* (TOD) calculates the income tax, CPP, and EI contributions on bonuses and retroactive pay increases. For more information on TOD, see "Payroll deductions tables" in Chapter 1.

### Example 1

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

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

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

**Step 3** – In the *Payroll Deductions Tables*, go to Part D, "Federal tax deductions," and Part E, "Provincial tax deductions." Also, turn to the "Weekly (52 pay periods a year)" table to find the increased weekly tax you should deduct on the additional \$5.77 per week. Calculate as follows:

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

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

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

### Example 2

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

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

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

**Step 2** – Divide the **last** bonus you paid to Mario by the number of pay periods in the year ( $\$780 \div 52 = \$15$ ) (**amount 3**). Add amounts 1, 2, and 3 to determine the adjusted weekly pay for the year of \$420.77 ( $\$400 + \$5.77 + \$15$ ).

**Step 3** – In the *Payroll Deductions Tables*, go to Part D "Federal tax deductions" and Part E "Provincial tax deductions." Also, turn to the "Weekly (52 pay periods a year)" table to find the increased weekly tax you should deduct on the additional \$15 per week. Calculate as follows:

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

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

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

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

### Example 3

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

**Step 1** – In the *Payroll Deductions Tables*, go to Part D, "Federal tax deductions," and Part E, "Provincial tax deductions." Also, turn to the "Weekly (52 pay periods a year)" table to find the increase in the weekly tax that you should deduct because of the increased pay rate.

Calculate as follows:

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

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

**Step 2** – Multiply the increase in the weekly tax you deduct by the number of weeks to which the retroactive pay increase applies. This amount represents the tax you should deduct on the retroactive payment.

## Directors' fees

### Resident and non-resident directors

You have to report directors' fees, whether paid to a non-resident for services rendered in Canada or to a Canadian resident, on a T4 slip, not a T4A slip.

#### Note

A non-resident director is not considered to be employed in Canada for purposes of the Act, when he or she does not attend any meeting or perform any other functions in Canada.

Previously, as an administrative policy, the CRA accepted withholding tax at the rate of 15% from directors fees paid to non-residents. However, effective January 1, 2004, the withholdings are to be calculated the same as for a Canadian resident director.

### You only pay directors' fees

#### CPP contributions

You have to deduct CPP contributions on directors' fees if the employment is performed in Canada.

When **only** director's fees are paid to non-resident director of a corporation, deduct CPP contributions. Do not deduct CPP contributions if the employment is performed wholly or partly outside Canada.

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

#### Example

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

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

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

### EI premiums

Do not deduct EI premiums from resident or non-resident directors' fees.

### Income tax

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

If you estimate that directors' fees will be more than the claim amount on Form TD1, you have to deduct income tax. To calculate the amount of income tax to deduct from directors' fees, use the "Federal tax deductions and the Provincial tax deductions – Monthly" table in parts D and E of the *Payroll Deductions Tables* and calculate as follows:

- Divide the fees by the number of months that have passed since the last payment or since the first day of the year, whichever is later.
- Find the monthly deduction and multiply it by the number of months that have passed since the last payment or since the first day of the year, whichever is later.
- Add to the tax shown in the tables, the EI credit amount calculated in Part A, "Deducting tax from income not subject to CPP contributions or EI premiums."

The result is the income tax to deduct from the fee.

### You pay directors' fees in addition to a salary

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

Whether CPP contributions and EI premiums are required will be based on the status of the resident director or worker's employment. If, after analyzing the facts relating to the director or worker's employment, you are still in doubt, you can ask for a ruling from any tax services office.

For more information on directors' fees paid to a resident or non-resident director, see Interpretation Bulletins IT-377, *Director's, Executor's and Juror's Fees*, IT-468, *Management or Administration Fees Paid to Non-Residents*, as well as Information Circular 75-6R *Required Withholding From Amounts Paid to Non-Resident Persons Performing Services in Canada*.

### Application for a waiver of withholding

A non-resident director of a corporation who wants a reduction of the withholding based on a tax treaty should contact the nearest tax services office in the area where the services are to be provided in Canada. For more information, see the section called "T4A-NR Return" in Chapter 1 of the *Non-Resident Withholding Tax Guide* (T4061).

### Employees profit sharing plan (EPSP)

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

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

Report payments from EPSPs on a T4PS slip instead of a T4 slip. For more information, see Interpretation Bulletin IT-379, *Employees Profit Sharing Plans – Allocations to Beneficiaries*.

## Overtime pay

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

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

## Retirement compensation arrangements

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

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

## Withholding and remitting

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

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

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

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

The custodian has to file a **T4A-RCA** information return to report the distributions. This information return consists of a T4A-RCA Summary form and the related T4A-RCA slips, and has to be sent to the RCA Unit, Winnipeg Tax Centre by the last day of February following the calendar year to which the information return applies.

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

## Retroactive lump-sum payments

Certain lump-sum payments totaling \$3,000 or more (not including interest) are eligible for a special tax calculation. The payments must have been paid to an individual for one or more preceding years throughout which the individual was a resident of Canada. The payments must have been paid after 1994 and relate to years 1978 and later.

Eligible sources of income are:

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

### Note

A different tax treatment may apply if the employee is deceased. In such a situation you should contact your tax services office.

- Wage-loss replacement benefits.

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

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

The payer can provide all the information indicated above to the recipient by using Form T1198, *Statement of Qualifying Retroactive Lump-Sum Payment*.

The employee has to send Form T1198 to us, and request the special tax calculation in his or her income tax and benefit return.

## Withholding rates for lump-sum payments

Use these federal and provincial composite rates:

- 10% (5% for Quebec) if the payment is not more than \$5,000;
- 20% (10% for Quebec) if the payment is more than \$5,000 but not more than \$15,000; and

- 30% (15% for Quebec) if the payment is more than \$15,000.

Since the above rates are **only estimates**, employees may have to pay additional tax on these amounts when they file their income tax and benefit returns. To avoid this situation, you can, on the employee's request, deduct more tax. For types of payments to which the lump-sum tax rates would apply, see the publication called *Deducting Income Tax on Pension and Other Income, and Filing the T4A Slip and Summary Form* (RC4157).

## Salary deferral arrangements

A salary deferral arrangement is a plan or arrangement made between an employee and an employer. Under such an arrangement, an employee postpones receiving salary and wages to a later year. Treat the deferred salary and wages as employment income in the year the employee **earns** the amount. Report it on the employee's T4 slip for that year.

For more information on prescribed plans or arrangements, see ATR-39, *Deferred Salary Leave Plan*.

## Prescribed plans or arrangements

Prescribed plans or arrangements are not covered by the above salary-deferral rules. Treat the deferred amounts in these cases as income in the year the employee **receives** them. Report it on the employee's T4 slip for that year.

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

If you have employees who participate in a prescribed plan, deduct CPP contributions, EI premiums, and income tax in the following way:

### CPP contributions

Deduct CPP contributions from:

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

### EI premiums

- **Deduct** EI premiums from the participant's **gross** salary (including deferred amounts) while the person is working. Make sure you do not deduct more than the yearly maximum.
- **Do not deduct** EI premiums when you pay these to the participant during the leave period.

### Income tax

Deduct income tax from the following amounts:

- the participant's **net** salary (the salary minus the deferred amounts) while the person is working;
- the deferred amounts when you pay them to the participant during the leave period; and
- the interest income and other amounts earned by the deferred amount and paid to the participant in the year they are earned.

## Salary paid while the participant is working

### How to complete the T4 slip

Prepare the T4 slip in the following way when you pay a salary to the participant **while he or she is working**:

### Box 14 – Employment income

Enter the participant's **net** salary (the salary minus the deferred amounts) while the person is working.

### Boxes 16 and 17 – Employee's CPP/QPP contributions

Enter the CPP/QPP contributions you deducted from the participant's **net** salary (the salary minus the deferred amounts) while the person is working.

### Box 18 – Employee's EI premiums

Enter the EI premiums you deducted from the participant's **gross** salary (including deferred amounts) while the person is working.

### Box 22 – Income tax deducted

Enter the **total** income tax you deducted from the employee's remuneration. This includes the federal, provincial (except Quebec), and territorial taxes that apply.

### Box 24 – EI insurable earnings

Enter the amount of insurable earnings on which you calculated the employee's EI premiums. Leave this box blank if the insurable earnings are the same as in box 14.

### Box 28 – Exempt (CPP/QPP and EI)

Do not complete the CPP/QPP part of this box.  
Do not complete the EI part of this box.

## Deferred amounts paid to the participant during the leave period

### How to complete the T4 slip

Prepare the T4 slip in the following way when you pay the deferred amounts to the participant **during the leave period**:

### Box 14 – Employment income

Enter the total deferred amounts paid to the participant during the leave period.

### Boxes 16 and 17 – Employee's CPP/QPP contributions

Enter the CPP/QPP contributions you deducted from the participant's deferred amounts you paid during the leave period.

### Box 18 – Employee's EI premiums

Leave this box blank.

### Box 22 – Income tax deducted

Enter the **total** income tax you deducted from the employee's remuneration. This includes the federal, provincial (except Quebec), and territorial taxes that apply.

### Box 24 – EI insurable earnings

Leave this box blank.

### Box 28 – Exempt (CPP/QPP and EI)

Do not complete the CPP/QPP part of this box. Enter an “X” under EI.

### Withdrawal from the prescribed plan

When a participant withdraws from the plan because he or she ceases to be employed, you have to consider the withdrawal as employment income and report the amount on the participant’s T4 slip in the year you paid the amount. You have to deduct CPP contributions and income tax, but not EI premiums. In box 29, “Employment code,” enter code 14 to indicate a withdrawal from a prescribed salary deferral arrangement plan.

#### Note

Custodians and trustees who administer a prescribed plan have to follow the instructions above to deduct payroll deductions and complete the participants’ T4 slips.

### Vacation pay and statutory holidays

If your employee receives **regular salary while on vacation**, continue to deduct as you normally would based on the pay period. Also, deduct as you normally would when part of the pay period includes a **statutory holiday** (such as Christmas Day).

### The employee takes holidays

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

#### CPP contributions

Deduct CPP contributions from vacation pay in the same way as you would from regular pay. See Chapter 2 of this guide for more information. Make sure that you do not deduct more than the maximum for the year.

#### EI premiums

Deduct EI premiums from vacation pay. Make sure that you do not deduct more than the maximum for the year.

#### Income tax

When you calculate the amount of income tax to deduct, use the tax table that applies to the period of vacation. For example, for one week of paid vacation, use the weekly tax deduction table.

### The employee does not take holidays

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

#### CPP contributions

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

#### EI premiums

Deduct EI premiums from vacation pay. Make sure that you do not deduct more than the maximum for the year.

### Income tax

Use the method we explained earlier in this chapter under “Bonuses and retroactive pay increases.”

#### Note

Include in the employee’s income any contributions you make to a trust for vacation credits that an employee earns in the year. Deduct income tax from this amount as if you had paid the amount directly to the employee. For more information, see Interpretation Bulletin IT-389, *Vacation Pay Trusts Established Under Collective Agreement*.

### Wages in lieu of termination notice

When you pay an employee an amount in lieu of termination notice under the terms of an employment contract or provincial/territorial employment labor standards, the amount is considered employment income, whether or not it is paid on termination of the employment.

Enter such an amount paid in box 14, “Employment income,” of a T4 slip, and deduct CPP contributions, EI premiums, and income tax. To determine the amounts to deduct, include the wages in lieu of termination notice with the regular income, if any, for the pay period.

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

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

### Wage-loss replacement plans

A wage-loss replacement plan is an arrangement between an employer and employees, or between an employer and a group or association of employees, under which the employees are compensated with benefits on a periodic basis if they become unemployed as a result of sickness, maternity, or accident.

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

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

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

- do not exercise a degree of control over the terms of the wage-loss replacement plan; and

- do not determine the eligibility for benefits.

Although the payments are subject to income tax, no withholding is required. The trustee or insurance company has to report these payments on a T4A slip. For information about the T4A slip, see the publication called *Deducting Income Tax on Pension and Other Income, and Filing the T4A Slip and Summary Form (RC4157)*.

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

## Workers' compensation awards

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

### Reporting requirements

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

Our policy applies to:

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

#### Note

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

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

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

For the employee to claim the other employment expenses deduction, you have to complete a T4 slip and enter the amount of the reimbursed workers' compensation in the "Other information" area, under code 77. This will allow the employee to deduct this amount against the previously paid salary. If the award is used only to offset loans and advances, you should not report this amount.

## Advances or loans

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

year end. We do not consider any interest that accumulates on advances or loans while waiting for a claim decision as a taxable benefit.

## Advances or loans not repaid

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

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

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

## Advances by a third party

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

## Top-up amount

A top-up amount is an amount you pay your employee **in addition to the amount of a workers' compensation award the employee is paid by a workers' compensation board**.

Exclude a top-up amount (even if it is paid as sick leave) from insurable earnings if you pay it after the claim is accepted by the workers' compensation board. However, the top-up amount is subject to CPP contributions and income tax, and you have to report it on a T4 slip at year end.

An amount you pay in addition to an advance or loan is not a top-up amount if you pay it while waiting for a decision on a workers' compensation board claim. This amount is considered to be employment income, and you have to withhold CPP contributions, EI premiums, and income tax.

## Adjustment period for new workers' compensation claims

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

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

In Quebec, workers' compensation benefits are administered by the Commission de la santé et de la sécurité au travail (CSST). Employers in Quebec have to follow the instructions provided by the CSST. For more information, get the *Guide for Employers* from Revenu Québec.

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

#### Employer continues to pay regular wages

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##### Example

John is injured at work on July 10, 2003. He continues to be paid his regular wages until February 6, 2005, when the workers' compensation board pays his claim. The employer is reimbursed by the workers' compensation board.

##### Results

- All wages paid in 2003, 2004, and 2005 are to be reported on a T4 slip for each of those years, with CPP contributions, EI premiums, and income tax withheld. John will report these T4 slips on his income tax and benefit return for the appropriate year.
  - In 2005, the year of the award, the employer is **not** allowed to adjust box 14, "Employment income," of the T4 slip or to reduce the CPP contributions, EI premiums, and income tax withheld in 2003, 2004, or 2005.
  - When completing the T4 slip for 2005, the employer will enter code 77 in the "Other information" area, and report the total amount of the workers' compensation board award for the three years.
  - When John files his 2005 income tax and benefit return, he will claim this amount as a deduction for other employment expenses (repayment of salary or wages).
  - If there is any unused amount and John does not have other types of income in 2005, this amount may become a **non-capital loss**.
- 

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

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##### Example

Mary is injured on April 2, 2004, and is away from work until June 6, 2005. Her employment contract states that her employer will pay an amount equal to her regular net pay. This amount will be in the form of advances equal to the anticipated workers' compensation board award and an amount paid in addition to this advance.

##### Results

- The amount of the advance equal to the amount of workers' compensation board award received by Mary is not considered to be employment income. As a result, the employer will not have to deduct CPP contributions, EI premiums, and income tax on this amount.
  - The amount paid by the employer in addition to the advance, while waiting for a decision, is considered to be employment income in the year it is paid and is subject to CPP contributions, EI premiums, and income tax.
  - In 2005, when the claim is paid, her employer has to offset the amount received from the workers' compensation board against the advances made in the following way:
    - If the amounts are equal, no amount will be recorded in the "Other information" area of the T4 slip.
    - If the advances are more than the amount of the award, the difference is considered to be employment income. Mary's employer has to report this income on a T4 slip with CPP contributions, EI premiums, and income tax withheld. No entry is needed in the "Other information" area.
    - If, after the claim is paid by the workers' compensation board, the employer continues to pay an amount in addition to the workers' compensation award, this amount is considered to be a top-up amount and the employer has to withhold CPP contributions and income tax but **no EI premiums**. It will be reported on a T4 slip in the year paid.
    - If the claim is disallowed, the advance not repaid becomes employment income in the year the claim is disallowed. If Mary does not repay the advance the employer has to report the amount of the advance on a T4 slip with CPP contributions, EI premiums, and income tax withheld. If Mary repays the advance, the employer does not have to report the amount on a T4 slip. The amount of the advance is not reported in the "Other information" area, under code 77 of the T4 slip, because it was never included in income.
-

## Special payments chart

The following chart will help you determine whether or not to withhold CPP, EI, or income tax on the following special payments you make to your employees

Special payments	CPP contributions <sup>1</sup>	EI premiums <sup>1</sup>	Tax deductions
1. Bonuses and retroactive pay increases	Yes	Yes	Yes
2. Retroactive lump-sum payments	Yes	Yes	Yes
3. Overtime pay, including banked overtime pay	Yes	Yes	Yes
4. Vacation pay, statutory holidays, and lump-sum vacation payment	Yes	Yes	Yes
5. Directors' fees			
■ paid to residents of Canada	Yes	No	Yes <sup>2</sup>
■ paid to non-residents	Yes <sup>3</sup>	No	Yes
6. Wages in lieu of termination notice	Yes	Yes	Yes
7. Employee Profit Sharing Plans (EPSP)	No	No	No
8. Retirement compensation arrangements (RCA)	No	No	Yes
9. Salary deferral arrangements	Yes	Yes/No <sup>4</sup>	Yes
■ Prescribed plans or arrangements	Yes/No <sup>5</sup>	Yes/No <sup>4</sup>	Yes
10. Wage Loss Replacement Plans			
■ Paid by the employer	Yes	Yes	Yes
■ Paid by third party/trustee and the employer determines the eligibility of the benefits	Yes	Yes	Yes
■ Paid by third party/trustee and the employer does not determine the eligibility of the benefits	No	No	Yes <sup>6</sup>
11. Workers' compensation arrangements	No	No	No
■ Employee's salary paid before or after a worker's compensation board claim is decided	Yes	Yes	Yes
■ Advances or loans equal to the workers' compensation award	No	No	No
■ Amount paid in addition to an advance or loan	Yes	Yes <sup>7</sup>	Yes
■ Top-up amounts paid before claim is accepted	Yes	Yes	Yes
■ Top-up amounts paid after the claim is accepted	Yes	No	Yes
■ Top-up amounts paid as sick leave	Yes	No	Yes

<sup>1</sup> If you have already deducted the total yearly maximum contributions from the employee's income, do not deduct more contributions. Do not consider amounts deducted by previous employers during the same year.

<sup>2</sup> Do not deduct income tax if you pay only a directors' fee, and you estimate that the total fee will not be more than the claim amount on Form TD1.

<sup>3</sup> Do not deduct CPP contributions when the employment is performed wholly or partly outside Canada.

<sup>4</sup> To determine if you have to deduct EI, see "Salary deferral arrangement" in this chapter.

<sup>5</sup> To determine if you have to deduct CPP, see "Salary deferral arrangement" in this chapter.

<sup>6</sup> Although the amounts are taxable no withholding is required.

<sup>7</sup> An amount you pay in addition to an advance or loan is not a top-up amount if you pay it while waiting for a decision on a workers' compensation board claim. This amount is considered as employment income.



## Chapter 6 – Special situations

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

If these workers **are your employees**, you have to deduct Canada Pension Plan (CPP) contributions, Employment Insurance (EI) premiums, and income tax as you would for regular employees. We explain this in chapters 2, 3, and 4 of this guide.

If these workers **are not your employees**, special rules apply.

#### Barbers and hairdressers

This class of workers includes barbers, hairdressers, manicurists, beauticians, massage therapists, and other people who provide services that are normally offered in a barbershop or hairdressing business.

#### CPP contributions and income tax

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

#### EI premiums

For EI purposes, we consider the owner, proprietor, or operator of the barbershop or hairdressing business to be the employer of the individuals who perform services in connection with the establishment, even if the individuals are not employed under a contract of service.

If you own or operate the business, you have to pay both the worker's share and your share of EI premiums.

There are two ways to determine the insurable earnings for a week, depending on whether or not you know the worker's weekly earnings:

- a) If you **know** how much the worker earned in a pay period, the amount of the individual's insurable earnings is the total actual earnings from the individual's employment for the pay period up to the yearly maximum.
- b) If you **do not know** how much the worker earned in a pay period, the amount of insurable earnings is the lesser of:
  - the number of days worked in the week multiplied by \$100; or
  - \$500.

As the employer, you have to send in the EI premiums that you paid for your workers.

#### Drivers of taxis and other passenger-carrying vehicles

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

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

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

The earnings of these workers are insurable even though they are not employees. We consider the company for which the drivers are providing driving services to be a deemed employer for EI purposes.

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

- the driver is in a position to gain a profit or risk a loss from the operation of the taxi business;
- the driver possesses the right to operate a taxicab(s).

#### EI premiums

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

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

- a) If you **know** how much the driver earned in a week and the expenses the driver incurred while operating the vehicle, the insurable earnings should be calculated as the difference between the two amounts.
- b) If you **do not know** how much the driver earned in a week and/or the expenses the driver incurred while operating the vehicle, the amount of insurable earnings is the lesser of:
  - the number of days worked in the week multiplied by \$100; or
  - \$500.

#### CPP contributions and income tax

For CPP and income tax purposes, individuals who are **not employed under a contract of service** are considered to be self-employed. They are responsible for paying their CPP contributions and income tax. Do not deduct CPP or income tax from these workers.

#### How to complete the T4 slip for barbers and hairdressers, and taxi drivers and other drivers of passenger-carrying vehicles

For EI purposes, you have to complete a T4 slip for each worker whom we do not consider to be an employee. Complete the following entries on the slip:

##### Employer's name

Enter your operating or trade name.

##### Employee's name and address

Enter the worker's name and address, including the province and postal code.

**Box 12 – Social insurance number**

Enter the social insurance number (SIN) shown on the worker's SIN card.

**Box 18 – Employee's EI premiums**

Enter the EI premiums remitted on behalf of the worker (worker's part only).

**Box 24 – EI insurable earnings**

Enter the amount of the worker's insurable earnings on which you calculated the EI premium.

**Box 29 – Employment code**

Enter the appropriate code for the occupation of the worker. In box 29, enter code 13 for a **barber** or **hairedresser** and code 12 for a **taxi driver** or **driver of another passenger-carrying vehicle**.

**Box 54 – Business Number**

Enter your 15-digit Business Number.

Leave all remaining boxes blank.

When the workers have an interruption in earnings, you have to complete Form INS 2106, *Record of Employment (ROE)*, within five days of the last day worked. For information, see Chapter 3.

**Fishers and Employment Insurance**

Special rules apply to fishers. For information, get the publication called *Fishers and Employment Insurance (T4005)*.

If you are a designated employer of fishers who have insurable earnings, see the publication called *Filing the T4F Slip and Summary Form (RC4200)*.

Starting in 2005, either the T4 or T4F can be used to file your information return.

**Note**

The publication called *Payroll Deductions Tables (T4032)* contains information on how to calculate the amounts you have to deduct from the remuneration of your employees.

**Placement and employment agency workers**

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

- a) An agency that hires employees (even if they are located at a client's premises) has to deduct CPP contributions, EI premiums, and income tax from amounts paid to these employees. The agency also has to report these amounts on a T4 slip.
- b) An agency that places workers in an employment under the direction and control of a client of the agency and where the agency pays the worker; the agency is required to deduct CPP contributions and EI premiums, but not income tax. The agency has to prepare a T4 slip for the worker. Enter code 11 in box 29, "Employment code." Box 14, "Employment Income," should not be completed. For information on how to file T4 slips, see the publication called *Filing the T4 Slip and Summary Form (RC4120)*.

- c) An agency that hires a worker under a contract for service (independent worker) is not required to deduct CPP contributions, EI premiums, or income tax since the worker is self-employed. Neither the agency nor the client are required to file T4 slips.

**Employees of a temporary-help service firm**

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

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

If you have any doubts about whether an employer-employee relationship exists for CPP and EI purposes, see the publication called *Employee or Self-Employed? (RC4110)*. You or your employees can also get a ruling from Revenue Collections by completing Form CPT1, *Request for a Ruling as to the Status of a Worker Under the Canada Pension Plan or Employment Insurance Act*, and sending it to any tax services office.

**Employing a caregiver, baby-sitter, or maid**

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

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

You are considered to be an employer when you:

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

If you are not sure whether you are an employer based on these criteria, see the publication called *Employee or Self-Employed? (RC4110)*.

**What are your responsibilities as an employer?**

As an employer, you are required to do the following:

- register as an employer with the CRA;
- withhold and remit income tax, as well as the employee and employer shares of EI premiums and CPP contributions [see chapters 2, 3, and 4, and the publication called *Remitting Payroll Deductions (RC4163)*]; and
- prepare a T4 slip at the end of the calendar year to report the salary paid [see the publication called *Filing the T4 Slip and Summary Form (RC4120)*].

## Employees with power saws or tree trimmers

If you are an employer in the forestry business, you probably have employees who, according to their contracts, have to use their own power saws or tree trimmers at their own expense.

In box 14, "Employment income," of the T4 slip, include rental payments you paid to employees for the use of their own power saws or tree trimmers. You should not reduce the amount in box 14 by the cost or value of saws, trimmers, parts, gasoline, or any other materials the employee supplies.

## Emergency volunteers

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

This exemption applies to the following individuals:

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

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

The \$1,000 exemption does not apply if the individual was employed in the year by the **same** public authority for the same or similar duties (e.g., a full-time fire-fighter who from time to time acts as a volunteer fire-fighter or rescue worker for the municipality that employs him or her would not be eligible for the exemption).

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

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

### CPP contributions

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

### EI premiums

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

- the individual receives an hourly wage, salary, or other fixed amount of remuneration;

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

### Income tax

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

## Status Indian employees

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

### Definitions

#### Indian

A status Indian is a person who is registered or entitled to be registered under the *Indian Act*.

#### Reserve

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

#### Indian living on a reserve

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

#### Employer resident on a reserve

When an employer is resident on a reserve, the reserve is the place where the central management and control over the employer organization is actually located.

#### Note

We usually consider a group that performs the function of board of directors of an organization as exercising the central management and control of an organization. However, it may be that some other person or group manages and controls the organization. Generally, a person or group manages and controls an organization at the principal place of business. However, this activity can occur in a place other than the principal administrative office of the organization. It is a question of fact as to where the central management and control is exercised.

### Guidelines

Following the Supreme Court of Canada decision in the Glenn Williams case, we developed guidelines to help you determine a tax exemption that applies to a status Indian's

employment income. These guidelines do not reflect a change in tax policy. They deal only with determining a tax exemption under the *Indian Act* following the Supreme Court decision. As a result of the Williams decision, you have to examine all factors connecting income to a reserve to determine if income was earned on a reserve and is tax-exempt.

When you apply all the connecting factors, be aware of unusual or exceptional circumstances where:

- the income may not be taxable even though it does not fall within one of the guidelines; or
- the income may be taxable even though it appears to fall within one of the guidelines.

If you have any questions about a particular situation, contact any tax services office or tax centre.

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

## **Taxable salary or wages paid to status Indians**

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

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

### **How to complete T4 and T4A slips**

Complete all T4 slips in the usual way. See the publication called *Filing the T4 Slip and Summary Form (RC4120)* for information on completing these slips.

Complete all T4A slips in the usual way. You may need to enter footnotes. See the publication called *Deducting Income Tax on Pension and Other Income, and Filing the T4A Slip and Summary Form (RC4157)* for information on completing these slips.

## **Non-taxable salary or wages paid to status Indians**

### **Canada Pension Plan**

The employment of a status Indian whose income is exempt from tax is excluded from pensionable employment. Therefore, if you are an employer paying non-taxable salary or wages to a status Indian, you do not have to deduct CPP contributions.

### **Application for coverage under CPP**

Under the CPP, you can elect to include in pensionable earnings any non-taxable salary or wages you paid to status Indians. Although you do not have to deduct CPP from non-taxable income paid to a status Indian, you can choose to provide your status Indian employees with optional CPP coverage. You can elect to do this by completing and filing Form CPT124, *Application for Coverage of Employment of an Indian in Canada Under the Canada Pension Plan Whose Income is Exempt Under the Income Tax Act*. However, you cannot revoke this election and you have to cover all employees.

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

### **Employment Insurance**

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

## **How to complete the T4 slip when you elect to provide CPP coverage to your employees**

If you elect to provide CPP coverage, prepare the T4 slip in the following way:

### **Box 14 – Employment income**

Leave this box blank. In the "Other Information" area, enter in one of the boxes code 71 and the amount of non taxable earnings.

### **Boxes 16 and 17 – Employee's CPP/QPP contributions**

Enter the CPP contributions you deducted from the employee's earnings.

### **Box 18 – Employee's EI premiums**

Enter the EI premiums you deducted from the employee's earnings.

### **Box 24 – EI insurable earnings**

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

### **Box 26 – CPP/QPP pensionable earnings**

Enter the amount of pensionable earnings on which you calculated the CPP contributions.

## **How to complete the T4 slip when you do not elect to provide CPP coverage to your employees**

If you do not elect to provide CPP coverage, prepare the T4 slip in the following way:

### **Box 14 – Employment income**

Leave this box blank. In the "Other Information" area, enter in one of the boxes code 71 and the amount of non-taxable earnings.

### **Boxes 16 and 17 – Employee's CPP/QPP contributions**

Leave these boxes blank.

### **Box 18 – Employee's EI premiums**

Enter the EI premiums you deducted from the employee's earnings.

### **Box 24 – EI insurable earnings**

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

### **Box 26 – CPP/QPP pensionable earnings**

Leave this box blank.

### Note

EI benefits, retiring allowances, CPP payments, registered pension plan benefits, or wage-loss replacement plan benefits will usually be exempt from income tax when they are received as a result of employment income that was exempt from tax. If a part of the employment income was exempt, then a similar part of these amounts will be exempt.

## Seasonal agricultural workers program

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

If you employ foreign workers under the Seasonal Agricultural Workers Program, enter code 15 in Box 29, "Employment code," of the T4 slips for your employees. For more information, see the publication called *Seasonal Agricultural Workers Program* (RC4004).

## Employment outside or partly outside Canada

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

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

If the employment does not meet either of these conditions, the employment outside Canada is not pensionable. As a result, do not deduct CPP from the employee's remuneration.

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

Special rules apply to employment on ships, trains, trucks, and aircraft. To find out more about these rules, contact a Revenue Collections rulings officer at any tax services office.

Please note that Form CPT8 does not apply if Canada has a social security agreement with the country in which the employment will take place. We list the countries with which Canada has reciprocal social security agreements under "International agreements with foreign governments" in Chapter 2.

In situations where you pay CPP on behalf of your employee who is working outside Canada, you have to prepare a T4 slip. See the publication called *Filing the T4 Slip and Summary Form* (RC4120) for information on how to complete a T4 slip.

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

- you, as the employer, reside in Canada or have a place of business in Canada;
- the employee usually resides in Canada;
- the employment is not insurable in the country where the employment is performed; and
- the employment is not excluded from insurable employment for any other reason.

Special rules apply to employment on ships outside or partly outside Canada. Contact any tax services office or tax centre for more information.

**Income tax deductions** – If an employee performs services for you outside Canada, you may have to deduct income tax from that employee's remuneration. If you are not sure if you should withhold income tax, contact any tax services office or tax centre.

## Overseas employment tax credit

If you employ a resident of Canada to work outside Canada for more than six consecutive months, the employee may be entitled to an overseas employment tax credit. The six consecutive months of employment may start in the current year or a previous year. The employment duties performed outside Canada must either be to get a contract for the employer or relate to a contract under which the employer carried on business outside Canada. The contract or business must relate to:

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

An employee who is eligible for the credit may ask you to reduce the amount of tax you deduct. The employee has to make this request through any tax services office or tax centre. If we approve the reduction in tax deductions, we will send the employee a letter of authorization stating that you can reduce the amount of tax deductions. Keep this letter for our officers to examine. For more information on this subject, see Interpretation Bulletin IT-497, *Overseas Employment Tax Credit*.

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

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

## How to complete the T4 slip

### Box 14 – Employment income

Report the total amount of remuneration you paid that relates to any employment outside Canada. Do this even if an employee has received a letter of authorization from a tax services office or tax centre that allows you to reduce the amount of income tax you deduct from the employee's income. On the slip, show the income that qualifies for the reduction and the number of days the employee worked outside Canada. In the "Other Information" area, enter in one of the boxes code 72 and the income qualifying under section 122.3 of the *Income Tax Act*. Also, enter in one of the boxes code 73 and the number of days outside Canada. The number of days should be a three-digit number that you enter at the beginning of the box "Amount."

#### Example

73	089
Box – Case	Amount – Montant

### Canadian International Development Agency (CIDA)

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

## Employment by a trustee

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

A trustee does the following:

- authorizes a payment or causes a payment to be made for another person; and
- administers, manages, distributes, winds up, controls, or otherwise deals with another person's property, business, estate, or income.

The trustee is jointly and severally liable for deducting and remitting the tax for all payments the trustee makes.

## Repayment of salary paid in error

If, by mistake, you make a payment or an overpayment to an employee who is not entitled to receive it, we will not consider this amount to be salary, wages, or an advance. Do not include the amount in the employee's income for

the year it is received. If, after issuing a T4 slip for the employee, you determine that you made a payment by mistake, you may issue an amended T4 slip for that year to exclude this amount. When the employee repays the amount in the same or a later year, he or she is not allowed to deduct it from income.

#### Example

In 2004, because of a **calculation error**, you overpaid your employee \$300. The employee agrees to repay this amount in 2005. You may amend the 2004 T4 slip to reduce the total employment income, as well as the CPP pensionable and EI insurable earnings, by \$300. Do not adjust the deductions for CPP, EI and income tax. The employee will not be able to claim a deduction from income in the 2005 taxation year for the repayment, but will be able to amend their 2004 income tax return.

## Repayment of salary or wages by an employee

When an employee repays an employer, in the same or a later year, for salary or wages paid when the employee did not perform his or her duties (for example, the employee was ill and received payments from a wage-loss replacement plan), the repayment is considered to be a repayment of salary and wages and may be claimed as a deduction on the employee's income tax and benefit return. You should give the employee a letter confirming the date and the amount repaid.

#### Note

You cannot adjust the employee's T4 slip to reduce the total employment income, the CPP pensionable and EI insurable earnings. Nor can you adjust your pay records to reflect the amount of repayment. Your part for CPP pensionable and EI insurable earnings is not refundable.

#### Example

In September 2004, Peter becomes ill and is unable to work. You continue to pay his regular salary. In February 2005, he begins to receive payments from a wage-loss replacement plan and repays you the amount of salary he received from September 2004 to February 2005. Do not adjust his 2004 T4 slip to reduce the total employment income and CPP pensionable and EI insurable earnings or the current-year pay records to reflect the amount of repayment. Peter can claim a deduction for the repayment on his 2005 income tax and benefit return.

## Year-end calculation of deductions for employee CPP contributions (2004)

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 does not, however, apply 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 in this guide and in Part B of the *Payroll Deductions Formulas for Computer Programs*. You can get the information you need to complete this calculation from each employee's payroll master file.

Using the calculation will help you avoid the possibility of receiving a *Pensionable and Insurable Earnings Review* (PIER) statement.

To verify deductions, 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 turned 18 .....  | \$ _____ |   |
| ■ the amount the employee received after the month the employee turned 70 .....   | \$ _____ |   |
| ■ the amount the employee received during and after the month the employee began to receive a CPP retirement pension .....  | \$ _____ |   |
| ■ the amount the employee received during the months the employee was considered to be disabled under CPP or QPP .....  | \$ _____ |   |
| ■ the amount received after the month the employee died .....   | \$ _____ |   |
| Total earnings not subject to CPP contributions .....   | \$ _____ | 2 |
| C. Pensionable earnings for the period of employment (the amount cannot be more than \$40,500 for 2004) – Line 1 minus line 2 .....   | \$ _____ | 3 |
| <b>Note</b>   |          |   |
| 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 table on 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 that apply to the earnings listed in section B above.....         |          |   |
| Prorated basic exemption that applies to the period of pensionable employment (for more information, see Chapter 2). The amount cannot be more than the maximum basic yearly exemption of \$3,500 ..... |          |   |
|   | \$ _____ | 4 |
| E. CPP contributory earnings for the period of pensionable employment – Line 3 minus line 4.....  | \$ _____ | 5 |
| F. Enter the CPP contribution rate for employees for the year (4.95% for 2004).....   | x _____  | 6 |
| G. Employee's required CPP contribution for the period of pensionable employment (the amount cannot be more than \$1,831.50 for 2004) – Line 5 multiplied by the rate on line 6 .....                   | \$ _____ | 7 |
| H. Enter the CPP contributions that you 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 line 8 and line 9 and include the total in box 16, "Employee's CPP contributions," of the T4 slip.

**Note**

If the amount on line 9 is **negative**, you may have overdeducted. If this is the case, verify the employee's master file to ensure that the amounts on line 1 and line 3 are correct. For more information on refunding CPP overpayments, see Chapter 2 of this guide.

## Employee's CPP basic exemption for various 2004 pay periods

Pay period	Basic exemption
Annually (1)	\$3,500.00
Semi-annually (2)	\$1,750.00
Quarterly (4)	\$875.00
Monthly (12)	\$291.66
Semi-monthly (24)	\$145.83
Bi-weekly (26)	\$134.61
Bi-weekly (27)	\$129.62
Weekly (52)	\$67.30
Weekly (53)	\$66.03
22 pay periods	\$159.09
13 pay periods	\$269.23
10 pay periods	\$350.00
Daily (240)	\$14.58
Hourly (2000)	\$1.75

## Year-end calculation of deductions for employee EI premiums (2004)

The following year-end calculation will help you verify an employee's EI premiums before you complete and file the T4 slips. This optional calculation is the **only one we authorize**. We based the calculation on information in this guide and in Part C of the *Payroll Deductions Formulas for Computer Program*. You can get the information you need to complete this calculation from each employee's payroll master file.

Using this calculation will help you avoid the possibility of receiving a *Pensionable and Insurable Earnings Review* (PIER) statement.

To verify the EI deduction, follow these steps:

- A. Enter the insurable earnings for the year as indicated in each employee's payroll master file for the period of insurable employment. If the insurable earnings are less than the maximum and different from the gross income (box 14) reported on the T4 slip, report the amount on the T4 slip in box 24, "EI insurable earnings." The amount should not be more than the maximum annual amount of \$39,000..... \$ \_\_\_\_\_ **1**
- B. Enter the employee's EI premium rate for the year (1.98% for 2004) ..... × \_\_\_\_\_ **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 annual amount of \$772.20 for 2004..... \$ \_\_\_\_\_ **3**
- D. Enter the employee's EI premium deductions for the period of insurable employment as indicated in the employee's payroll master file..... \$ \_\_\_\_\_ **4**
- E. Line 3 minus line 4. 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 line 4 and line 5, and include the total in box 18, "Employee's EI premiums," on the T4 slip.

### Note

If the amount on line 5 is **negative**, you have overdeducted. If this is the case, verify the employee's payroll master file to ensure that the amount on line 1 is correct. For more information on refunding EI overpayments, see Chapter 3 of this guide.



## Address of the Ottawa Technology Centre

If you file **on paper**, send the original summary form and copy 1 of the related T4 slips to:

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

If you need to send us amended slips after you file your return, send copy 1 of the slips to any tax centre.

## Addresses of Tax Centres

Summerside Tax Centre 275 Pope Road Summerside PE C1N 6A2	Jonquière Tax Centre 2251 René-Lévesque Boulevard Jonquière QC G7S 5J1
Shawinigan-Sud Tax Centre 4695 – 12th Avenue Shawinigan-Sud QC G9N 7S6	Sudbury Tax Services Office 1050 Notre-Dame Avenue Sudbury ON P3A 5C1
Winnipeg Tax Centre 66 Stapon Road Winnipeg MB R3C 3M2	Surrey Tax Centre 9755 King George Highway Surrey BC V3T 5E1
St. John's Tax Centre 290 Empire Avenue St. John's NL A1B 3Z1	

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