Employers' Guide

Payroll Deductions (Basic Information)

1999 - 2000

T4001(E) Rev. 99 0185

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 Sunday, your information return is due the next business day.

An information return consists of two parts:

- slips; and
- the related summary form.

A summary form alone is not an information return.

When you send us copies of the slips, keep T4s two to a page and T4As and T4Fs three to a page.

Information returns on magnetic media

To get copies of self-mailing T4 slips for 2000, send your order to the following address before the end of August 2000:

Publishing Directorate
Canada Customs and Revenue Agency
17th floor
Albion Tower
25 Nicholas Street
Ottawa ON K1A 0L5

Regular remitter (2000)

If you are a regular remitter, you have to remit your deductions so we receive them on or before the 15th day of the month following the month you made the deductions.

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

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

Quarterly remitter (2000)

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 a Canadian financial institution or tax centre.

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

For more information, see the employers' guide called *Remitting Payroll Deductions*, or contact any tax services office.

Accelerated remitter (2000)

Threshold 1

If your average monthly remittance in 1998 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 holiday, your remittance is due on the next business day.

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

Threshold 2

If your average monthly remittance in 1998 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 holidays) after the end of the following periods:

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

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

Do you use an automated teller machine?

If you use an automated teller machine (ATM) to send a payment to us, 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.

As of November 1, 1999, Revenue Canada became the Canada Customs and Revenue Agency.

Problem Resolution Program

We at Canada Customs and Revenue Agency (CCRA) are always looking at ways to make it easier for you to deduct payroll deductions, and resolve any problems you may have.

If you have a problem, you can call, write, or visit any tax services office. You can also write or visit any tax centre.

You can find the address and the telephone numbers for your tax services office listed in the Government of Canada section of the telephone book. The addresses of tax centres are listed at the end of this guide.

If, after this step, your problem is not resolved to your satisfaction, you should get in touch with the Problem Resolution Program co-ordinator of any tax services office.

TTY users

If you have a teletypewriter (TTY) attached to your telephone, you can call our toll-free, bilingual enquiry service at 1-800-665-0354 during regular hours of service.

Ordering publications

Throughout this guide, we mention other publications that cover topics in more detail. You can now order the CCRA publications you need, as well as blank copies of T4 and T4A slips, over the Internet. Complete the order form that you can find at **www.ccra-adrc.gc.ca**, or call **1-800-959-2221**.

Your opinion counts!

We review this guide each year. If you have any comments or suggestions that would help us improve the information it contains, we would like to hear from you.

Please send your comments to:

Client Services Directorate
Canada Customs and Revenue Agency
~~Room 8000~~
~~400 Cumberland Street~~
Ottawa ON K1A 0L5

Visually impaired persons can get this publication in braille or large print, or on audio cassette or computer diskette by calling 1-800-267-1267 weekdays between 8:15 a.m. and 5:00 p.m. (Eastern Time).

Keep this guide

We will not publish the entire guide next year. We will produce only an update.

This measure is part of our ongoing commitment to provide the best possible service to our clients in an efficient and cost-effective way.

This guide uses plain language to explain the most common tax situations. If you need more help after you read this guide, contact any tax services office or tax centre.

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

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Important changes to last year's guide

This publication is a shorter version of last year's guide called *Employers' Guide to Payroll Deductions – Basic Information.* We have removed certain sections and chapters to create new employer guides, each of which focuses on a particular topic.

This guide contains information on how to deduct Canada Pension Plan contributions, Employment Insurance premiums, and income tax from amounts you pay to your employees. **Please note that this guide will not be sent to you anymore**. If you would like one, you can get a copy in one of the two ways:

- complete our order form that you can find on the Internet at **www.ccra-adrc.gc.ca**; or
- call **1-800-959-2221**.

You will now find the information you need on T4 and T4F slips in the new employers' guide called *Filing T4 and T4F Slips and Summary Forms.* You will find information on the T4A slip, as well as information on death benefits, lump-sum payments, patronage payments, and retiring allowances in the new employers' guide called *Filing the T4A Slip and Summary Form.* **These guides will be mailed to you**. However, if you do not receive a copy and would like to get one, you can get it in one of the two ways described above.

You will find information on how to remit Canada Pension Plan contributions, Employment Insurance premiums, or income tax deductions, in the new employers' guide called *Remitting Payroll Deductions.* You can get this guide in one of the two ways described above.

The employers' guide called *Taxable benefits* **will not be sent to you anymore**. If you would like to get a copy, you can get it in one of the two ways described above.

Tax changes announced in the federal budget on February 16, 1999

Form TD1, *Personal Tax Credits Return*

Section 1 – Basic personal amount

Under proposed changes, the basic personal amount will increase to $6,794 for taxation year 1999, and to $7,131 for 2000 and subsequent years.

Section 2 – Spousal amount

Under proposed changes, the spousal amount will increase to $5,718 for taxation year 1999, and to $6,055 for 2000 and subsequent years.

The threshold at which the spousal amount begins to be reduced on a dollar-for-dollar basis by the income of the dependant, will be increased from its current level of $538 to $572 for 1999 and $606 for 2000 and subsequent years.

Section 3 – Equivalent-to-spouse amount

Under proposed changes, the equivalent-to-spouse amount will increase to $5,718 for taxation year 1999, and to $6,055 for 2000 and subsequent years.

The threshold at which the equivalent-to-spouse amount begins to be reduced on a dollar-for-dollar basis by the income of the dependant, will be increased from its current level of $538 to $572 for 1999 and $606 for 2000 and subsequent years.

For more information, see our *Payroll Deductions Tables* (Effective July 1, 1999).

Retroactive lump-sum payments

Under proposed changes, certain lump-sum payments totaling $3,000 or more (not including interest) will be 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.

For more information, see "Retroactive lump-sum payments," in Chapter 5 of this guide.

Construction businesses

Construction businesses have to record payments they make to subcontractors who provide construction services, and report these payments in a T5018, *Summary of Contract Payments*, information return. The due date for the first reporting period is June 30, 2000.

For more information, contact any tax services, or visit our Web site at: **www.ccra-adrc.gc.ca/contract**

End of income tax exemption for Yukon Indians

As a result of the provisions of certain land claim and self-government agreements concluded between the federal government and Yukon First Nations, Indians and Indian bands in the Yukon will no longer benefit from an income tax exemption for Indian property on reserves under section 87 of the *Indian Act.*

Effective January 1, 1999, the income tax exemption ceases to apply. Consequently, all employment-related income payments received after 1998 by a Yukon Indian resident in the Yukon at the time the payments are received are taxable.

This change does not affect Indian reserves outside the Yukon, where section 87 continues to apply as before.

Yukon Indians remain registered status Indians.

A similar change came into effect on February 15, 1998, for goods and services tax/harmonized sales tax (GST/HST) applicable to taxable goods purchased by Yukon Indians.

Employment insurance premium relief – Federal Youth Hires Program

If you employ youths aged 18 to 24 in the 1999 or 2000 calendar years, you could be eligible under the Federal Youth Hires Program to receive premium relief. The Federal Youth Hires Program is part of the Government of Canada's Youth Employment Strategy and will provide two years of relief from Employment Insurance (EI) premiums for employers hiring more youths between the ages of 18 to 24 (the target group). Any increase in the insurable earnings for this target group over the 1998 base amount will be exempt from employer EI premiums in the 1999 and 2000 calendar years.

In January 2000, we will calculate the 1998 total insurable earnings for employees aged 18 to 24 for each employer, based on information provided in their 1998 T4 and T4F information returns, and provide this amount to each employer if they employed any youth in the target group in 1998. We will also calculate any premium relief to which the employer is entitled for 1999 and 2000 when we process his or her 1999 and 2000 T4 and T4F information returns. The employer will not need to make a separate application to receive this amount.

For more information about this program, see the pamphlet called *Federal Youth Hires Program,* or Chapter 3 of this guide.

Workers' compensation board (WCB) awards

For 2000 and later years, reporting requirements will change for employers who continue to pay salary, advances or top-up amounts to employees who are waiting for a decision on their WCB claims.

If you have an employee who files a claim for WCB benefits (to compensate for lost wages) **before** January 1, 2000, follow the instructions in Chapter 6 of this guide when you prepare the 1999 T4 slip that is due February, 2000.

However, **starting January 1, 2000**, if your employee files a claim for WCB benefits (as compensation for lost wages), you have to follow the instructions in the information sheet called *Workers' Compensation Board (WCB) Awards,* which we sent to you in October. If you did not receive a copy, you can get one by completing the form that you can find on the Internet at **www.ccra-adrc.gc.ca**, or call **1-800-959-2221**.

Notice

Year-end calculation of CPP contributions and EI premiums

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 exempted 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 programs and methods 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 of the T4 slip. In this case, we would issue an unauthorized refund to the employee.

The pensionable service of employees who receive refunds for apparent CPP overdeductions 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. We do not authorize this practice.

The only year-end calculations of CPP contributions and EI premiums that we authorize are the ones we provide at the end of this guide. This calculation also appears on pages 74 and 77 of the publication *Payroll Deductions Formulas for Computer Programs – 69th Edition* (Effective January 1, 1999).

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 more information, see Chapter 6.

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. For more information, see Chapter 4.

> **Note**
> Payments to non-resident individuals, partnerships, or corporations for services rendered in Canada that they did not perform in the ordinary course of an office or employment are subject to 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.*

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, see the publication called *Non-Resident Withholding Tax Guide.* You can get more information from

Information Circular 77-16, *Non-Resident Income Tax,* and Information Circular 76-12, *Applicable Rate of Part XIII on Amounts Paid or Credited to Persons in Treaty Countries,* and its Special Release.

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 when they open any of the following business accounts with us:

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

The BN also includes accounts for registered charities, Canadian amateur athletic organizations, and national arts service organizations.

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., the buyer of the catch of a self-employed fisher).

The instructions in this guide apply to employers. However, we also provide guidelines for estate executors (or liquidators), administrators, and corporate directors.

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

If you are **self-employed** and you would like information about your coverage under the Canada Pension Plan, see the *General Income Tax and Benefit Guide*, available from any tax services office or tax centre.

> **Note**
> Throughout this guide, we give examples to illustrate information. The rates we use in the examples are not always current, and are only meant to show you how to apply this information. For current rates, see the *Payroll Deductions Tables* (T4032) we issue in January, and in July when required.

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, such as board and lodging, to your employees.

An employer-employee relationship exists if you are in a position 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. If you need more information, see the pamphlet called *Employee or Self-employed?* If you have any doubt whether an employer-employee relationship exists, you can also get a ruling from Revenue Collections at any tax services office 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. A worker can get a ruling by completing Form CPT2, *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.

A ruling for purposes of the *Employment Insurance Act* or Canada Pension Plan can be requested no later than June 30 of the year following the year in which the employment 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; and
- report the employee's income and deductions on the appropriate information return (see the employers' guides called *Filing T4 and T4F Slips and Summary Forms* and *Filing the T4A Slip and Summary Form*) **by the end of February of the following calendar year**.

> **Note**
> As an employer or payer, you hold payroll deductions in trust for the Receiver General for Canada. Therefore, 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.

As the employer, you have to tell your employees how to get a SIN or how to replace a SIN card. Tell them they should contact the local Human Resources Centre of Canada within three days of the day they start work and provide you with their new SIN once they receive it.

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 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.

If you cannot get a SIN from your employee, 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.*

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 receive 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 a permanent resident, make sure that:

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

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

- Canadian citizens;
- landed immigrants; or
- persons who have obtained a work permit.

Hiring someone else could lead to penalties under that Act.

What are the remittance due dates?

New employers are considered to be regular remitters for the first two calendar years. 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 a Canadian financial institution or 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 a Canadian financial institution or tax centre. Threshold 2 employers can only make payments at a **Canadian financial institution**.

For more information on remitting deductions, see the employers' guide called *Remitting Payroll Deductions.*

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 more information about this service, contact any tax services office.

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

In the event of an employer's **liquidation**, **assignmen**t, 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 they 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.

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. Interpretation Bulletin IT-377, *Director's, Executor's and Juror's Fees*, also provides more information.

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 for Canada (CPP, EI, 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

Penalties – Failure to deduct or remit tax, CPP, and EI amounts

We can assess you a penalty of **10%** of the amount you should have withheld the first time that:

- we receive the withheld amounts past the due date;
- you withhold the amounts, but do not remit them;
- you fail to deduct the required amount of income tax; or
- you fail to deduct CPP and EI amounts as required (if you fail to deduct, or if you underdeduct these amounts, we consider this as a failure to remit).

If you are subject to a penalty for any of the above in a calendar year, and a later failure occurs in the same calendar year, we **may** apply a **20%** penalty if the failure was made knowingly or under circumstances of gross negligence.

We only apply the penalty for failing to remit on amounts that are more than $500. However, we may apply a penalty on amounts less than $500 when a person is required to remit deductions and knowingly, or under circumstances of gross negligence, delays remitting the deductions or remits an amount less than the required amount.

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 a 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 employers' guide called *Remitting Payroll Deductions*.

> **Note**
> We expect you to deduct tax, CPP, and EI amounts as required. If you **fail to deduct** these amounts, you are liable for the amounts you should have deducted from the employees' remuneration, plus your share of CPP contributions and EI premiums that you should have paid on your employees' behalf. In the same way, you are liable for amounts that you deduct but **fail to remit**.

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

Interest

We can charge interest from the day your payment is due. For due dates, see "When do you remit deductions?" in the employers' guide called *Remitting Payroll Deductions*.

Waiving penalties and interest

The fairness provisions of the *Income Tax Act* give us certain discretion to cancel or waive all or a portion of interest charges and penalties. This flexibility allows us to consider extraordinary circumstances that may have prevented employers from fulfilling their 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*; 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 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 or tax centre. Attach a copy of the assessment, state the reasons why you do not agree with the assessment, and give all related facts.

For more information on how to appeal a CPP and/or EI assessment, see the booklet called *Your Appeal Rights: Employment and Canada Pension Plan Coverage.*

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 or tax centre. 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 booklet called *Your Appeal Rights: Employment Insurance and Canada Pension Plan Coverage.*

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 speeds up the process of getting the information to your representative without delay. You can get Form RC59 from any tax services office or tax centre.

Payroll deductions tables

Our payroll deductions tables contain information to help you calculate the amount of income tax, CPP contributions, and EI premiums 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, especially if you don't have a computer.
- ***Tables on Diskette* (TOD) (T4143).** This electronic version of the *Payroll Deductions Tables* (T4032) and *Payroll Deductions Supplementary Tables* (T4008) contains the information you need to calculate deductions from your employees' pay for all pay periods.

  Note
  TOD (T4143) is available on the Internet at: **www.ccra-adrc.gc.ca**. It is also available on the Electronic Document Distribution System (EDDS). For more information, see the *Payroll Deductions Tables* (T4032) or contact any tax services office or tax centre.

- ***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 federal and provincial income tax amounts (except Quebec provincial tax), CPP contributions, and EI premiums.

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

All of the *Payroll Deductions Tables* are available for each province and territory, and also for employees working outside Canada.

Which provincial tax tables should you use?

To know which provincial 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 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 obtaining a letter of authority from any tax services office. For more information, see "Letter of authority," in Chapter 4.

Employment in Quebec

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

Contact the ministère du Revenu du Québec, 3800 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 for the year to date, and give the employee a T4 slip. Keep the CCRA's 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.

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

Complete the back of Form PD7A, *Statement of Account for Current Source Deductions*, to let your tax centre know when you expect deductions to begin again. For more information, see the employers' guide called *Remitting Payroll Deductions*.

What should you do if your business stops operating?

Send all income tax deductions, CPP contributions, and EI premiums to your tax centre within seven days of the day your business ends. For more information on how to send in deductions, see the employers' guide called *Remitting Payroll Deductions*.

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 employers' guide called *Filing T4 and T4F Slips and Summary Forms*.

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

Keeping records

Employers and payers who have to withhold or deduct taxes, CPP contributions, and EI premiums 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 for at least six years. However, if you want to destroy them before the six-year period is over, complete Form T137, *Request for Destruction of Books and Records*, to ask for permission to do so. You can get this form at any tax services office or tax centre. 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 as **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:

Example 1
You are the sole proprietor of a business and you decide to incorporate.

Example 2
You and a partner own a business. Your partner leaves the business and sells his half interest to you, making you a sole proprietor.

Example 3
You and your partners own part of a business. The group decides to incorporate.

If you are unsure whether or not your status has changed, contact any tax services office or tax centre.

Chapter 2 – Canada Pension Plan Contributions

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 or Quebec Pension Plan (QPP) retirement or disability pension.

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

Amounts subject to CPP contributions

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

- salary, wages, or other remuneration, commissions, wages in lieu of termination notice, bonuses, and the value of meals and lodging (other than an exempt allowance paid to an employee at a special work site or remote work location);
- most taxable benefits and allowances, certain rent-free and low-rent housing, interest-free and low-interest loans, employer contributions to employees' registered retirement savings plan (RRSP), group term life insurance premiums, personal use of an automobile that an employer owns or leases, holiday trips, subsidized meals, and certain gifts, prizes, and awards;
- honorariums from employment or office, a share of profit that an employer paid, incentive payments, director's fees, fees paid to board or committee members, and executor's (liquidators) or administrator's fees earned to administer an estate (as long as the executor or administrator does not act in this capacity in the regular course of business);
- certain **tips** and gratuities received for services performed (for more information, see Interpretation Bulletin CPP1, *Canada Pension Plan – Tips and Gratuities*);
- 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 which does not qualify as a SUB plan under the *Income Tax Act*, 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
- workers' compensation payments you make to an employee for an injury. Deduct CPP from the amount that **is more than** the following:
  - the maximum dollar amount the Workers' Compensation Board (WCB) pays, known as a **top-up amount**; or
  - the equivalent amount that the WCB would otherwise pay if you are a self-insured employer. For more information, see Chapter 5.

Note
Starting January 1, 2000, if you make workers' compensation payments to an employee, you have to follow the instructions in the information sheet called *Workers' Compensation Board (WCB) Awards*.

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[1] 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**, 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;
- 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[2] in the year;
- employment by a government body as an election worker, if that person:
  - is not a regular employee of the government body; and
  - works for less than 35 hours[3] in a calendar year; and
- 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.

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[1] When the employee works 25 days or more, the employment is pensionable from the first day of work.

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

[3] When the employee works 35 hours or more, the employment is pensionable from the first day worked.

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 more 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;
- workers' compensation payments, if you pay your employee:
  - an advance equivalent to a WCB award for an injury while the WCB claim is in progress; or
  - an amount equivalent to a WCB award as a self-insured employer (for information on situations when CPP contributions are required, see "Amounts subject to CPP contributions" discussed earlier in this chapter—for more information on WCB awards, see Chapter 5); and

> **Note**
> Starting January 1, 2000, if you make workers' compensation payments to an employee, you have to follow the instructions in the information sheet called *Workers' Compensation Board (WCB) Awards*.

- benefits for the residence of clergy members, if the clergy members receive a tax deduction for their residence.

How do you deduct 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.

Example

CPP contributions you deducted from your employees in the month	$140.40
Your share of CPP contributions	$140.40
Total amount you send in for CPP contributions	$280.80

Note

The annual maximum for pensionable 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 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 the employees when they file their income tax returns. Employers are not entitled to a refund.

You may have places of business in Quebec and in another province. If you transfer an employee from Quebec to another province, you can take into account the QPP contributions you deducted from that employee throughout the year. The total contributions to both plans **cannot** be more than the maximum contribution for the year. In such a case, you have to prepare **two** T4 slips:

- one showing the province of employment as Quebec, the QPP deducted, the applicable pensionable earnings, and the remuneration the employee earned in Quebec; and
- the other showing the applicable province of employment (other than Quebec), the CPP deducted, the applicable pensionable earnings, and the remuneration the employee earned in the other province.

Employees' contributions

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

- a **maximum amount of pensionable earnings** from which you deduct CPP ($37,400 for 1999);
- a **basic yearly exemption**, which is a base amount from which you do not deduct CPP contributions ($3,500 for 1999); and
- a **rate** you use to calculate the amount to deduct from your employees (3.5% for 1999).

Note

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

Methods for deducting CPP contributions

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

- the table method; or
- the manual calculation method.

Table method

Use the *Payroll Deductions Tables* (T4032) for the current tax year to determine the amount you should deduct from your employees' remuneration. You will find the CPP tables in Part B of that publication (except Quebec). The amounts indicated in the tables already include the basic yearly exemption. Use the tables in the following way:

- Find the page that corresponds to your pay period. For example, if you pay the employee weekly, go to the "Weekly (52 pay periods a year)" table.

- Look down the "Pay" column for the bracket that includes the employee's gross pay (this includes any taxable benefits).
- Beside this amount, you will find a corresponding amount in the "CPP" column. This is the amount of contributions to withhold from the employee's pay. As an employer, you have to pay the same amount as your employee.

Note
The *Payroll Deductions Tables* (T4032) include the amount of CPP contributions, EI premiums, and income tax to deduct for weekly, bi-weekly, semi-monthly, and monthly pay periods. Use the *Payroll Deductions Supplementary Tables* (T4008) if you have 10, 13, or 22 pay periods. When there is a year with an additional pay period (53 or 27), you must use the manual calculation method (see below) to determine the CPP contributions. *Tables on Diskette* (TOD), which is an electronic version of the *Payroll Deductions Tables* and the *Payroll Deductions Supplementary Tables*, contains the information you need to calculate deductions from your employee's pay for all pay periods.

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 1999) by the number of pay periods in the year.

Step 2: Subtract the result of Step 1 from the employee's gross pay for each pay period.

Step 3: Multiply the result of Step 2 by the current year's CPP contribution rate. 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	$500.00
Taxable benefit	$ 50.00
Total	$550.00

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

Step 2: $550 – $67.30 = $482.70

Step 3: $482.70 × 3.5% = $16.89

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

Employee's contribution	$16.89
Employer's contribution	$16.89
Total	$33.78

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

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 1999) from the year's maximum pensionable earnings ($37,400 for 1999).

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 (3.5% for 1999).

Example 1
Brent turned 18 on May 15, 1999. He receives $2,000 a month ($24,000 a year). This amount is less than the maximum pensionable earnings ($37,400) that are subject to CPP contributions.

January to May 1999:
No CPP contributions

June to December 1999:

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

- Monthly deduction: $2,000 – $291.66 = $1,708.34; $1,708.34 × 3.5% = $59.79

Maximum contribution for 1999:
7/12 × ($37,400 – $3,500) × 3.5% = $692.13

Brent's CPP contributions for 1999 should not be more than $692.13.

Example 2
Maria turned 70 on February l5, 1999. She receives $800 per week ($41,600 per year). This amount is more than the maximum pensionable earnings ($37,400) that are subject to CPP contributions.

January to February 1999:

- Pay period: weekly
- Earnings: $800
- Basic yearly CPP exemption: $3,500
- Prorate basic exemption per week: $3,500 ÷ 52 = $67.30 (do not round off)
- Weekly deduction: $800 – $67.30 = $732.70; $732.70 × 3.5% = $25.64

March to December 1999:
No CPP contributions

Maximum contribution for 1999:
2/12 × ($37,400 – $3,500) × 3.5% = $197.75

Maria's CPP contributions for 1999 should not be more than $197.75. Her employer should not deduct more than this amount.

> **Note**
> For more information on QPP, see the "*Guide for Employers – Deductions and Contributions*," which you can get from the ministère du Revenu du Québec.

Commissions paid at irregular intervals

If an employee always works for a **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 3, 1999, you paid her an $800 commission. The last time you paid her a commission was March 20, 1999. There are 75 days between these two payments.

Calculate the required contribution for 1999 as follows:

- Prorate the basic annual exemption: 75 ÷ 365 (days) × $3,500 = $719.17 (do not round off)
- You have to deduct CPP contributions of: ($800 – $719.17) = $80.83; $80.83 × 3.5% = $2.83
- The amount you have to send in is:

Employee's contribution	$2.83
Employer's contribution	$2.83
Total	$5.66

Employees who are between 60 and 70 years old

These employees can apply to receive 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 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 the month:

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

whichever occurs first.

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

> **Note**
> The requirements are different for QPP. For more information on QPP, see the "*Guide for Employers – Deductions and Contributions*," which you can get from the ministère du Revenu du Québec.

CPP overpayment

If you have overdeducted CPP contributions from your employee and you cannot refund the overpayment, show the full deduction and the correct pensionable earnings on the T4 slip. If you cannot recover your share of the contributions from any future payment for that year, you can ask for a refund by completing Form PD24, *Statement of Overpayment and Application for Refund – Employer's Contributions Under the Canada Pension Plan and/or Premiums Under the Employment Insurance Act*. Your request must be made no later than four years from the end of the year in which the overpayment occurred. You can get Form PD24 and any information you need from any tax services office or tax centre.

Recovering CPP contributions

If you receive an assessment for failing to deduct CPP contributions, we will send you a notice asking you to pay the 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 1999	$3.40
October 1999	$3.40
November 1999	$4.10
December 1999	$4.70
Total	**$15.60**

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

	Employee	Employer	Total
CPP contributions	$15.60	$15.60	$31.20[1]

[1] plus penalties and interest

c) You can recover $15.60 for CPP from the employee as follows:

	Current deduction	Employer's recovery	
January 2000	$4.70	$3.40	(for September 1999)
February 2000	$4.70	$3.40	(for October 1999)
March 2000	$5.10	$4.10	(for November 1999)
April 2000	$5.10	$4.70	(for December 1999)
Total		**$15.60**	

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	letter
Australia	September 1, 1989	8
Austria	November 1, 1987	112
Barbados	January 1, 1986	letter
Belgium	January 1, 1987	121
Chile	June 1, 1998	letter
Croatia	May 1, 1991	letter
Cyprus	May 1, 1991	letter
Denmark	January 1, 1986	letter
Dominica	January 1, 1989	letter
Finland	February 1, 1988	128
France	March 1, 1981	52/53
Germany	April 1, 1988	130
Greece	December 1, 1997	54
Grenada	February 1, 1999	letter
Guernsey	January 1, 1994	letter
Iceland	October 1, 1989	letter
Ireland	January 1, 1992	letter
Italy	January 1, 1979	51
Jamaica	January 1, 1984	letter
Jersey	January 1, 1994	letter
Korea	May 1, 1999	letter
Luxembourg	April 1, 1990	letter
Malta	March 1, 1992	letter
Mexico	May 1, 1996	letter
Netherlands	October 1, 1990	letter
New Zealand	May 1, 1997	8
Norway	January 1, 1987	127
Philippines	March 1, 1997	letter
Portugal	May 1, 1981	55
St. Kitts and Nevis	January 1, 1994	letter
Saint Lucia	January 1, 1988	letter
Saint Vincent and the Grenadines	November 1, 1998	letter
Spain	May 1, 1997	125
Sweden	January 1, 1986	129
Switzerland	October 1, 1995	letter
United Kingdom	April 1, 1998	letter
United States	August 1, 1984	56

You can get application forms for coverage or extension of coverage under the CPP from any tax services office or tax centre.

Note
If you have questions about coverage under the Quebec Pension Plan in other countries, contact the ministère du Revenu du Québec at the following address:

Direction des équivalences et de l'administration des ententes de sécurité sociale du RRQ
4th floor
454 Place Jacques-Cartier
Montréal QC H2Y 3B3

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 1999, 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).

> **Note**
> For more information on employer-employee relationships, see the pamphlet called *Employee or Self-employed?*

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 more information, see Chapter 6.

Which amounts are insurable?

Gratuities and most earnings you pay in cash or partly in kind are insurable. Although the unpaid portion of any earnings from insurable employment which you did not pay because of your bankruptcy, receivership, impending receivership, or non-payment of remuneration for which the employee has filed a complaint with the federal or provincial labour authorities is also insurable, do not report the amount in box 24, "EI insurable earnings," of the T4 slip.

> **Note**
> Employer contributions to employees' registered retirement savings plans (RRSPs) are not considered to be a benefit in kind and are insurable. As a result, you have to deduct EI premiums from these amounts.

For information about Workers' Compensation Board award payments, 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 more 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. If you have any doubts as to whether or not you should deduct EI premiums in this situation, you can request a ruling from Revenue Collections at any tax services office;
- when a corporation employs a person who controls more than 40% of the corporation's voting shares;
- employment that is an exchange of work or services;
- employment by an employer in agriculture, in an agricultural enterprise, or in horticulture, when:
  - the person receives no cash remuneration; **or**
  - works less than seven days[1] 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[1] in the year;
- employment of a person in a rescue operation, as long as you do not regularly employ that person for that purpose;
- when a government employs a person as an election worker, if that person:
  - is not the government body's regular employee; and
  - works for less than 35 hours[2];
- 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;

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[1] If the employee works seven days or more, the employment is insurable from the first day of work.
[2] If the employee works 35 hours or more, the employment is insurable from the first hour worked.

- employment in Canada of a non-resident person, if the unemployment insurance laws of any foreign country require someone to pay premiums for that employment;
- employment in Canada by a foreign government or an international organization, **except** when the foreign government or international organization agrees to cover its Canadian employees under Canada's EI legislation (in this case, the employment is insurable if Human Resources Development Canada agrees);
- 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.*

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 short-week benefits;
- any benefit in kind, except the value of board and lodging which individuals received in regard to their employment in a pay period if you pay them a cash remuneration during this pay period;

  Note
  "Pay period" means the period for which you pay earnings or other remuneration to an employee employed in insurable employment.
- a retiring allowance (for information on the make-up of a retiring allowance, see the employers' guide called *Filing the T4A Slip and Summary Form*);
- a supplement for any part of an unemployment insurance maternity or parental-benefit period;
- a worker's compensation top-up paid by the employer — categories A and B, (see Chapter 5); and

Note
Starting January 1, 2000, if you pay a workers' compensation top-up to an employee, you have to follow the instructions in the information sheet called *Workers' Compensation Board (WCB) Awards.*

- top-ups to wage-loss replacement plans that are not subject to EI premiums according to the information found in 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 the years 1997 to 2000, the annual maximum will be $39,000. **You can find the employee's rate in the 2000 *Payroll Deductions Tables,* available in December 1999. 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 personal income tax returns. Employers are not entitled to a refund.

If you have a **wage-loss replacement plan**, you can ask for a reduction in your premiums.

How can you reduce the rate of your EI premiums?

Some employers have employees covered by a wage-loss replacement plan for short-term disability. If the plan meets certain standards established by the *EI Regulations*, the employer's share of the EI premiums could be paid at a reduced rate (less than 1.4).

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

- an application and the appropriate schedules, which you can find in the *Guide for the Employment Insurance Premium Reduction Program* (IN-121-01-99); and
- a copy of the wage-loss replacement plan.

You can get the *Guide for the Employment Insurance Premium Reduction Program* from your local Human Resources Centre of Canada or by contacting the:

Premium Reduction Program
Human Resources Development Canada
Nicolas Denys Building
P.O. Box 11000
Bathurst NB E2A 4T5

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

The employer's share of the EI premiums is only reduced on behalf 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. **The employer will be asked by an officer of the EI Premium Reduction Program 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 account number. 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. 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 amount of EI premiums to deduct?

There are two ways to determine the amount of premiums to deduct: the table method and the manual calculation method.

Table method

Use Part C of the *Payroll Deductions Tables* to determine the amount of EI premiums to deduct from your employees' remuneration.

To use these tables:

- Look down the "Insurable Earnings" column for the bracket that lists the employee's insurable earnings.
- Beside this bracket, you will find a corresponding amount in the "EI premium" column. **Do not** deduct more than the maximum EI premium amount for the year. The yearly maximum appears in the 2000 *Payroll Deductions Tables,* usually available in mid-December each year.

As an employer, you have to pay 1.4 times this amount as your employer premium (unless you qualify for a premium reduction).

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 2000 *Payroll Deductions Tables.*

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 2000 *Payroll Deductions Tables.* .... ×_____%
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 2000 *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 you have overdeducted EI contributions from your employee and you cannot refund the overpayment, show the full deduction and the adjusted insurable earnings on the T4 slip. If you cannot recover your share of the premium from any future payment for that year, you can ask us for a refund by completing Form PD24, *Statement of Overpayment and Application for Refund – Employer's Contributions Under the Canada Pension Plan and/or Premiums Under the Employment Insurance Act.* Your request must be made no later than three years from the end of the year in which the overpayment occurred. You can get Form PD24 and any information you need from any tax services office or tax centre.

Recovering EI premiums

If you receive an assessment for failing to deduct EI premiums, we will send you a notice asking you to pay the contributions. You can recover the employee's premiums from future payments you make 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.

You are responsible for the employer's share.

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 EI premiums.

Example

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

Month	EI
September 1999	$14.00
October 1999	$14.00
November 1999	$18.00
December 1999	$25.00
Total	**$71.00**

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

	Employee	Employer	Total
EI premiums	$71.00	$99.40[1]	$170.40[2]

[1] 1.4 × employee premiums
[2] plus penalty and interest

c) You can recover $71.00 for EI premiums from the employee as follows:

	Current deduction	Employer's recovery	
January 2000	$14.00	$14.00	(for September 1999)
February 2000	$18.00	$14.00	(for October 1999)
March 2000	$14.00	$18.00	(for November 1999)
April 2000	$30.00	$25.00	(for December 1999)
Total		**$71.00**	

Federal Youth Hires Program

We offer this program to employers that operate as a proprietorship, partnership, trust, corporation, or any other type of organization. All employers who hire youths aged 18 to 24 (the target group) are eligible, for 1999 and 2000, for employer EI premium relief under this program, regardless of size. The amount of the premium relief in each of the years will depend on the increase in insurable earnings for this youth group compared to the 1998 base year. There will be no maximum premium relief amount.

The program is designed to be as flexible as possible to encourage employers to hire young workers. Employers will have the option of adjusting their premium payments during the year, or claiming premium relief after the end of the calendar year when they file their T4 or T4F information returns. If you are a new employer who starts a business in 1999 or 2000, you are also eligible for the program.

How does it work?

In January 2000, we will calculate the 1998 total insurable earnings for employees aged 18 to 24 for each employer, based on information provided in their 1998 T4 and T4F information returns, and provide this amount to each employer if they employed any youth in the target group in 1998. You will not need to make any separate application with your T4 or T4F returns for 1999 and 2000 to receive premium relief. We will calculate any amount to which you are entitled for 1999 and 2000, and credit it to your payroll deductions account when we process your information returns.

You can also take advantage of the premium relief **during** each applicable year by being able to stop paying EI premiums once you have reached the equivalent of your 1998 insurable earnings for the target group. In either case, we will validate the date of birth of each employee, and calculate the premium relief available to you when we process your 1999 and 2000 information returns. If necessary, we will make adjustments to your payroll deductions account after processing your information return.

If you are part of an associated group of employers, the premium relief is calculated as if all employers in the group were a single employer. Each employer has to attach a copy of Form RC104, *Federal Youth Hires Program – Associated Group of Employers*, to the T4 or T4F information return when it is filed. You can find Form RC104 in the employers' guide called *Filing T4 and T4F Slips and Summary Forms*. It is also available at any tax services office or tax centre.

Under this program, employers are associated if:

- they are associated with each other under the *Income Tax Act*; or
- one employer acquires a business, or part of a business, from the other employer by purchase, sale, amalgamation, merger, or by any other means.

When determining if you are associated with another employer under the *Income Tax Act*, note that employers who are individuals or partnerships are considered to be corporations under the Federal Youth Hires Program.

For a **partnership**, the employer is considered to be a corporation where all the shares with full voting rights are owned by the members in the same proportion as the member's share of the income or loss of the partnership.

For an **individual**, the employer is considered to be a corporation where the individual owns all the shares with full voting rights of the corporation's capital stock.

The allocation of the premium relief between associated employers is determined in the following way:

- When a written agreement exists, the allocation of the premium relief is determined by the terms of this agreement, if it is signed by all the associated employers and filed with the Minister of National Revenue.
- When a written agreement does not exist, the allocation of the premium relief is determined by the following formula:

$$\frac{A \times B}{C}$$

A = the premium refund relief;

B = the amount paid in insurable earnings for the target group by the associated employer in the year;

C = the total amount paid in insurable earnings for the target group by all the associated employers in the year.

Example 1
A sole proprietor incorporated his business operation on May 9, 1999, and later submits a request for a refund of his employer EI premiums. The proprietorship and the corporation will be considered associated under the program.

Example 2
Company A is a holding company which operates four entities. Company A has one Business Number but makes separate remittances for each entity. In 1999, Company B acquires Entity 1 and later applies for premium relief. Company A and Company B are associated under the program. When calculating Company B's entitlement to premium relief, the collective amount of premiums paid by Company A must be taken into account.

If you are eligible to receive benefits under the Federal Youth Hires Program **and** you are an associated employer under that program, you have to complete Form RC104, *Federal Youth Hires Program — Associated Group of Employers*, that you can find in the employers' guide called *Filing T4 and T4F Slips and Summary Forms*, to claim the amount of credit available to you. You have to file this form with each T4 or T4F information return for 1999 and 2000.

Note
If you file on magnetic media, send Form RC104 to the following address:

Magnetic-Media Processing Team
Ottawa Technology Centre
Canada Customs and Revenue Agency
875 Heron Road
Ottawa ON K1A 1A2

For more information about associated employers under the *Income Tax Act*, see Interpretation Bulletin IT-64, *Corporations: Association and Control – After 1988.*

What amount of relief is available?

To calculate the amount of premium relief to which you will be entitled in 1999 and 2000, you must know your base amount for 1998. The 1998 base amount is the total of all insurable earnings you paid in 1998, for which employer EI premiums were required to be remitted for employees who were aged 18 to 24 at any time during the year 1998.

For 1999, the premium relief is based on the 1999 insurable earnings you paid for which employer EI premiums were required to be remitted for employees aged 18 to 24 at any time in 1999, **minus** the 1998 base amount.

For 2000, the premium relief is based on the 2000 insurable earnings you paid for which employer EI premiums were required to be remitted for employees aged 18 to 24 at any time in 2000, **minus** the 1998 base amount.

For more information about this program, read the pamphlet called *Federal Youth Hires Program,* which was mailed to all employers in February 1999. However, if you did not receive a copy and would like to get one, complete our order form that you can find on the Internet at **www.ccra-adrc.gc.ca**, or call **1-800-959-2221**.

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 52 weeks.

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 employee and the employer 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 7 hours per day or 35 hours per week.

Hours limited by federal or provincial statutes – Full-time employees that 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 – Except for the military and police, stand-by hours are not considered as “hours worked” and therefore do not generate any insurable hours.

Statutory holiday – One hour of work during a statutory holiday equals one hour of insurable employment, even if the rate of pay is higher.

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

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

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 guide *How to Complete the Record of Employment (ROE) Form*, which is available from the nearest Human Resources Centre of Canada.

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 paid commissions and who claim expenses use Form TD1X, *Statement of Remuneration and Expenses.*
- Fishers use Form TD3F, *Fisher's Election to Have Tax Deducted at Source.*

Form TD1, *Personal Tax Credits Return*

This form outlines the credits that employees can claim when filing their income tax returns. Individuals who receive employment income have to complete Form TD1 and give it to their employer.

Employees should complete new TD1 forms within seven days of any changes to a situation that will affect their T1 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.

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.

Explanation of claim codes

Form TD1 has different claim codes. The code you should use depends on the credits an employee claims.

Claim code 0

This represents **no claim amount** allowed. Non-resident employees must use this when they include less than 90% of their total world income to calculate the amount of taxable income they earned in Canada.

> **Note**
> Employees may choose not to claim the basic personal amount when they have more than one employer or payer and have already claimed that amount. In such a case, they must use claim code 0.

Claim codes 1 to 10

The total tax credits an employee claims on Form TD1 will determine which code you should use. Match the total claim amount with the appropriate code and report it in box A.

> **Note**
> If an employee does not complete Form TD1, use claim code 1 (or claim code 0 for non-resident employees).

Claim code X

When a person's credits fall into category X, you have to calculate the amount of tax to deduct. To do this, see Part A of "Step-by-step calculation of tax deductions" in the *Payroll Deductions Tables* for the appropriate province.

Claim code E

If employees certify on Form TD1 that their total income for the year will be less than the total tax credits they claim, do not deduct any tax.

You should advise employees who are employed by or expect to be employed by more than one employer within the year that they should consider income from all those employers when estimating their total annual income.

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 Form TD1 that shows how much more tax they want deducted. This amount stays the same until they file a new 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 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 return.

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

For more information, see the employers' guide called *Taxable Benefits.*

Form TD1X, *Statement of Remuneration and Expenses*

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 the election he or she made in 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.

Reducing tax deductions at source

Certain amounts that you withhold from remuneration you pay to an employee reduce the amount of income tax you have to deduct. When you deduct the following amounts from your employee's gross remuneration for the pay period, you **do not** need a letter of authority from a tax services office before you deduct less tax:

- contributions to a registered pension plan (RPP);
- annual union or professional dues;
- contributions to a retirement compensation arrangement (RCA);
- contributions to a registered retirement savings plan (RRSP) (amounts deducted at source);
- support payments required by a garnishee or a similar order of a court or competent tribunal that you received and which is dated **before** May 1, 1997.

Note
The employee who makes support payments **after** May 1, 1997, is required to get a letter of authority from any tax services office, to have a reduction in tax deductions. For more information, see "Letter of authority" later in this chapter.

Transfer of funds

Normally, if you pay a **retiring allowance** to a resident of Canada, you have to deduct income tax from any part you pay directly to the recipient. However, you do not have to deduct income tax on the eligible amount of the allowance that you directly transfer to the recipient's RPP or RRSP.

For more information, see "Retiring allowances," in Chapter 3 of the employers' guide called *Filing the T4A Slip and Summary Form.*

If you pay a **lump-sum payment of $10,000 or less to an employee**, do not deduct income tax for the part of the payment that you transfer to an RPP or RRSP, when the payment is from:

- a bonus or retroactive payment;
- a superannuation or pension plan;
- an employees profit sharing plan (EPSP);
- a death benefit;
- a deferred profit sharing plan (DPSP);
- a registered retirement savings plan (RRSP);
- an excess amount from a registered retirement income fund (RRIF); or
- an income-averaging annuity contract (IAAC).

Note
If a single amount paid out of a plan (e.g., RPP, DPSP, or RRSP) is **directly** transferred to another plan that qualifies for that transfer, we do not consider the amount paid to the employee. As a result, the tax withholding rules do not apply. A letter of authority is not required.

A cash payment of unused vacation or sick leave is considered a periodic salary payment. A letter of authority is not required.

For more information, see "Lump sum payments," in Chapter 3 of the employers' guide called *Filing the T4A Slip and Summary Form.*

Letter of authority

To reduce withholding tax in situations other than the ones we have just described, you need a letter of authority from a tax services office. This would be the case if, for example, the employee makes regular spousal support payments or contributions to RRSPs (amounts not deducted at source) during the year.

To get a letter of authority, an employee has to write to the Client Services Division of any tax services office and explain why he or she wants less tax deducted. The employee should provide documents to support his or her position.

For example, if the employee makes regular **spousal support payments**, he or she should provide a complete copy of the decree, order, or agreement under which he or she makes payments. If the employee regularly contributes to RRSPs during the year, he or she should provide documents to show the amounts he or she contributes. An employee who lives in one province 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. Keep all letters of authority with your payroll records so our officers can examine them.

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

Note
Periodic **child support payments** made according to a written agreement or a court order dated (or amended to vary the amounts payable) May 1, 1997, or later, are no longer taxable for the recipient or deductible by the payer.

However, the new tax rules do not apply to court orders or written agreements dated **before** May 1, 1997, unless:

- the order or agreement specifies that the child support payments made on or after a particular date (May 1, 1997, or later) will not be taxable or deductible; or

- the recipient and the payer jointly elect that the new tax rules will apply after a particular date (May 1, 1997, or later).

Spousal support payments continue to be taxable for the recipient and deductible by the payer.

For more information, contact any tax services office or tax centre.

Amounts subject to tax deductions

You have to deduct income tax from the following amounts:

- salary, wages, or other remuneration;
- **tips** and gratuities;
- bonuses and vacation pay;
- pensions, wages in lieu of termination notice, retiring allowances (also called severance pay), and death benefits;
- benefits under a supplementary unemployment benefit plan;
- fees and commissions; and
- additional amounts that an employer pays while participating in a job creation project that Human Resources Development Canada has approved.

Note
Salary or wages include an advance against future earnings, the value of free board and lodging, and **any** other taxable allowances or benefits that you should prorate to your pay period.

After you have determined the gross remuneration (including taxable benefits) for the pay period, **subtract** the following amounts **before** you determine the amount of tax to deduct from the taxable income:

- employees' contributions to a registered pension plan (RPP)—for details on how to determine the exact amount of these contributions, see the next section called "Contributions to a registered pension plan (RPP)";
- union dues;
- a deduction for living in a prescribed zone from Form TD1 (prorate this amount for the pay period — for more information, see "Deduction for living in a prescribed zone" discussed earlier in this chapter); and
- deductions that we authorize, such as an RCA contribution, an RRSP contribution deducted at source, or spousal support payments (see the previous section "Reducing tax deductions at source."

Do not subtract CPP contributions and EI premiums from the total salary to determine the amount subject to tax deductions.

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. To determine how much income tax to deduct from the amounts David receives weekly, his employer has to calculate as follows:

Basic salary (weekly)		$500
Plus taxable benefits		$ 50
Total salary		$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	$ 83
Amount subject to tax deductions at source		$467

Note
For more information on determining taxable income, see the section called "Step-by-step calculation of tax deductions" in Part A of the 1999 *Payroll Deductions Tables*.

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

You have to report these contributions on a T4 slip. For information on how to report RPP contributions on a T4 slip, see "T4 - Box 20 – RPP contributions" in Chapter 2 of the employers' guide called *Filing T4 and T4F Slips and Summary Forms.*

How do you calculate tax deductions using the tables?

The tax deductions tables in the *Payroll Deductions Tables* (T4032) are for weekly, bi-weekly, semi-monthly, and monthly pay periods, and for commission earnings. If your pay periods are daily, or you have 10, 13, or 22 pay periods per year, use the *Payroll Deductions Supplementary Tables* (T4008).

Even if the period of employment for which you pay a salary is less than a full pay period, you should continue to use the same tax deductions table.

Example
Your pay period is bi-weekly. A new employee only works 8 days in this pay period. You should continue to use the bi-weekly tax deductions table.

Tax deductions from regular remuneration (Form TD1)

When you have determined the amount that is subject to tax deductions, do the following:

- Turn to the appropriate table for your pay period. For example, if you pay an employee once a month, go to the "Monthly" table in Part D, "Federal and Provincial Tax Deductions," of the *Payroll Deductions Tables*.
- Look down the "Pay" column on the left. Find the income bracket that includes the employee's remuneration from which you will deduct tax.
- Follow the line across to the "Employee's claim code" column on the employee's Form TD1 (e.g., code 1) to find the amount of tax you have to deduct from your employee's pay.

Tax deductions from commission remuneration (Form TD1X)

If you pay an employee by commission or by 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 the section "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, do the following:

  - Use the total remuneration amount (commissions and salary) and the total revised expense amount (on Form TD1X).
  - Go to the "Tax Deductions From Commission Pay" table in Part E of the *Payroll Deductions Tables* to get the percentage figure that you should use. If the employee receives straight commission, apply the percentage to each **gross** amount of commission you pay the employee. If the employee receives a salary with a commission, apply the percentage to both.
  - Apply the percentage to any commission or salary that the employee is entitled to receive, including taxable benefits.

If an employee does not file Form TD1X, or revokes—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 director's fees, see Chapter 5 of this guide. For lump-sum payments, and retiring allowances, see the employers' guide called *Filing the T4A Slip and Summary Form.*

Labour-sponsored funds tax credits

Tax deductions at source can be reduced by the tax credit applicable to the purchase by the employee of approved shares of capital stock in a labour-sponsored venture capital corporation. For more information on the labour-sponsored funds tax credit, see Part A of the July 1999 *Payroll Deductions Tables* (T4032).

How do you calculate tax deductions when you cannot use the tables?

There are times when you cannot use the tax deductions tables to determine the amount of tax to deduct (e.g., an employee earns more than the maximum shown in the tables). In these cases, you have to manually calculate the tax to deduct. For instructions, see "Step-by-step calculation of tax deductions" in Part A of the *Payroll Deductions Tables.*

Non-resident employees who perform services in Canada

Employees not resident in Canada who are in regular and continuous employment in Canada are subject to tax deductions in the same way as Canadian residents. This applies whether or not the employer is a resident of Canada.

Chapter 5 – Special Payments

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;
- 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 30, 1999. His wage record for the year indicates that, to date, you have deducted $300 in CPP contributions.

Maximum CPP contribution for 1999	$1186.50
Contributions to date for the year	$300.00
Balance that you can deduct for Joseph for the rest of the year	$886.50

Multiply the retroactive pay increase of $450 × the CPP rate of 3.5% $15.75

You should deduct CPP contributions of $15.75 from Joseph's retroactive pay increase. This is the lesser of $886.50 and $15.75.

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. The income tax calculated by TOD on a bonus payment is more precise than the table method outlined in the examples below. For more information on TOD, see the heading "Payroll deductions tables," in Chapter 1 of this guide.

Example 1
Once-a-year bonus payment – Donna earns a salary of $400 per week. In September, you gave her a bonus of $300. The claim code on her TD1 form is "1."

Step 1 – Divide the bonus by the number of pay periods in the year ($300 ÷ 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 – Use claim code "1" and the "Federal and Provincial Tax Deductions – Weekly (52 pay periods a year)" table in Part D of the *Payroll Deductions Tables* to find the increased weekly tax you should deduct on the additional $5.77 per week. Calculate as follows:

- Find the tax you deduct on $405.77 per week.
- Subtract the 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. The claim code on his TD1 form 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 ÷ 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 ÷ 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 – Use the "Federal and Provincial Tax Deductions – Weekly (52 pay periods a year)" table in Part D of the *Payroll Deductions Tables* to determine the increased weekly tax you should deduct on the additional $15 per week. Calculate as follows:

- Find the tax you deduct on $420.77 per week.
- Subtract the 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 × $20). The claim code on her TD1 form is "6."

Step 1 – Use the "Federal and Provincial Tax Deductions – Weekly (52 pay periods a year)" table in Part D of the *Payroll Deductions Tables* to determine the increase in the weekly tax that you should deduct because of the increased pay rate. Calculate as follows:

- Find the tax you deduct on $460 per week.
- Subtract the 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 that the pay increase is retroactive. This amount represents the tax you should deduct on the retroactive payment.

Retroactive lump-sum payments

Under proposed changes, certain lump-sum payments totaling $3,000 or more (not including interest) will be 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 will be:

- 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.
- Amounts received for damages for loss of office or employment.
- Employment or Unemployment Insurance benefits.
- Superannuation or pension benefits (other than non-periodic benefits such as lump-sum withdrawals).
- Spousal or child support payments.
- Wage-loss replacement benefits.

The payer will have 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-payment that relates to the current and each of the preceding years covered by the payment.

The payer will be able to provide all the information indicated above to the recipient by using a letter or the new Form T1198, *Statement of Qualifying Retroactive Lump-Sum Payment*.

The recipient will have to send the letter or Form T1198, to us, and request the special tax calculation in his or her income tax return.

For more information on lump-sum payments, see the employers' guide called *Filing the T4A Slip and Summary Form*.

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."

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 the heading "Bonuses and retroactive pay increases."

Note
Include contributions you make to a trust for vacation credits that an employee earns in the employee's income for the same year that you make the contributions. 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 Agreements*.

Director's fees

You have to report director's fees paid to a Canadian resident on a T4 slip, not a T4A slip.

CPP contributions

When you pay director's fees to a corporation director, 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 director's fee of $1,050 every three months. Calculate the contribution in the following way:

- Prorate the basic exemption to get the quarterly amount: $3,500 ÷ 4 = $875.
- The amount from which you deduct contributions is $175 ($1,050 – $875).
- The amount of CPP contributions you send in for this payment is:

Director's contribution ($175 × 3.5%)	$6.13
Employer's contribution	$6.13
Total	$12.26

EI premiums

Do not deduct EI premiums from a director's fee.

Income tax

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

If you only pay a director's fee 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 a director's fee will be more than the claim amount on Form TD1, you have to deduct income tax. To calculate the amount, use the "Federal and Provincial Tax Deductions – Monthly" table in Part D of the *Payroll Deductions Tables* and calculate as follows:

- Divide the fee 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.

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

For more information, see Interpretation Bulletin IT-377, *Director's, Executor's, or Juror's Fees.*

Note
If you pay non-resident director's fees, see the *Non-Resident Withholding Tax Guide.*

Employee profit sharing plan (EPSP)

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.*

Retirement compensation arrangements (RCAs)

Definition

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 under which the custodian may be required to make payments to the employee or another person on, after, or in contemplation of, the employee's retirement, the loss of an office, or substantial change in the services rendered.

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 for Canada.

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 for Canada.

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 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* or contact any tax services office or tax centre.

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.

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*.

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

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.

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.

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 amount of 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 income tax and CPP/QPP contributions, but not EI premiums. In box 29, "Employment code," enter code 14.

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.

For more information on prescribed plans or arrangements, see ATR-39, *Deferred Salary Leave Plan*, or contact any tax services office.

Wage-loss replacement plans

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; and
  - 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 more information about the T4A slip, see the employers' guide called *Filing the T4A Slip and Summary Form*.

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

Workers' Compensation Board (WCB) awards

The instructions below are for 1999 only. Starting January 1, 2000, if an employee files a claim for WCB benefits, you have to follow the instructions in the information sheet called *Workers' Compensation Board (WCB) Awards*.

When an employee cannot work because of an employment-related injury, the WCB may award benefits as compensation for lost wages.

For WCB purposes, there are two types of employers:

- **the self-insured** employer, who is directly liable for the cost of amounts that the WCB awards to employees; and
- **the regular employer**, who is not directly liable for the cost of amounts that the WCB awards to employees. There are three categories of regular employers:
  - Category A, those who stop paying the employee's salary or wages;
  - Category B, those who advance the employee's salary and wages; and
  - Category C, those who continue to pay the employee's salary or wages because of a collective agreement, and the employee does not have to repay the amount.

Note
If your insurance company pays the employee's salary, see example 4 in the section "How to treat WCB payments under a variety of circumstances" at the end of this chapter.

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

Before you prepare your employee's T4 slip, you have to know the exact amount of the WCB award the employee received. If you do not know this amount, contact your WCB office.

The WCB will issue a T5007 slip to your employee. You should not use the amount shown on the T5007 slip to prepare the employee's T4 slip. In certain cases, the amount shown on the T5007 may not be the same as the WCB award the employee received.

WCB advances

You can pay the expected amount of a WCB award to an employee while a claim is pending.

Deducting and reporting

Self-insured employers

- Do not deduct income tax or CPP from an advance. However, deduct EI premiums and report the amount as insurable earnings.
- Do not include the amount in box 14, "Employment income," of the T4 slip.
- Include the amount of the advance in box 24, "Insurable earnings," of the T4 slip.
- Indicate the EI premiums you deducted from the advance in box 18, "Employee's EI premiums," of the T4 slip.

Regular employers (Categories B and C)

Category B

- Do not deduct income tax, CPP, or EI from the advance.
- Do not report the advance on the T4 slip.
- Give your employee a letter that shows the amount of the WCB award that you paid in advance.

Category C

Follow the instructions for self-insured employers.

Top-up amount

The top-up amount is the amount you pay your employee **in addition to** the amount the WCB awards.

Deducting and reporting

Self-insured and **regular employers (Category C)** should deduct income tax and CPP contributions from the top-up amount and EI premiums from the total amount (including the top-up amount) paid to the employee.

Regular employers (Categories A and B) should deduct income tax and CPP contributions but should not deduct EI premiums from the top-up amount.

When you file the T4 slip, include the top-up amount in box 14, "Employment income," and show the related CPP, EI, and income tax you deducted.

> **Note**
> The workers' compensation legislation that applies to the provinces of New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland and Labrador has recently undergone a number of changes.
>
> These legislative changes primarily affect certain payments that self-insured employers and, in some cases, regular employers make to injured workers.
>
> For example, when you pay a top-up amount to an injured worker or continue to pay the injured worker for at least three consecutive working days after the accident, the worker is not entitled to workers' compensation benefits. We consider the remuneration the worker receives to be regular employment income.
>
> In such cases, you have to enter any remuneration on the employee's T4 slip. You do not have to give the employee a letter showing the amount of WCB benefits advanced to the employee.
>
> For more information, contact the WCB in the affected provinces.

Denial of a WCB award

If you pay an advance to your employee and the WCB denies the claim, any amounts related to the advance become regular salary or wages.

Deducting and reporting

You have to deduct income tax, CPP contributions, and EI premiums from the advance. Send in the deductions on or before the due date of your next remittance.

> **Note**
> There may be an agreement between you and an employee that requires the employee to repay salary to you if the WCB denies an award. In this case, the income is not subject to EI premiums (even if the employee does not repay it or if you cannot collect it).

Report the payments you made (including the award) and the revised deductions on an amended T4 slip.

When a claim is settled after the tax year of the injury or accident, you have to issue an amended T4 slip for any previous years.

WCB adjustments

Make an adjustment in the following situations:

- your employee received an award for less or more than expected; or
- you provided an advance to your employee against a WCB award, and the award was later denied.

Advance by a third party

If a third party paid advances against a WCB award through short- or long-term disability or another insurance plan, you do not have to make an adjustment.

How to treat WCB payments under a variety of circumstances

Example 1 – Employer continued to pay regular wages
Annie was injured at work on July 12, 1999, and was away from work for the rest of the year. Her employer continued to pay her regular wages. The WCB accepted her claim and reimbursed the employer for the amount of the WCB award. We consider Annie's wages over the WCB award as a top-up amount.

The **regular employer (Category B)** has to report on a T4 slip:

- the amounts paid to Annie up to the date of injury (and the related deductions) in box 14; and
- the top-up amount paid to Annie (and the related deductions) **while** she was off work because of the work-related injury in box 14.

The **self-insured employer** and the **regular employer (Category C)** have to report on a T4 slip:

- the amounts paid to Annie up to the date of the injury (and related deductions) in box 14;
- the top-up amount paid to Annie (and the related deductions) **while** she was off work because of the work-related injury in box 14; and
- the salary paid while Annie was off due to the work-related injury in box 24, "EI insurable earnings." Also, report the premiums that you deducted on this amount in box 18, "Employee's EI premiums. "

Example 2 – Employer did not continue to pay regular wages
Kevin was injured on April 1, 1999, and was away from work for three months. His employer did not continue to pay his wages. The WCB accepted the claim and paid Kevin directly. He returned to work on July 2, 1999.

The **regular employer (Category A)** has to report on a T4 slip:

- the amounts paid to Kevin up to the date of injury (and the related deductions) in box 14; and
- the amounts paid **after** Kevin returned to work on July 2, 1999 (and the related deductions) in box 14.

This example does not apply to a **self-insured employer**, since the WCB pays the award to the employee.

Example 3 – Employer paid top-up amount
Louise was injured at work on November 15, 1999, and was away from work for the rest of the year. The WCB accepted her claim and paid Louise directly. Her employer paid the difference between the WCB award and her regular wages (a top-up amount).

The **regular employer (Category B)** has to report on a T4 slip:

- the amounts paid to Louise up to the date of injury (and the related deductions) in box 14; and
- the top-up amount paid to Louise **while** she was off work because of the work-related injury (and the related deductions) in box 14.

The **regular employer (Category C)** has to report on a T4 slip:

- the amounts paid to Louise up to the date of the injury (and related deductions) in box 14;
- the top-up amount paid to Louise (and the related deductions) **while** she was off work, because of the work-related injury (box 14); and
- the salary paid while Louise was off because of the work-related injury (box 24, "EI insurable earnings") and the premiums that were deducted (box 18).

This example does not apply to the **self-insured employer**, since the WCB paid the award directly to the employee.

Example 4 – Insurance company pays employee's salary
Gloria was injured in May 1998 and was paid by the employer's insurance company until May 1999. The WCB accepted the claim in June 1999 and reimbursed the employer. The employer has to report the income amounts as follows:

- the **regular employer** has to report in box 14 of the T4 slip the remuneration paid to Gloria up to the date of injury (and the related deductions); and
- the insurance company has to report in box 28, "Other income" of the T4A slip the amounts paid to Gloria from the date of injury to the end of 1998 (and the related deductions).

The WCB accepts the claim in 1999 and reimburses the employer at that time. The WCB has to issue Gloria two copies of T5007 slip, *Statement of Benefits*, showing the amount of the WCB award for 1998 and 1999. If the employer has reimbursed the insurance company, the insurance company will give a receipt (a letter) to Gloria. This will allow her to claim a deduction on her income tax return for 1999.

This example does not affect the **self-insured employer**, since the WCB is making the payment.

Note
In Quebec, WCB is called Commission de la santé et de la sécurité au travail (CSST). CSST legislation is different from WCB legislation. For more information on CSST, get the *Guide for Employers* from your ministère du Revenu du Québec office.

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[1]	EI premiums[1]	Tax deductions
	1999 – 2000	1999 – 2000	1999 – 2000
1. Bonuses and retroactive pay increases	Yes	Yes	Yes
2. Overtime pay	Yes	Yes	Yes
3. Vacation pay and statutory holidays	Yes	Yes	Yes
4. Director's fees (paid to residents of Canada)	Yes	No	Yes[2]
5. Wages in lieu of termination notice	Yes	Yes	Yes
6. Retirement compensation arrangements	No	No	Yes
7. Salary deferral arrangements	Yes	Yes/No[3]	Yes
8. Workers' Compensation Board (WCB) awards[5]	No	No[4]	No
■ Top-up – Regular employers (Categories A and B)	Yes	No	Yes
■ Top-up – Self-insured and regular employers (Category C)	Yes	Yes, including total amount of salary	Yes
■ WCB advance – Self-insured employers	No	Yes	No
■ WCB advance – Regular employers (Category B)	No	No	No
■ WCB advance – Regular employers (Category C)	No	Yes	No
■ Denial of award	Yes	Yes	Yes

Notes

1. If you have 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.
2. Do not deduct income tax if you pay only a director's fee, and you estimate that the total fee will not be more than the claim amount reported on Form TD1.
3. To determine if you have to deduct EI, see "Salary deferral arrangement" in this chapter.
4. Deduct premiums if you are a self-insured employer who pays a WCB benefit directly to your employee, or if you are a regular employer (Category C). See "Workers' Compensation Board (WCB) awards" in this chapter.
5. Starting January 1, 2000, if you pay workers' compensation payments to an employee, you have to follow the instructions in the information sheet called *Workers' Compensation Board (WCB) Awards*.

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. See the explanations below under the heading "Special rules for EI premiums, CPP contributions, and income tax deductions."

Barbers and hairdressers

This class of workers includes barbers, hairdressers, **manicurists**, and other people who provide services in a barbershop or hairdressing business.

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

Drivers of taxis and other passenger-carrying vehicles

In the case of a taxi business, we consider you to be operating a business if you supply one or more vehicles to others, and if you provide facilities like taxi stands and dispatch services.

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 independent workers often go through periods without work. The regulation applies to drivers of taxis and other passenger vehicles who:

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

The earnings of these workers are insurable even though they are self-employed.

If you are the operator of a taxi or passenger-vehicle business, we consider you to be the employer of your drivers for EI purposes.

Special rules for EI premiums, CPP contributions, and income tax deductions

The following rules apply to barbers and hairdressers, and to drivers of taxis and other passenger-carrying vehicles, whom we do not consider to be employees.

EI premiums

If you are the owner or operator of 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 of $39,000.

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 following two amounts:

   - 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.

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 more information, see Chapter 3 of this guide.

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.

How to complete the T4 slip

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 the 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 portion 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 hairdresser 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.

Fishers and Employment Insurance

Special rules apply to fishers. If you are a designated employer of fishers who have insurable earnings, see the employers' guide called *Filing T4 and T4F Slips and Summary Forms*.

For more information, get the pamphlet called *Fishers and Employment Insurance*.

> **Note**
> The publication called *Payroll Deductions Tables* 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 has 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) A self-employed worker who is engaged by an agency is still considered to be in insurable and pensionable employment when working under the following conditions:

   - the agency pays the worker; and
   - the client directs and controls the worker.

   The agency has to deduct CPP contributions and EI premiums for the worker, but not income tax. The agency has to prepare a T4 slip for the worker in the usual way. Enter code 11 in box 29 "Employment Code."

c) **We do not consider** a self-employed worker to be an insurable and pensionable employee when working for a client under the following conditions:

   - the client pays the worker; and
   - the client does not direct or control the worker.

   In such cases, neither the agency nor the client has to deduct CPP contributions, EI premiums, or income tax. Also they do not have to report the amounts paid to the worker on an information slip, because the worker is considered to be an independent worker.

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 income tax, CPP contributions, and EI premiums. 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 pamphlet called *Employee or Self-employed?* You 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. A worker can get a ruling by completing Form CPT2, *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 an employer?

You are considered an employer when you:

- hire a person;
- establish regular working hours (e.g., 9:00 a.m. to 5:00 p.m.); and
- assign and supervise the tasks performed.

If you are not sure that you are an employer based on these criteria, see the pamphlet called *Employee or Self-Employed?*

What are your responsibilities as an employer?

As an employer, you have to meet the following obligations:

- register as an employer with the CCRA;
- withhold and remit income tax, the employee and employer share of EI premiums, and CPP contributions (see Chapters 2, 3 and 4 of this guide, and the employers' guide called *Remitting Payroll Deductions*); and
- prepare a T4 at the end of the calendar year to report the salary paid (see the employers' guide called *Filing T4 and T4F Slips and Summary Forms*).

For more information, contact any tax services office.

Employees with power saws

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 at their own expense.

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

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, under the *Indian Act*, is registered as an Indian or is entitled to be registered as an Indian.

On a reserve

"On a reserve" is defined under the *Indian Act*, and includes all settlements we consider to be reserves for purposes of the *Indian Settlements Remission Order* and any other areas similarly treated under federal legislation (for example, Category I-A lands under the *Cree-Naskapi (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 located on a reserve and is tax-exempt.

An Indian's employment income from a particular employment is not exempt from income tax if one of the main reasons for the existence of that employment relationship is to establish a connecting factor to a reserve.

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.* This form is available at any tax services office or tax centre. Keep a completed form on file for each employee, as we may ask to review it.

Taxable salary or wages paid to status Indians

Income tax, Canada Pension Plan (CPP) contributions, and Employment Insurance (EI) premiums

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

How to complete the T4 and T4A slips

Complete all T4 slips in the usual way. See the employers' guide called *Filing T4 and T4F Slips and Summary Forms* for information on completing these slips.

Complete all T4A slips in the usual way. You may need to enter footnotes. See the employers' guide called *Filing the T4A Slip and Summary Form* 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*, which is available at any tax services office or tax centre. 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 or QPP 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/QPP 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.

> **Note**
> EI benefits, retiring allowances, CPP payments, QPP 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.

End of income tax exemption for Yukon Indians

As a result of the provisions of certain land claim and self-government agreements concluded between the federal government and Yukon First Nations, Indians and Indian bands in the Yukon will no longer benefit from an income tax exemption for Indian property on reserves under section 87 of the *Indian Act*.

Effective January 1, 1999, the income tax exemption ceases to apply. Consequently, all employment-related income payments received after 1998 by a Yukon Indian resident in the Yukon at the time the payments are received are taxable. Yukon Indians remain registered status Indians.

This change does not affect Indian reserves outside the Yukon, where section 87 continues to apply as before.

A similar change came into effect on February 15, 1998, for goods and services tax/harmonized sales tax (GST/HST) applicable to taxable goods purchased by Yukon Indians.

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*, which is available at any tax services office or tax centre.

Special rules apply to employment on ships, trains, trucks, and aircraft. To find out more about these rules, contact a CPP/EI 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 whom Canada has reciprocal social security agreements under the heading "International agreements with foreign governments" in Chapter 2 of this guide.

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 relating 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, the employee will receive a letter of authorization stating that you can reduce the amount of tax deductions. Keep this letter for our officers to examine. If you would like 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 which 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. 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

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, contact any tax services office or tax centre.

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:

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

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

For more information, contact any tax services office or tax centre.

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.

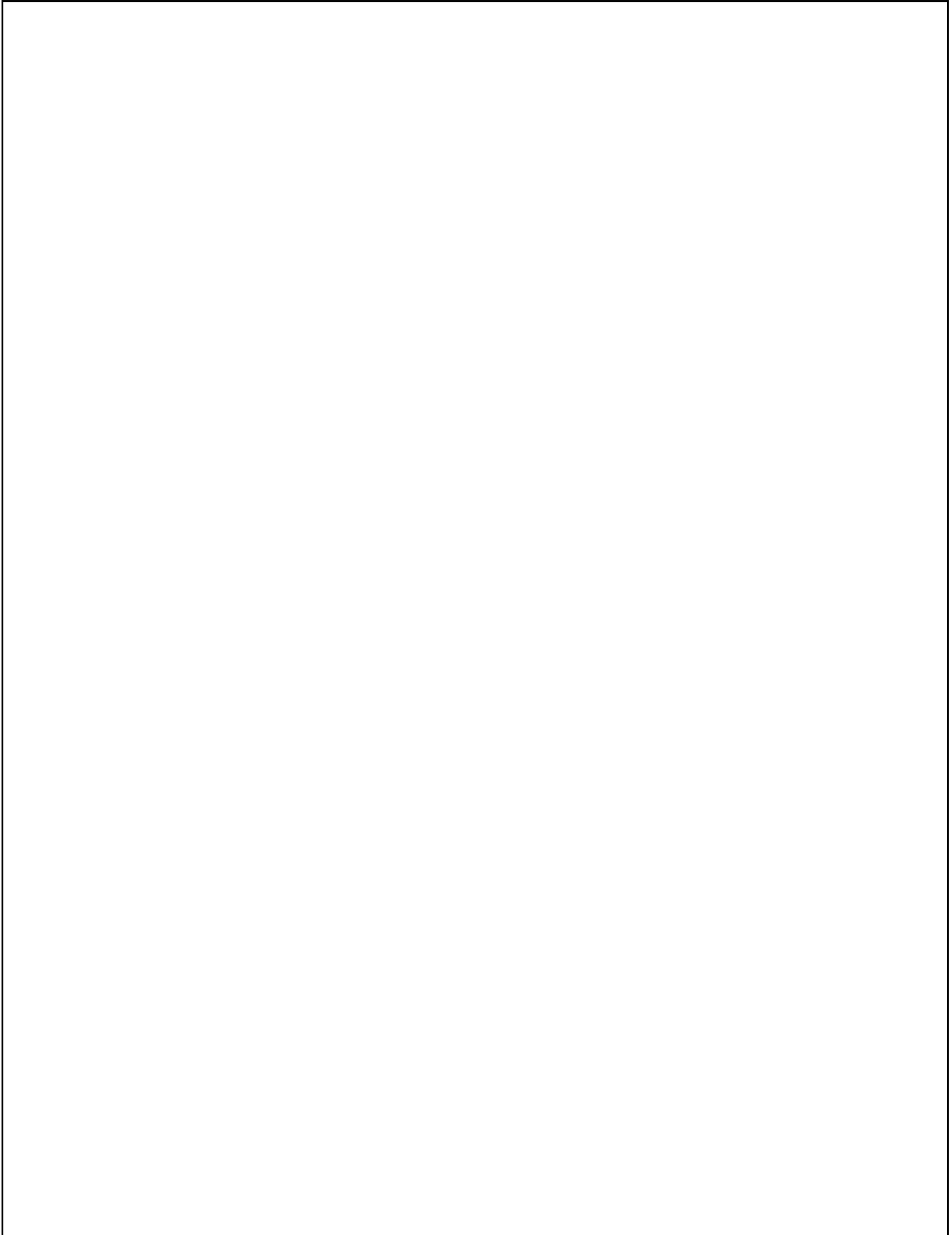
For more information, contact any tax services office or tax centre.

Sample Forms

T4 slip

T4F slip

T4 Summary form



T4F Summary form

Year-end calculation of deductions for employee Canada Pension Plan contributions (1999)

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 have authorized**. It is not, however, applicable to employees who have earnings listed in section B below and who earned more than the annual maximum pensionable earnings. For these employees, prorate the maximum contribution for the year. We based the calculation on information in this guide and in Part B of the *Payroll Deductions Formulas for Computer Programs – 69th Edition* (effective January 1, 1999). 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 reached age 18 .... $ ________
- the amount the employee received after the month the employee reached age 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 $37,400 for 1999) – Line 1 minus line 2 .... $ ________ **3**

Note
If you have entered an amount on line 2, enter the amount on line 3 in box 26, "Pensionable earnings," on the T4 slip.

D. Enter the basic exemption for the pay period (see 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 applicable 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 amount 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 (1999 – 3.5%) .... × ________ **6**

G. Employee's required CPP contribution for the period of pensionable employment (the amount cannot be more than $1,186.50 for 1999) – line 5 multiplied by the rate on line 6 .... $ ________ **7**

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

I. Line 7 minus line 8. The result should be zero .... $ ________ **9**

If there is an amount on line 9 and it is positive, you have underdeducted. If this is the case, add lines 8 and 9 and include the total in box 16, "Employee's CPP contributions," of the T4 slip.

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

Employee's CPP basic exemption for various 1999 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 Employment Insurance premiums (1999)

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 have authorized**. We based the calculation on information in this guide and in Part C of the *Payroll Deductions Formulas for Computer Programs – 69th Edition* (effective January 1, 1999). 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 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 (1999 – 2.55%).......... × ________ **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 $994.50.......... $ ________ **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. Subtract line 4 from line 3. The result should be zero. .... $ ________ **5**

If the amount on line 5 results in a difference and it is positive, you have to make an adjustment. Add lines 4 and 5, and include the total in box 18, "Employee's EI premiums," on the T4 slip.

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.