

# Guide for Employers

Source deductions  
and contributions

**2005**





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The information contained in this guide does not constitute a legal interpretation of Québec or federal laws or regulations.

When a new fiscal measure affecting the majority of employers is announced and the measure modifies the information contained in this guide, Revenu Québec will, as a rule, send an information sheet to all employers to inform them of the changes.

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# Table of contents

---

<b>1</b>	<b>Introduction</b> .....	10
1.1	Purpose of the guide.....	10
1.1.1	Employers.....	10
1.1.2	Payers.....	10
1.2	Contents.....	10
1.3	Abbreviations used in the guide .....	10
1.4	Information on certain terms used in the guide.....	10
<b>2</b>	<b>Principal changes</b> .....	12
2.1	Reorganization of the guides for employers .....	12
2.2	Source deductions deemed to be held in trust.....	12
2.3	<i>Source Deductions Return</i> (form TP-1015.3-V).....	12
2.3.1	Adjustment of the tax credits respecting dependent children and the advance payment of the tax credit for child-care expenses.....	12
2.3.2	Changes to the basic amount used for source deduction purposes .....	12
2.3.3	Indexation of the amounts on this form .....	13
2.3.4	Exemption from source deductions (deduction code "X").....	13
2.4	Indexation of thresholds for the three income tax brackets.....	13
2.5	Bonuses and retroactive pay.....	13
2.6	RRSPs and RRIFs.....	13
2.7	Worker's compensation – CSST .....	14
2.7.1	Amount paid on the day of the accident .....	14
2.7.2	Amount paid where the employee is absent from work in order to undergo a medical test.....	14
2.8	Calculation of remuneration subject to source deductions of income tax.....	14
2.8.1	Employees entitled to a tax benefit respecting trips made by a resident of a designated remote area .....	14
2.8.2	Employees who participate in the CIP .....	14
2.8.3	Employees of an IFC (other than foreign specialists).....	14
2.8.4	Foreign employees who come to work in Québec.....	15
2.9	Maximum pensionable earnings .....	15
2.10	Salaries or wages exempted from the contribution to the health services fund.....	15
2.10.1	Elimination of the five-year tax exemption for new corporations.....	15
2.10.2	Elimination of the five-year tax exemptions for corporations that carry out an innovative project in a BDC .....	15
2.10.3	Major investment projects .....	15
2.11	Contribution to the financing of the CNT .....	15
2.11.1	Additional contribution to the financing of the CNT .....	15
2.11.2	Maximum remuneration subject to the contribution to the financing of the CNT .....	15
2.12	Elimination of the exemption from compensation tax for IFCs .....	15
2.13	Foreign employees who come to work in Québec.....	16
2.13.1	Five-year exemption period .....	16
2.13.2	Calculation of remuneration subject to source deductions of income tax.....	16
2.14	Elimination of the deduction for market makers .....	16
2.15	Members of the Canadian Forces or a Canadian police force.....	16
2.16	Income-averaging annuity for artists.....	16
2.17	Mathematical formulas .....	17
2.18	Logbook for an automobile made available to an employee .....	17

<b>3</b>	<b>Obligations as an employer or a payer</b> .....	<b>18</b>
3.1	What are your responsibilities to Revenu Québec? .....	18
3.2	Liability.....	18
3.2.1	Directors of a corporation .....	18
3.2.2	Members of a partnership .....	19
3.2.3	Businesses that offer payroll management and processing services.....	19
3.3	Remitting source deductions, employer contributions and compensation tax.....	19
3.3.1	General information .....	19
3.3.2	Frequency of your remittances .....	19
3.3.3	Changing the remittance frequency (annual and quarterly remittances) .....	20
3.3.4	Changing the remittance frequency (twice-monthly and weekly remittances) .....	20
3.3.5	Making remittances .....	21
3.4	Starting a new business .....	24
3.4.1	First remittance .....	24
3.4.2	Registering for Revenu Québec files.....	24
3.4.3	Québec enterprise number (NEQ) .....	24
3.5	You stop making remittances .....	24
3.6	What should you do if an employee leaves? .....	26
3.7	<i>Source Deductions Return</i> (form TP-1015.3-V) .....	26
3.7.1	Filing deadline .....	26
3.7.2	What if the individual does not submit the form?.....	26
3.7.3	Annual indexation.....	26
3.7.4	Deduction code "0" .....	26
3.7.5	Line 19 of the form .....	26
3.7.6	Exemption from source deductions on employment income (deduction code "X").....	26
3.7.7	Must you always take form TP-1015.3-V into account? .....	27
3.7.8	Individuals who are not resident in Canada .....	27
3.8	<i>Application for a Reduction in Source Deductions of Income Tax</i> (form TP-1016-V) .....	27
3.9	Additional withholdings of income tax (forms TP-1017-V, TP-1015.N-V and TP-1015.3-V) .....	28
3.10	Filing your RL-1, RL-2 and RL-25 slips and the relevant summaries .....	28
3.11	Registers and supporting documents .....	28
3.12	Sanctions.....	29
<b>4</b>	<b>Are you required to make source deductions and pay employer contributions and compensation tax?</b> .....	<b>30</b>
4.1	Conditions that must be met .....	30
4.1.1	Table of basic conditions .....	30
4.1.2	Special rules.....	30
4.2	Is the payment subject to source deductions, employer contributions and compensation tax? .....	30
4.2.1	Table.....	30
4.2.2	Additional information .....	33
4.3	Employees who report for work at one of your establishments located in Québec and at one of your establishments located outside Québec .....	35
4.3.1	Remuneration related to a regular pay period .....	35
4.3.2	Remuneration not related to a regular pay period .....	35
4.3.3	Amounts paid to a custodian or a trustee .....	35
4.4	Employees who receive their remuneration from an establishment located outside Québec .....	35
4.5	Services performed by an employee of an employer that does not carry on business in Québec .....	36
<b>5</b>	<b>Source deductions of Québec income tax</b> .....	<b>37</b>
5.1	General information .....	37

5.2	Remuneration subject to source deductions of income tax.....	37
5.2.1	Remuneration for which source deductions must be made using table TP-1015.TI-V or mathematical formulas .....	37
5.2.2	Remuneration on which source deduction must be made using a fixed rate .....	38
5.3	Remuneration not subject to source deductions of income tax.....	38
5.4	Using table TP-1015.TI-V to calculate income tax withholdings .....	38
5.4.1	Calculating the remuneration subject to source deductions of income tax.....	39
5.4.2	Deduction codes for 2005 .....	43
5.4.3	How to use table TP-1015.TI-V.....	43
5.4.4	Remuneration or number of pay periods not covered in table TP-1015.TI-V .....	43
5.5.	Using the mathematical formulas to calculate income tax withholdings.....	45
5.6	Taxable benefits.....	45
5.6.1	General information .....	45
5.6.2	Information concerning certain taxable benefits .....	45
5.7	Vacation pay.....	46
5.8	Bonuses and retroactive pay.....	46
5.9	Overtime pay .....	47
5.9.1	If you are using table TP-1015.TI-V.....	47
5.9.2	If you are using one of the mathematical formulas .....	47
5.10	Tips .....	47
5.11	Directors' fees.....	47
5.11.1	Directors who are resident in Canada .....	47
5.11.2	Directors who are not resident in Canada .....	48
5.12	Commissions .....	48
5.12.1	Employees who do not have to pay their expenses or who did not complete form TP-1015.R.13.1-V .....	48
5.12.2	Employees who pay their expenses and who completed form TP-1015.R.13.1-V within the prescribed time period .....	48
5.13	Single payments.....	49
5.13.1	Retiring allowances.....	49
5.13.2	Death benefits .....	49
5.13.3	Pension payments .....	50
5.13.4	Payments from an RESP.....	50
5.14	Payments from an RRSP or a RRIF.....	50
5.14.1	RRSPs .....	50
5.14.2	RRIFs .....	50
5.15	Earnings supplements .....	51
<b>6</b>	<b>QPP contributions .....</b>	<b>52</b>
6.1	General information .....	52
6.2	Basic data.....	52
6.3	Remuneration subject to QPP contributions .....	52
6.4	Remuneration not subject to QPP contributions .....	53
6.4.1	Excepted employment .....	53
6.4.2	Wage loss insurance benefits.....	54
6.5	Basic exemption.....	54
6.5.1	Continuous employment.....	54
6.5.2	Non-continuous employment.....	54
6.6	Using the tables to calculate withholdings of employee contributions.....	55
6.6.1	How to use the tables .....	55
6.6.2	Overtime pay, bonuses and retroactive pay .....	55

6.6.3	Maximum annual contribution.....	56
6.6.4	Remuneration or number of pay periods not covered in tables TP-1015.TR-V and TP-1015.TR.12-V .....	56
6.7	Using the mathematical formula to calculate withholdings of employee contributions.....	57
6.8	Employer contribution .....	58
6.9	Successive employers .....	58
6.9.1	Corporate amalgamation.....	58
6.9.2	Employee transferred from one employer to another .....	59
6.10	Tips .....	59
6.11	Directors' fees.....	59
6.11.1	Director resident in Canada .....	59
6.11.2	Director not resident in Canada .....	59
6.12	Employees who reach 18 in 2005 or who receive a disability pension.....	59
6.13	Employees who are 70 or older in 2005 or who receive a retirement pension .....	59
6.14	Employees who work for more than one employer .....	59
6.15	Employees who have signed a phrased retirement arrangement .....	60
6.16	Employees transferred from an establishment covered by the CPP to an establishment covered by the QPP .....	60
6.17	Social security agreements .....	60
6.17.1	Québec employee temporarily posted to a foreign country.....	61
6.17.2	Foreign employee temporarily posted to Québec .....	61
6.18	Was the correct amount of contributions withheld during the year? .....	61
6.18.1	Excess contributions.....	62
6.18.2	Insufficient QPP contributions.....	62
6.18.3	Time limit in which Revenu Québec may make an assessment .....	62
6.19	Employee or self-employed? .....	62
<b>7</b>	<b>Contribution to the health services fund .....</b>	<b>63</b>
7.1	General information .....	63
7.2	Remuneration subject to the contribution .....	63
7.3	Temporary exemptions .....	63
7.3.1	Five-year exemption .....	63
7.3.2	Temporary exemption for manufacturing businesses in remote resource regions .....	64
7.3.3	BDCs .....	65
7.3.4	ITDCs and MNEs .....	66
7.3.5	Stock exchange business or securities clearing-house business .....	66
7.3.6	Montréal international trade zone at Mirabel .....	66
7.3.7	Major investment project.....	67
7.3.8	Acquisition of control of an exempt corporation.....	67
7.3.9	Corporations that cease to be exempt during the year.....	67
7.4	Calculating the contribution .....	67
7.4.1	Total payroll.....	67
7.4.2	Public-sector employers.....	68
7.5	Periodic remittances of the contribution.....	68
7.5.1	Estimated contribution rate .....	68
7.5.2	Can you use a rate that is lower than the estimated contribution rate?.....	69
7.5.3	Deficient payments.....	69
7.6	Determining the actual contribution rate.....	69
7.7	Balance resulting from the difference between the actual contribution rate and the estimated contribution rate.....	70
7.8	Social security agreements .....	70
7.8.1	Québec employee temporarily posted to a foreign country.....	70
7.8.2	Foreign employee temporarily posted to Québec .....	70

<b>8</b>	<b>Contribution to the financing of the CNT</b> .....	71
8.1	General information .....	71
8.1.1	Employers not subject to the contribution .....	71
8.1.2	Indian employer .....	71
8.2	Remuneration subject to the contribution .....	71
8.3	Remuneration not subject to the contribution .....	72
8.4	Payment of the contribution .....	72
<b>9</b>	<b>Contribution to the FNFMO</b> .....	73
9.1	General information .....	73
9.1.1	Exempted employers .....	73
9.1.2	Indian employer .....	73
9.2	Total payroll .....	73
9.2.1	Information concerning certain taxable benefits .....	73
9.2.2	Why calculate total payroll? .....	73
9.3	Eligible training expenditures .....	73
9.4	Payment of the contribution .....	74
<b>10</b>	<b>Compensation tax</b> .....	75
10.1	Does this section apply to you? .....	75
10.2	What is a specified financial institution? .....	75
10.3	Remuneration subject to compensation tax .....	75
10.4	Calculation of compensation tax .....	76
10.5	Periodic remittances of compensation tax .....	76
<b>11</b>	<b>Special cases</b> .....	77
11.1	Worker's compensation from the CSST .....	77
11.1.1	Amount paid on the day of the accident .....	77
11.1.2	Amounts paid in the days following the accident .....	77
11.1.3	Amounts paid for the employee's care or rehabilitation .....	78
11.1.4	Self-insurer .....	78
11.2	Amounts paid following the death of an employee .....	78
11.3	Employment at a special work site or remote work location .....	78
11.3.1	Board and lodging .....	79
11.3.2	Transportation .....	79
11.4	Employees of employment agencies .....	80
11.5	Salary deferral arrangements and self-funded leaves of absence .....	80
11.5.1	Salary deferral arrangements .....	80
11.5.2	Self-funded leaves of absence .....	80
11.6	Profit-sharing plans, employee trusts and employee benefit plans .....	80
11.6.1	Amount paid to a custodian or trustee .....	80
11.6.2	Amount paid by a custodian or trustee .....	81
11.7	Income-averaging annuity for artists .....	81
11.8	Indian employer .....	81
11.8.1	Source deductions of income tax and QPP contributions .....	81
11.8.2	Employer contribution to the health services fund .....	82
11.8.3	Contribution to the financing of the CNT .....	82
11.8.4	Contribution to the FNFMO and compensation tax .....	82
11.8.5	Do you have Indian employees? .....	82
11.8.6	Definitions .....	82



11.9	Indian employees .....	82
11.9.1	Salary or wages derived from employment duties performed partly or entirely on a reserve or premises.....	82
11.9.2	Other income attributable to employment duties performed partly or entirely on a reserve or premises.....	83
11.9.3	Definitions .....	84
11.10	Sailors .....	84
11.11	IFC employees.....	85
11.11.1	Source deductions of income tax .....	85
11.11.2	Employer contribution to the health services fund .....	87
11.11.3	QPP contributions, other employer contributions and compensation tax.....	87
11.12	Foreign employees entitled to a five-year tax exemption.....	87
11.12.1	Source deductions of income tax .....	87
11.12.2	Employer contribution to the health services fund .....	91
11.12.3	QPP contributions, other employer contributions and compensation tax.....	91
11.13	Foreign producers .....	91
11.14	Amount paid to a person not resident in Québec .....	91
11.14.1	Salary or wages.....	91
11.14.2	Payments other than salary or wages.....	92
11.14.3	Persons not resident in Canada that perform services in Québec.....	92
11.14.4	<i>Source Deductions Return</i> (form TP-1015.3-V) .....	92
11.15	Employee who works outside Québec.....	92
11.15.1	General information .....	92
11.15.2	Special rules concerning an employee who works outside Canada.....	93
11.15.3	Information concerning employees of a specified employer.....	93
11.16	Members of the Canadian Forces or a Canadian police force.....	94
<b>12</b>	<b>Computerized calculation of Québec income tax withholdings, QPP contributions and the contribution to the health services fund.....</b>	<b>95</b>
12.1	General information .....	95
12.2	Principal changes .....	95
12.2.1	Variable E – Total personal tax credits.....	95
12.2.2	Variable E <sub>1</sub> – Personal tax credits subject to indexation .....	95
12.2.3	Variable F – Deductions.....	95
12.2.4	Variable K – Adjustment of the income tax rates .....	96
12.2.5	Variable M – QPP.....	96
12.3	Source deductions of Québec income tax.....	96
12.3.1	Calculating income tax withholdings on regular payments .....	96
12.3.2	Calculating income tax withholdings on a cumulative-averaging basis.....	99
12.4	Source deductions of QPP contributions.....	101
12.5	Contribution to the health services fund .....	101
12.6	Example: Source deductions of income tax based on regular payments.....	101

Most of the documents mentioned in this guide are available on the Revenu Québec Web site at [www.revenu.gouv.qc.ca](http://www.revenu.gouv.qc.ca). Documents that are marked "Specimen" are provided for information purposes only, and are not to be used in any other way.

You may also obtain these documents

- by completing the order form on our Web site; or
- by contacting an office of Revenu Québec (refer to the list of offices at the end of this guide).

# 1 Introduction

## 1.1 Purpose of the guide

This guide is for you if you pay remuneration as an employer or a payer.

### 1.1.1 Employers

You pay remuneration as an employer if, for example, you pay an employee or former employee

- a salary or wages (see section 1.4 for information on the term “salary or wages”);
- a retiring allowance; or
- a death benefit (benefit that is paid to the heirs of a deceased employee).

### 1.1.2 Payers

You pay remuneration as a payer if, for example, you pay

- a retirement benefit (for example, from an RPP);
- an annuity (for example, from an RRSP, a RRIF or a DPSP);
- an amount under a profit-sharing plan, an employee benefit plan, or an employee trust;
- an amount under a retirement compensation arrangement;
- a single payment from an RRSP or an RPP;
- wage loss insurance benefits paid under a wage loss insurance plan to which the employer contributed.

If you are paying remuneration as a payer, the beneficiary is generally not your employee. However, even in cases where the beneficiary is your employee, you are considered to have acted as a payer (and not as an employer) because the individual received the amount as a beneficiary, not as an employee.

## 1.2 Contents

This guide is designed to advise you of your obligations as an employer and, where applicable, as a payer. It also contains information regarding

- source deductions of Québec income tax that you must make on remuneration you pay as an employer and, where applicable, as a payer;
- contributions to the QPP, to the health services fund, to the FNFMO and to the financing of the CNT that you are required to pay as an employer;
- the compensation tax that must be paid by a specified financial institution **other than a corporation** (however, the information provided in Chapter 4, and sections 10.2 and 10.3 regarding compensation tax also applies to a specified financial institution that is a corporation).

The guide also contains information on the computerized calculation of source deductions and employer contributions.

## 1.3 Abbreviations used in the guide

BDC	Biotechnology development centre
BESS	Bureau des ententes de sécurité sociale
CIP	Co-operative investment plan
CNNTQ	Centre national des nouvelles technologies de Québec
CNT	Commission des normes du travail
CPP	Canada Pension Plan
CSST	Commission de la santé et de la sécurité du travail
DPSP	Deferred profit-sharing plan
FNFMO	Fonds national de formation de la main-d'oeuvre
FTQ	Fédération des travailleurs et travailleuses du Québec
GST	Goods and services tax
HBP	Home Buyers' Plan
IFC	International financial centre
ITDC	Information technology development centre
LLP	Lifelong Learning Plan
MNE	Marketplace for the new economy
NEQ	Numéro d'entreprise du Québec (Québec enterprise number)
QPP	Québec Pension Plan
QST	Québec sales tax
R&D	Scientific research and experimental development
REQ	Registraire des entreprises
RESP	Registered education savings plan
RPP	Registered pension plan
RRIF	Registered retirement income fund
RRSP	Registered retirement savings plan
SIN	Social insurance number
SODEC	Société de développement des entreprises culturelles

## 1.4 Information on certain terms used in the guide

Below you will find information on a number of terms that we use frequently in this guide. **These definitions are specific to this guide.**

### Employee

An employee is an individual who carries out work under a written or verbal contract of employment or who holds an office.

### Employment

The term “employment” includes an office. An office is a position for which an individual is entitled to be remunerated. For example, a member of the board of directors of a corporation holds an office, even if he or she performs no administrative duties. An individual who is an elected or appointed representative also holds an office.

## Employment income

For the purposes of this guide, “employment income” includes income from an office.

### Individual

An individual is a natural person. For the purposes of this guide, an “individual” refers both to an employee **and** to a beneficiary of an amount you pay as a payer.

### Person

The term “person” is used to designate both a natural person and an artificial person.

### Remuneration

Remuneration includes salary or wages and any other amount paid by an employer (for example, a retiring allowance) or by a payer (for example, pension benefits).

### Remuneration, salary or wages paid

When we refer to “remuneration paid” or “salary or wages paid,” this covers remuneration, salary or wages that are **paid, allocated, granted** or **awarded**.

For example, if in a given week you pay an employee his or her regular salary of \$400 and also grant the employee a taxable benefit in kind (that is, other than in money) worth \$200, the **salary paid** is \$600. In other words, the benefit is considered salary or wages.

If you allocate tips to an employee, these tips constitute salary or wages paid to the employee.

### Salary or wages

Salary or wages refers to gross employment income and therefore includes the following amounts, and any similar payment, made to an employee:

- fees;
- taxable benefits;
- commissions;
- overtime pay;
- vacation pay;
- retroactive payments of salary or wages, including payments resulting from a collective agreement signed before the death of an employee;

- tips (including allocated tips);
- advances;
- bonuses;
- worker’s compensation that the CSST does not reimburse or (in the case of a self-insurer) does not recognize;
- indemnities paid further to a precautionary cessation of work (that is, the amount paid to an employee under the *Act respecting occupational health and safety* for the first five days following the date on which the employee ceased to work);
- the part of the salary or wages earned in the year that is to be paid in another year, under a salary deferral arrangement (see section 11.5.1 on page 80);
- amounts paid to an employee during a self-funded leave of absence (see section 11.5.2 on page 80);
- out-of-Canada living allowances;
- location incentives paid to physicians;
- directors’ fees;
- amounts paid after an employee’s death (other than a death benefit), if such payments were foreseeable at the time of the death (see section 11.2 on page 78);
- fees paid in the course of employment (for example, fees paid to council or committee members).

Please note that, contrary to the definition provided in tax legislation, for the purposes of this guide the term “salary or wages” does not include the following:

- wage loss insurance benefits paid under a wage loss insurance plan to which the employer contributed;
- amounts paid by a trustee under an employee trust or a profit-sharing plan;
- amounts paid by a custodian under an employee benefit plan.

#### **IMPORTANT**

For the purposes of this guide, the term “place of residence” means the place of residence within the meaning of the *Taxation Act*.

See interpretation bulletin IMP. 22-3/R1 for information concerning the factors taken into consideration by Revenu Québec in determining the residency status of an individual who leaves Québec and Canada.

## 2 Principal changes

This section outlines the principal changes made to the *Guide for Employers* (TP-1015.G-V) for 2005. Some of the changes came into effect in 2004, further to tax measures announced by the Ministère des Finances, after publication of the 2004-01 version of the TP-1015.G-V guide.

### 2.1 Reorganization of the guides for employers

Last year Revenu Québec notified you that it had shortened the *Guide for Employers* (TP-1015.G-V) by deleting sections pertaining to special cases. The deleted sections were then presented in a new publication, the *Supplementary Guide for Employers* (TP-1015.GC-V).

At the request of employers that had to consult both guides in order to obtain all the information they needed regarding source deductions, we have included the information from guide TP-1015.GC-V in the 2005 version of the *Guide for Employers* (TP-1015.G-V). The TP-1015.G-V is now complete and the TP-1015.GC-V has been eliminated.

However, for those who welcomed last year's shortened version of the TP-1015.G-V guide, we are publishing the *Guide for Employers: Short Version* (TPF-1015.GS-V). You cannot order the paper version of the guide, but an electronic version is available on Revenu Québec's Web site.

### 2.2 Source deductions deemed to be held in trust

Under a new measure that came into effect on April 22, 2004, you are not required to keep distinctly and separately from your own funds the amounts you deduct, withhold or collect as an employer or a payer under a fiscal law.

### 2.3 Source Deductions Return (form TP-1015.3-V)

Form TP-1015.3-V has been modified to take into account the following changes:

- the adjustment of certain personal tax credits, further to the introduction of the child assistance payment;
- the advance payment of the tax credit for child-care expenses;
- the determination of the basic amount for source deduction purposes, further to the elimination of the simplified personal income tax system;
- the use of a new indexing formula.

### 2.3.1 Adjustment of the tax credits respecting dependent children and the advance payment of the tax credit for child-care expenses

Starting in 2005, a person who has a child who is a minor will, as a rule, receive child assistance payments quarterly. The payments received during the year will replace, among other things, certain of the tax credits that were used to determine the deduction code for source deductions.

Furthermore, an individual can no longer ask you to reduce the amount of his or her remuneration subject to source deductions in order to take child-care expenses into account. The individual should ask Revenu Québec to pay the credit quarterly as an advance payment so that he or she can benefit from the tax credit throughout the year (rather than at the time of filing the income tax return).

The following tax credits will no longer be included on form TP-1015.3-V:

- the basic amount respecting dependent children who are minors;
- the tax reduction for families;
- the tax credit for child-care expenses.

**If you pay remuneration as an employer or a payer, it is important to notify all your employees and your beneficiaries of these changes. They can then complete version 2005-01 of form TP-1015.3-V if they claimed one of the above-mentioned tax credits on the last TP-1015.3-V form they submitted to you.**

### 2.3.2 Changes to the basic amount used for source deduction purposes

The basic amount for 2005 (line 1 of form TP-1015.3-V) is \$9,330, that is, \$9,200 multiplied by  $[1 + 1.427\%$  (indexation factor for 2005 calculated using the new indexing formula)].

An equivalent amount is used to calculate the amount transferred from one spouse to the other.

Please note that it is the amount of \$9,200 that is indexed, not the basic amount for 2004 (\$9,150). The same is true of the amount transferred from one spouse to the other. Thus, if the individual did not complete version 2005-01 of form TP-1015.3-V, you must add one of the following amounts to the amount used to determine the individual's deduction code for 2004:

- \$50; or
- \$100, if the individual claimed the amount transferred from one spouse to the other.

If you are using the **mathematical formulas** to calculate income tax withholdings, add \$50 or \$100, as applicable, in variable E<sub>1</sub>.

### 2.3.3 Indexation of the amounts on this form

The personal income tax system has been automatically indexed each year since January 1, 2002. Starting in 2005, a new indexing formula (used to determine the indexation factor) will, among other things, disregard any variations in alcohol and tobacco taxes.

The new amounts used to determine the source deduction code are shown in the table below. The figures for 2004 are provided for information purposes.

	2005	2004
Basic amount	\$9,330	\$9,150
Amount transferred from one spouse to the other	\$9,330	\$9,150
Amount for children who are minors	N/A	\$2,550
Amount for children of full age who are full-time students	\$2,585	\$2,550
Additional amount for the child designated as the first dependent child	\$220	\$215
(if the child is of full age and the individual does not have any children who are minors)	▼	
Amount respecting other dependants	\$2,585	\$2,550
Amount granted for a dependant with an infirmity	\$3,780	\$3,725
Amount for a child who is a minor or who is of full age and engaged in full-time professional training or post-secondary studies	\$1,780	\$1,755
Amount for a single-parent family	\$1,400	\$1,380
Amount for a person living alone	\$1,130	\$1,115
Reduction threshold used to calculate net family income (this income is used to calculate the amount with respect to age, for a person living alone or for retirement income)	\$28,030	\$27,635
Indexation factor for 2005: 1.427%		

### 2.3.4 Exemption from source deductions (deduction code "X")

Starting in 2005, do not withhold Québec income tax from an employee's **employment income** for the year if the employee has entered "X" on line 20 of form TP-1015.3-V because he or she estimates that his or her total **income from all sources** for the year will be less than the total of the following amounts:

- the amount entered on 10, multiplied by 1.25;
- the amount entered on line 19 of the form.

In the past, an employee could request an exemption from source deductions if his or her total **employment income** was lower than the total of the amounts entered on lines 10 and 19 of form TP-1015.3-V.

#### NOTE

The amounts on lines 10 and 19 represent the deductions and personal tax credits to which the employee is entitled.

It should be noted that the **recipient** of an amount from a payer cannot request an exemption because the **exemption applies only to employment income**. Consequently, code «X» cannot be used for remuneration you paid as a payer.

### 2.4 Indexation of thresholds for the three income tax brackets

For 2005, the income tax rates applicable to the three income tax brackets remain at 16%, 20% and 24%. However, the thresholds that determine the bracket in which an individual's taxable income is situated have been indexed using the new indexing formula as follows:

- The 16% rate applies to taxable income of up to \$28,030 (the threshold was previously \$27,635).
- The 20% rate applies to taxable income over \$28,030 but not over \$56,070 (the threshold was previously \$55,280).
- The 24% rate applies to taxable income over \$56,070.

### 2.5 Bonuses and retroactive pay

You are required to withhold income tax from an amount you pay as a bonus or retroactive pay. For amounts paid in 2005, the threshold that determines the method to be used to calculate the income tax withholding has been raised from \$11,300 to \$11,650.

### 2.6 RRSPs and RRIFs

Effective 2005, the following **single payments** are subject to an income tax withholding of 16%, **regardless of the amount of the payment**:

- a payment from an RRSP;
- the portion of a payment from a RRIF that exceeds the minimum amount.

However, the following types of payment are still not subject to income tax withholdings:

- a single payment that is transferred directly to another registered plan;
- a withdrawal of up to \$20,000 under the HBP;
- a withdrawal of up to \$10,000 per year (to a maximum of \$20,000) under the LLP;
- an amount that can reasonably be deducted as a refund of undeducted RRSP contributions.



## 2.7 Worker's compensation – CSST

### 2.7.1 Amount paid on the day of the accident

If one of your employees suffers an employment injury and is unable to work for the rest of the day, you must pay the employee an amount equal to 100% of his or her net salary or wages for the portion of the day when the employee was absent.

Since 2004, this amount has been considered salary or wages and has, consequently, been subject to source deductions, employer contributions and compensation tax.

In past years, an amount that you paid for the portion of the day when an employee was absent was considered an income replacement indemnity and was therefore not subject to source deductions, employer contributions or compensation tax.

### 2.7.2 Amount paid where the employee is absent from work in order to undergo a medical test

Since 2004, the amount that you pay in respect of an employee who was absent from work in order to undergo a medical test **at your request** has been considered salary or wages and has, consequently, been subject to source deductions, employer contributions and compensation tax.

In past years, the amount was considered an income replacement indemnity and was therefore not subject to source deductions, employer contributions or compensation tax.

## 2.8 Calculation of remuneration subject to source deductions of income tax

### 2.8.1 Employees entitled to a tax benefit respecting trips made by a resident of a designated remote area

Effective 2004, if an employee's remuneration for a pay period includes the value of a taxable benefit related to trips made by a resident of a designated remote area and the employee qualifies for the travel deduction for residents of a designated remote area, you must, in determining the remuneration subject to source deductions of income tax, subtract from the employee's gross remuneration for the pay period the result of the following calculation:

- the value of the taxable benefit, multiplied by
  - 50%, if the remote area is located in an intermediate zone (see the guide *Deduction for Residents of Designated Remote Areas* (TP-726.21.G-V (version 2003-12))); or
  - 100%, if the remote area is located in a northern zone (see guide TP-726.21.G-V).

However, the total amount that you subtract during the year for a trip may not exceed the result of the following calculation:

- the lower of the following amounts:
  - the cost of the trip (see guide TP-726.21.G-V);
  - the employee's maximum allowable deduction for the trip (see "Column E: Additional limit" on page 8 of guide TP-726.21.G-V);
- multiplied by 50% or 100%, depending on whether the remote area is located in an intermediate zone or a northern zone.

Eligibility criteria for claiming the deduction are given in section 5.4.1.3 on page 42.

### 2.8.2 Employees who participate in the CIP

If, in 2004, an employee authorized you to withhold an amount from his or her remuneration for the purchase of preferred shares qualifying under the CIP, you were required, in determining the remuneration subject to source deductions of income tax, to subtract from the employee's gross remuneration for each pay period 125%, 112.5%, 93.75% or 75%, as applicable, of the amount withheld.

If, in 2005 and subsequent years, an employee authorizes you to withhold an amount from his or her remuneration for the purchase of preferred shares qualifying under the CIP, you must, in determining the remuneration subject to source deductions of income tax, subtract from the employee's gross remuneration for each pay period 125% of the amount withheld. Further to a reform of the CIP, no preferred shares can be issued under the former system on or after January 1, 2005. Consequently, the rates of 112.5%, 93.75% and 75% referred to in the previous paragraph are no longer relevant.

### 2.8.3 Employees of an IFC (other than foreign specialists)

If you operate an IFC (whether it is a corporation or a partnership), you must, in determining the remuneration subject to source deductions of income tax of an employee (other than a foreign specialist), subtract from the employee's gross remuneration for each pay period the portion of the remuneration that gives entitlement to the deduction.

To calculate this portion, you must first subtract from the remuneration you pay the employee for a pay period certain expenses that the employee is required to assume for the pay period. Multiply the result by 37.5%.

Since March 30, 2004, the maximum deduction for IFC employees (other than foreign specialists) has been \$50,000 per year. Once you have reached this limit (that is, once the total of the amounts that you subtract from an employee's remuneration during the year for the purposes of the deduction has reached \$50,000, you must stop reducing the employee's remuneration because the amount that exceeds \$50,000 does not give entitlement to the deduction.

In order to obtain a certificate from the Ministère des Finances with respect to such an employee, more than 75% of the employee's duties must be related to the carrying out of qualified international financial transactions.

Prior to March 30, 2004, in order to obtain the certificate, more than 75% of an employee's duties had to be related to the operations of the IFC.

## **2.8.4 Foreign employees who come to work in Québec**

The changes made to the calculation of the remuneration subject to source deductions of income tax in the case of foreign employees who come to work in Québec is explained in section 2.13.2 on the next page.

## **2.9 Maximum pensionable earnings**

For 2005, maximum pensionable earnings have been increased from \$40,500 to \$41,100. Therefore, the maximum QPP contribution that should be deducted for each employee has been increased from \$1,831.50 to \$1,861.20.

## **2.10 Salaries or wages exempted from the contribution to the health services fund**

### **2.10.1 Elimination of the five-year exemption for new corporations**

Prior to March 30, 2004, new corporations were entitled, subject to certain restrictions, to an exemption from the contribution to the health services fund for their first five years of operation.

This exemption was eliminated on March 30, 2004. Only new corporations whose first taxation year began prior to that date can continue to benefit from the exemption, according to the previous terms and conditions.

### **2.10.2 Elimination of the five-year tax exemption for corporations that carry out an innovative project in a BDC**

Prior to March 30, 2004, corporations that carried out an innovative project in a BDC were entitled, subject to certain restrictions, to an exemption from the contribution to the health services fund for their first five years of operation.

This exemption was eliminated on March 30, 2004. Only the following corporations can continue to benefit from the exemption, according to the previous terms and conditions:

- corporations that were carrying out an innovative project in a BDC on March 30, 2004;
- corporations that hold a qualification certificate from Investissement Québec, pursuant to a written application filed with that body before March 30, 2004.

## **2.10.3 Major investment projects**

Last year, Revenu Québec informed you that the exemption from the contribution to the health services fund for major investment projects in Québec was under review.

In his Budget Speech of March 30, 2004, the Minister of Finance announced that this tax measure is still under review. Consequently, as was stated in last year's *Supplementary Guide for Employers* (TP-1015.GC-V), only the following corporations (or partnerships) can continue to be eligible for the ten-year exemption:

- corporations (or partnerships) that held an initial qualification certificate on June 12, 2003;
- corporations (or partnerships) that hold an initial qualification certificate, pursuant to an application filed before June 12, 2003.

## **2.11 Contribution to the financing of the CNT**

### **2.11.1 Additional contribution to the financing of the CNT**

In the past, employers in certain sectors of the clothing industry were required to pay an additional contribution to the financing of the CNT. The contribution was equal to 0.12% of the remuneration that would have been subject to a levy by a parity committee had the decrees in these sectors continued to apply. This measure was eliminated as of January 1, 2004.

### **2.11.2 Maximum remuneration subject to the contribution to the financing of the CNT**

In 2004, remuneration above \$55,000 was not subject to a contribution to the financing of the CNT. The ceiling has been raised from \$55,000 to \$56,000 for 2005.

## **2.12 Elimination of the exemption from compensation tax for IFCs**

Prior to March 31, 2004, a corporation (or partnership) that was a specified financial institution and that operated an IFC was not subject to compensation tax on a portion of the salaries or wages it paid. The following salaries or wages were not subject to the contribution:

- 75% of the salaries or wages paid to employees who held a certificate issued by the Ministère des Finances;
- 75% of the portion of the salaries or wages paid to the other employees that was related to duties concerning the operations of the IFC.

Note that if the salaries or wages related to a period before June 13, 2003, the exemption rate was 100% (instead of 75%)

The exemption from compensation tax for IFCs was eliminated on March 31, 2004; IFCs cannot claim the exemption with respect to salary or wages paid after that date. Therefore, they cannot claim the exemption from compensation tax in 2005.

## 2.13 Foreign employees who come to work in Québec

As a rule, an individual (hereafter called an “employee”) who is not resident in Canada and who comes to Québec to work in certain specialized sectors of activity is entitled to a full or partial tax exemption for a period of five years. The exemption covers the employee’s salary or wages or the employee’s total income, as applicable, and consists in a deduction in the calculation of his or her taxable income.

### 2.13.1 Five-year exemption period

An **employee who entered into an employment contract before March 31, 2004**, is entitled to only one five-year exemption period, even if he or she holds more than one type of employment qualifying for the exemption. The exemption period need not be continuous. For example, if an employee stops working before the end of the five-year exemption period, the period in which he or she is not working is not taken into account in calculating the five-year period.

An **employee who entered into an employment contract after March 30, 2004**, is also entitled to only one five-year exemption period. However, the five-year exemption period is necessarily continuous. Therefore, if such an employee stops working before the end of the exemption period, the period in which he or she is not working is taken into account in calculating the five-year period.

### 2.13.2 Calculation of remuneration subject to source deductions of income tax

In calculating a foreign employee’s remuneration subject to source deductions of income tax, you must subtract from the gross remuneration that you pay to the employee for a pay period the portion of the remuneration that gives entitlement to a tax exemption.

If the **employee entered into an employment contract before March 31, 2004**, calculate this portion by multiplying the gross remuneration you paid the employee for the pay period by 75% or by 100%, as applicable.

If the **employee entered into an employment contract after March 30, 2004**, calculate this portion by multiplying the gross remuneration you paid the employee for the pay period by one of the following rates:

- 100%, if the remuneration was paid to an employee during the first two years of the five-year exemption period;
- 75%, if the remuneration was paid to an employee during the third year of the five-year exemption period;
- 50%, if the remuneration was paid to an employee during the fourth year of the five-year exemption period;
- 37.5%, if the remuneration was paid, during the fifth year of the five-year exemption period, to an employee who is a specialist working for an IFC or for a corporation that operates a stock exchange business or securities clearing-house business;

- 25%, if the remuneration was paid, during the fifth year of the five-year exemption period, to an employee who is not a specialist working for an IFC or for a corporation that operates a stock exchange business or securities clearing-house business.

#### NOTE

If, after March 30, 2004, an employee renews an employment contract entered into before March 31, 2004, the employee is not considered to have entered into the contract after March 30, 2004, unless the renewed contract is deemed under tax legislation to be a new contract.

## 2.14 Elimination of the deduction for market makers

The deduction for market makers was eliminated on March 30, 2004. Furthermore, a market maker that had a reserve account for contingent losses on March 30, 2004, is deemed to have ceased his or her market maker activities on that date. Consequently, the special rules respecting source deductions of income tax on amounts paid to or withdrawn from a reserve account for contingent losses no longer apply.

## 2.15 Members of the Canadian Forces or a Canadian police force

Since January 1, 2004, members of the Canadian Forces or a Canadian police force assigned to a recognized special mission have been entitled to a deduction in the calculation of their taxable income, with respect to employment income from the mission.

In calculating such an employee’s remuneration subject to source deductions of income tax, you must subtract from the employee’s gross remuneration for a pay period the **portion of the remuneration that gives entitlement to the deduction**.

However, the **deduction is limited** to the maximum remuneration a member of the Canadian Forces can receive. Therefore, once you have reached this limit (that is, **once the total of the amounts that you subtract in the year from an employee’s remuneration during the year for the purposes of the deduction has reached the maximum amount**), you must stop reducing the employee’s remuneration because the excess amount does not give entitlement to the deduction.

## 2.16 Income-averaging annuity for artists

Under a tax measure that came into effect on January 1, 2004, a **recognized artist** who acquires an **eligible income-averaging annuity** may be able to spread, over a maximum of seven years, the tax applicable to the portion of his or her income for the year from artistic activities that exceeds \$50,000.

A special tax deducted at source will apply to any amount paid under an eligible income-averaging annuity contract.



Therefore, if you make payments under an eligible income-averaging annuity, you must withhold income tax equal to 24% on the amounts paid and remit the amount withheld to Revenu Québec within 30 days. If you fail to withhold an amount, or if you withhold less than 24% (for example, if you withhold 20% instead of 24%), you must pay the difference to Revenu Québec yourself. However, you may recover the amount from the beneficiary.

Any amount you pay during the year under an income-averaging annuity must be entered on the beneficiary's RL-2 slip.

#### **Recognized artist**

An individual who is a professional artist within the meaning of the *Act respecting the professional status of artists in the visual arts, arts and crafts and literature, and their contracts with promoters* or an artist within the meaning of the *Act respecting the professional status and conditions of engagement of performing, recording and film artists*.

#### **Person authorized to offer an eligible income-averaging annuity**

A person licensed or otherwise authorized under the laws of Québec or Canada to carry on an annuities business or offer trustee services in Québec and who is authorized by Revenu Québec to offer an eligible income-averaging annuity.

#### **Eligible income-averaging annuity**

An income-averaging annuity established by agreement that meets the following requirements:

- the annuity is acquired through a single payment;
- the amounts provided for under the income-averaging annuity are paid in equal annual or more frequent periodic payments of sufficient amount to ensure full payment of the annuity over no more than seven years from the date of the first payment;
- the first annuity payment is made no later than ten months after the date of the single payment made to acquire the annuity;
- the artist is entitled to request full or partial commutation of the annuity at any time;
- the annuity can be paid only to the artist or, if that individual dies, to his or her succession or designated beneficiary, as the case may be;
- the artist's interest in the contract cannot be disposed of other than by the surrender or cancellation of the annuity by the authorized person, except in the case of the artist's death;
- the artist's interest in the contract cannot be pledged or transferred as security by any manner whatsoever;
- the contract complies with the standard contract previously approved by Revenu Québec.

## **2.17 Mathematical formulas**

Changes have been made to the mathematical formulas in Chapter 12 on page 95.

## **2.18 Logbook for an automobile made available to an employee**

As of the 2005 taxation year, if you (or a person related to you) make an automobile available to an employee (or to a person related to an employee) in a given year, the employee must remit to you a copy of the logbook he or she keeps for the automobile no later than the tenth day following

- the end of the year, if the automobile is still available to the employee (or the related person) at the end of the year; or
- the end of the period during which the automobile was made available to the employee (or the related person), if that period ends before the end of the year.

Any employee who fails to remit the logbook by the applicable deadline is subject to a penalty of \$200.

## 3 Obligations as an employer or a payer

### 3.1 What are your responsibilities to Revenu Québec?

You are required to

- withhold Québec income tax from the remuneration you pay in 2005 as an employer and as a payer;
- withhold QPP contributions on the salaries or wages (see section 1.4 on page 11 for information on the term “salary or wages”) that you pay to your employees in 2005;
- remit to Revenu Québec the amounts withheld, as well as
  - your employer contributions to the QPP,
  - your employer contribution to the health services fund,
  - your employer contribution to the financing of the CNT,
  - your employer contribution to the FNFMO,
  - compensation tax, if applicable;
- file the following RL slips by February 28, 2006:
  - an RL-1 slip for each employee to whom you pay in 2005 salary or wages or any other remuneration for which you should file a slip,
  - an RL-1 slip for each beneficiary to whom you pay in 2005 remuneration for which you should file a slip (for example, wage loss insurance benefits, an amount paid under an RESP or an employee benefit plan, or a payment made under a supplementary unemployment benefit plan),
  - an RL-2 slip for each beneficiary to whom you pay retirement or annuity income in 2005,
  - an RL-25 slip for each beneficiary to whom a payment is made in 2005 under a profit-sharing plan;
- file the *Summary of Source Deductions and Employer Contributions* (form RLZ-1.S-V) for 2005 generally by February 28, 2006, if in 2005 you are required to
  - file an RL-1 slip for 2005,
  - file an RL-2 or RL-25 slip with respect to remuneration on which you made source deductions of income tax,
  - withhold Québec income tax or QPP contributions,
  - pay employer contributions to the QPP or the health services fund,
  - pay the employer contribution to the financing of the CNT,
  - participate in the development of worker training and, consequently, to inform Revenu Québec of your total payroll and the total amount of your eligible training expenditures,
  - pay the employer contribution to the FNFMO,
  - pay 1% compensation tax (compensation tax that must be paid by a specified financial institution other than a corporation);

- file the following summaries for 2005 by February 28, 2006:
  - the RL-2 summary (RL-2.S-V), if you are required to file RL-2 slips for 2005,
  - the RL-25 summary (RL-25.S-V), if you are required to file RL-25 slips for 2005.

If you do not prepare and file your own RL-1, RL-2 or RL-25 slips, make sure the person or firm that files the slips also files form RLZ-1.S-V and, if applicable, the RL-2 summary and the RL-25 summary. You are responsible for seeing that they are filed. If the person does not file the forms, you must file them yourself.

#### IMPORTANT

Every amount you deduct, withhold or collect as an employer or a payer pursuant to a fiscal law is deemed to be held in trust for the government until you pay the amounts to the government in the prescribed manner and within the prescribed time period. Such amounts are deemed to constitute a separate fund that does not form part of your property.

### 3.2 Liability

Certain persons may be held solidarily liable with an employer for the payment of the employer's source deductions and employer contributions. Such persons include

- directors of a corporation;
- members of a partnership;
- businesses that offers payroll management and processing services.

#### 3.2.1 Directors of a corporation

##### 3.2.1.1 Source deductions

If a corporation fails to **make** source deductions of income tax, the corporation and its directors are not liable for the amounts, unless the source deductions were to be made on remuneration paid to a person not resident in Canada. However, the corporation and its directors in office at the time of the omission are solidarily liable for any penalties and interest related to the source deductions that should have been made and remitted.

If a corporation fails to **remit** source deductions of income tax, the corporation and its directors in office at the time of the omission are solidarily liable for the payment of the amounts, including any related penalties and interest.

##### 3.2.1.2 QPP contributions

If a corporation fails to **withhold or to remit** employee and employer QPP contributions, the corporation and its directors in office at the time of the omission are solidarily liable for the payment of the amounts, including any related penalties and interest.

### 3.2.1.3 Contribution to the health services fund and other contributions

If a corporation fails to remit its employer contributions, the corporation and its directors in office at the time of the omission are solidarily liable for the payment of the amounts, including any related penalties and interest.

### 3.2.1.4 Exceptions

The liability does not apply to

- a director who acted with reasonable care, dispatch and skill under the circumstances;
- a director who could not, under the same circumstances, have been aware of the omission; or
- a former director, where at least two years have elapsed since he or she ceased to be a director of the corporation.

### 3.2.2 Members of a partnership

If a partnership fails to meet its obligations as an employer or a payer, the members of the partnership may be held liable for amounts that were not withheld or remitted, including any related penalties and interest.

### 3.2.3 Businesses that offer payroll management and processing services

The solidary liability of an employer with respect to source deductions extends to any person who authorizes the payment of amounts subject to source deductions or causes such payments to be made. If, for example, you deal with a business that offers payroll management and processing services, the business is liable, along with you, for the payment of your source deductions (income tax and QPP contributions).

## 3.3 Remitting source deductions, employer contributions and compensation tax

### 3.3.1 General information

The Québec income tax and employee QPP contributions you withhold from the remuneration you pay, as well as your employer contributions to the QPP and the health services fund, must be remitted to Revenu Québec **periodically**. The same is true with regard to compensation tax that must be paid by a specified financial institution **other than a corporation**. Revenu Québec estimates, at the end of each year, your remittance frequency for the following year. Revenu Québec will notify you if your frequency will not be the same as for the current year.

Your employer contributions to the financing of the CNT and to the FNFMO must be remitted **once a year**.

### Table

Source deductions, employer contributions and compensation tax for 2005	Due date
<ul style="list-style-type: none"> <li>• Source deductions</li> <li>• QPP contributions</li> <li>• Contribution to the health services fund<sup>1</sup></li> <li>• Compensation tax payable by a specified financial institution other than a corporation<sup>2</sup></li> </ul>	According to the frequency of your remittances for 2005 (see section 3.3.5)
<ul style="list-style-type: none"> <li>• Contribution to the financing of the CNT</li> <li>• Contribution to the FNFMO</li> </ul>	February 28, 2006
<p>1. The contribution to the health services fund that you are required to pay periodically is calculated on the basis of an estimated contribution rate, unless you are a public sector employer. At the end of the year, you must determine your actual contribution rate. Any balance payable resulting from the difference between your actual contribution rate and your estimated contribution rate must be paid by February 28, 2006.</p> <p>2. Financial institutions that are corporations must remit their compensation tax monthly using form COZ-1027.R-V, <i>Monthly Remittance of Income Tax, Tax on Capital or Compensation Tax by a Corporation</i>.</p> <p><b>IMPORTANT</b></p> <p>If you stop making remittances of source deductions, employer contributions and compensation tax in 2005, see section 3.5 on page 24.</p>	

### 3.3.2 Frequency of your remittances

Revenu Québec may authorize you to remit your source deductions, employer contributions to the QPP and the health services fund and compensation tax (compensation tax that must be paid by a specified financial institution **other than a corporation**) for 2005

- annually, if the total of your source deductions and employer contributions for 2004 is \$1,200 or less, or the total will be \$1,200 or less for 2005;
- quarterly, if your average monthly remittance for 2003 or 2004 is \$1,000 or less, and you have fulfilled all your fiscal obligations in the last 12 months.

If you do not meet the above conditions, you must make your remittances for 2005

- monthly, if your average monthly remittance for 2003 is less than \$15,000;
- twice-monthly, if your average monthly remittance for 2003 is at least \$15,000 but less than \$50,000;
- weekly, if your average monthly remittance for 2003 is \$50,000 or more.

You may be able to change the frequency of your remittances for 2005, regardless of whether they are annual, quarterly, twice-monthly or weekly (see sections 3.3.3 and 3.3.4).

Your **average monthly remittance** for a year is determined by **dividing** the total of the amounts you were required to remit as income tax withholdings (on remuneration paid as an employer and, where applicable, as a payer), QPP contributions and the contribution to the health services fund for the year **by** the number of months in the year (maximum 12) for which the amounts were remitted. If you are a corporation, your average monthly remittance is equal to the total of your average monthly remittance and that of every corporation associated with you.

#### NOTE

Under fiscal legislation, it is your responsibility to determine the frequency with which you must make remittances of source deductions, employer contributions and, where applicable, compensation tax. To make your task easier, Revenu Québec **estimates**, at the end of each year, your remittance frequency for the following year. We then notify you if your frequency will not be the same as for the current year and may suggest a remittance frequency that is more advantageous for you (see section 3.3.4).

At the time Revenu Québec reviews your file, not all of the pertinent data may be available. Consequently, you may be assigned a remittance frequency that is not in conformity with the rules outlined in this section. If this happens and the frequency does not suit you, contact the office of Revenu Québec that handles your account and request authorization to make remittances at the frequency applicable under fiscal law.

#### **Information regarding quarterly remittances**

Revenu Québec may authorize you to file quarterly if it considers that you have fulfilled your fiscal obligations in the previous 12 months. You are considered to have fulfilled your fiscal obligations in the previous 12 months if, among other things, you have remitted within the prescribed time period the amounts you deducted at source, your employer contributions and compensation tax and the consumption taxes you collected.

#### NOTE

If you have more than one employer account, you must meet the applicable conditions for each account.

Revenu Québec does a yearly review to determine which employers may make remittances on a quarterly basis. However, if you wish to make quarterly remittances and believe you meet the requirements, you may contact an office of Revenu Québec any time during the year.

If you cease to meet the requirements during the year, Revenu Québec will send you a notice informing you that you can no longer make remittances on a quarterly basis. You will then have to make monthly remittances for the rest of the year. You will also have to remit, by the 15th day of the month following the month in which the notice is sent to you, any source deductions and employer contributions that are due.

#### **3.3.3 Changing the remittance frequency (annual and quarterly remittances)**

Even if Revenu Québec authorizes you to make annual or quarterly remittances in 2005, you may elect to make remittances

- monthly, in all cases;
- twice-monthly, if your **average monthly remittance** for 2003 is at least \$15,000 but less than \$50,000;
- weekly, if your **average monthly remittance** for 2003 is \$50,000 or more.

If you wish to change the frequency of your remittances, notify the office of Revenu Québec that handles your account. **You cannot make the change until you receive form LMU-5-V, *Notice of Change in Filing Frequency of Returns*.**

#### **3.3.4 Changing the remittance frequency (twice-monthly and weekly remittances)**

If, in 2005, your remittances are made twice-monthly or weekly, you may elect to change the frequency of your remittances on the basis of your **average monthly remittance** for 2004, if this is to your advantage.

If your **average monthly remittance** for 2004 is \$1,000 or less, Revenu Québec **may** assign you a quarterly remittance frequency, provided it considers that you have fulfilled your fiscal obligations in the previous 12 months. Otherwise, you may elect to make your remittances monthly.

If your **average monthly remittance** for 2004 is more than \$1,000 but less than \$15,000, you may elect to make your remittances monthly.

If it is \$15,000 or more but less than \$50,000, you may elect to make your remittances twice-monthly.

If you wish to change the frequency of your remittances, notify the office of Revenu Québec that handles your account. **You cannot make the change until you receive form LMU-5-V, *Notice of Change in Filing Frequency of Returns*.**

### 3.3.5 Making remittances

The due dates for remitting your source deductions, employer contributions to the QPP and the health services fund and compensation tax (compensation tax that must be paid by a specified financial institution **other than a corporation**) vary according to your remittance frequency.

Table

Remittance frequency in 2005	Date by which your remittance must be made <sup>1</sup>		Form to be used <sup>2</sup>	Notes
<b>Annual<sup>3</sup></b>	The 15th day of the month following the last month of the year in which remuneration was paid (January 15, 2006, in most cases)		TPZ-1015.R.14.1-V	N/A
<b>Quarterly<sup>3</sup></b>	<b>Payment of remuneration</b>	<b>Due date</b>	TPZ-1015.R.14.4-V	
	January, February and March 2005	April 15, 2005		
	April, May and June 2005	July 15, 2005		
	July, August and September 2005	October 15, 2005		
	October, November and December 2005	January 15, 2006		
<b>Monthly<sup>3</sup></b>	The 15th day of the month, for remuneration paid in the previous month		TPZ-1015.R.14.1-V	Every three months Revenu Québec will send you three copies of form TPZ-1015.R.14.1-V, which includes a statement of the amounts remitted to date. In January, for example, you will receive your forms for January, February and March.
<b>Twice-monthly<sup>3</sup></b>	<b>Payment of remuneration</b>	<b>Due date</b>	TPZ-1015.R.14.2-V	Each month, Revenu Québec will send you two copies of form TPZ-1015.R.14.2-V, which includes a statement of the amounts remitted to date.
	Before the 16th day of the month	By the 25th day of the month		
	From the 16th to the last day of the month	By the 10th day of the following month		
<b>Weekly<sup>4</sup></b>	From the 1st to the 7th day of the month	By the 3rd working day after the 7th day of the month	TPZ-1015.R.14.3-V	Each month, Revenu Québec will send you four copies of form TPZ-1015.R.14.3-V, which includes a statement of the amounts remitted to date. <sup>5</sup>
	From the 8th to the 14th day of the month	By the 3rd working day after the 14th day of the month		
	From the 15th to the 21st day of the month	By the 3rd working day after the 21st day of the month		
	From the 22nd to the last day of the month	By the 3rd working day after the last day of the month		

1. The date of receipt of a payment is the date on which it is received at an office of Revenu Québec or at a financial institution. The date of the postmark is not taken into account. For a postdated cheque, the date of receipt is the date on which the cheque can be cashed.
2. If you received a remittance form, you must return it to Revenu Québec even if you made no source deductions and have no employer contribution to remit for the period concerned. If you have no remittance to make, enter 0 in the "Amount payable" box. If you are filing your source deductions and employer contributions return via the Internet, see section 3.3.5.2.
3. If payment falls due on a Sunday or a statutory holiday, the due date is extended to the next day that is not a Sunday or a statutory holiday. No extension is granted if payment falls due on a Saturday.
4. If payment falls due on a Saturday, a Sunday or a statutory holiday, the due date is extended to the next day that is not a Saturday, a Sunday or a statutory holiday.
5. If you pay remuneration every two weeks or twice a month, you may ask Revenu Québec to send you copies of form TPZ-1015.R.14.3-V only for the periods in which you pay remuneration. This means that you will not have to file a remittance form for periods in which you do not pay remuneration. See section 3.3.5.5.



### Example (weekly remittances)

Company ABC pays its employees every two weeks, that is, on January 6 and 20, and on February 3 and 17, 2005. The company must make remittances of source deductions and employer contributions by January 12, January 26, February 10 and February 24, 2005, using form TPZ-1015.R.14.3-V. The company must also file form TPZ-1015.R.14.3-V (without a remittance) by January 19, February 3 and February 17 and March 3, 2005, unless it has completed form TPZ-1015.R.14.3D-V, *Application to Make Remittance of Source Deductions and Employer Contributions Based on Pay Periods*, and Revenu Québec allows the employer to file form TPZ-1015.R.14.3-V only for the periods in which remuneration is paid.

#### 3.3.5.1 Payment by mail, at an office of Revenu Québec or at a financial institution

You must submit a duly completed copy of form TPZ-1015.R.14.1-V, TPZ-1015.R.14.2-V, TPZ-1015.R.14.3-V or TPZ-1015.R.14.4-V, as applicable, with your remittance. If you do not have the form, enclose a letter clearly indicating your name, identification number, Québec enterprise number (NEQ) and complete address, and a statement giving full particulars regarding the income tax withheld, QPP contributions, your contribution to the health services fund and, where applicable, compensation tax. Remember to indicate on the statement the period covered by the payment.

Cheques or money orders should be made payable to the Minister of Revenue of Québec.

#### IMPORTANT

If you received a remittance form, you must return it to Revenu Québec even if you made no source deductions and are not required to remit employer contributions for the period. If you have no remittance to make, enter 0 in the “Amount payable” box.

#### 3.3.5.2 Payment via the Internet

You may remit your source deductions, employer contributions and, where applicable, compensation tax to Revenu Québec via the Internet, provided your financial institution offers this possibility and you are registered for Clic Revenu electronic services.

If you make your remittances online, you must also report source deductions, employer contributions and, where applicable, compensation tax online.

#### IMPORTANT

You are required to file your source deductions and employer contributions return even if, for a given period, you did not make source deductions and you have no employer contributions or compensation tax to remit.

Even if you submit your source deductions and employer contributions and, where applicable, compensation tax return via the Internet, you may receive a paper copy of a remittance form (form TPZ-1015.R.14.1-V, TPZ-1015.R.14.2-V, TPZ-1015.R.14.3-V or TPZ-1015.R.14.4-V) from Revenu Québec. In this case, **do not return the form to Revenu Québec**.

For more information on Clic Revenu electronic services, consult our Web site at [www.revenu.gouv.qc.ca](http://www.revenu.gouv.qc.ca), where you will find brochures such as *Register for Clic Revenu: Electronic Services at Your Fingertips!* (IN-324-V).

#### 3.3.5.3 Preauthorized debit

You may use the preauthorized debit service to remit your source deductions, employer contributions and, where applicable, compensation tax on the date of your choice (payments may be postdated), provided you meet the following conditions:

- you are registered for Clic Revenu electronic services;
- you have an account at a participating financial institution (contact your institution to find out if it offers this service);
- you have completed form LMW-2.DP-V, *Request for Authorization to Use Preauthorized Debit*.

For further information on this subject, consult the Revenu Québec Web site at [www.revenu.gouv.qc.ca](http://www.revenu.gouv.qc.ca).

#### 3.3.5.4 Balance payable for 2005

You must pay the **full amount** of your source deductions, employer contributions to the QPP and the health services fund and compensation tax (compensation tax that must be paid by a specified financial institution **other than a corporation**) for a given period within the time limit applicable to your remittance frequency (see the table in section 3.3.5 on the previous page).

If you have a balance owing for 2005 because your remittances were lower than required, the balance may bear interest as of the due date for each remittance.

However, if you have a balance owing because you had to use estimated data to calculate your periodic remittances, you must pay the balance within the time limits provided for below. This may be the case, for example, if

- you used an estimated rate to calculate your periodic remittances of the contribution to the health services fund; or
- you used estimated data to calculate the value of the taxable benefit respecting an automobile made available to an employee.

Please note that you are not required to pay a balance of less than \$2.

## Remittances based on estimates

You must pay the balance of your source deductions, employer QPP contributions and compensation tax (compensation tax that must be paid by a specified financial institution other than a corporation) when you make your last remittance for the month of December, not when you file your *Summary of Source Deductions and Employer Contributions* (form RLZ-1.S-V). If you do not pay your balance until you file form RLZ-1.S-V, you will be charged interest and you may have to pay a penalty.

You must also pay the balance of your contribution to the health services fund when you make your last remittance for the month of December, **except** the portion of the balance that results from the difference between the actual contribution rate and the estimated contribution rate.

To calculate the amount of your periodic remittances of the employer contribution to the health services fund for 2005, you must use an estimated contribution rate, **which must be determined according to the rules given in section 7.5 on page 68**. If the estimated rate is lower than your actual contribution rate, which is determined at the time of filing form RLZ-1.S-V, you will have a balance owing. The balance resulting from the difference between these rates must be received at an office of Revenu Québec or at a financial institution by the deadline for filing form RLZ-1.S-V.

If the contribution rate that you used to determine your periodic remittances was lower than your estimated contribution rate, and also turns out to be lower than your actual contribution rate, the following rules apply:

- If your actual contribution rate is lower than your estimated contribution rate, the balance resulting from the difference between the actual contribution rate and the rate that you used may bear interest as of the due date for each remittance.
- If your actual contribution rate is higher than your estimated contribution rate, the portion of the balance resulting from the difference between the actual rate and the estimated rate may be paid by the deadline for filing form RLZ-1.S-V. The other portion of the balance may bear interest as of the due date for each remittance.

### 3.3.5.5 Application to make remittances based on pay periods

If your remittance frequency is weekly but your employees are paid every two weeks or twice a month, you may request that Revenu Québec send you copies of form TPZ-1015.R.14.3-V only for the periods in which you pay remuneration. This means that, for periods in which you do not pay remuneration and, consequently, do not make source deductions and are not required to remit employer contributions or compensation tax, you will no longer have to file a remittance form with 0 in the "Amount payable" box.

Revenu Québec normally sends you a copy of form TPZ-1015.R.14.3D-V, *Application to Make Remittances of Source Deductions and Employer Contributions Based on Pay Periods*, if

your remittance frequency is weekly. If you received the form and wish to file the application, simply enter your payroll dates on the form and return the detachable portion to Revenu Québec.

**Please note that filing this application does not change your remittance frequency, which remains weekly.** If you pay remuneration during a period for which you did not receive a copy of remittance form TPZ-1015.R.14.3-V, you must obtain the form and remit, by the third working day after the last day of the period, the source deductions, employer contributions to the QPP and the health services fund and compensation tax (compensation tax that must be paid by a specified financial institution other than a corporation) related to the remuneration.

Form TPZ-1015.R.14.3D-V may be filed at any time. If you print out a copy from the Revenu Québec Web site, be sure to indicate your NEQ and identification number in the spaces provided for this purpose. Also enter the name and address of your business in the space to the left of the signature of the authorized person.

At the end of 2005, Revenu Québec will send you a *Notice of Renewal in Respect of Payroll Dates* (form LMU-5.3-V), which will indicate your payroll dates for 2006. Revenu Québec bases these dates on the dates you provided for 2005. If the payroll dates determined by Revenu Québec for 2006 are not accurate, you must advise us by returning a corrected copy of form LMU-5.3-V to one of the addresses listed at the end of this guide.

#### NOTE

You cannot apply to make remittances of source deductions and employer contributions based on your pay periods if you have elected to change your remittance frequency (see section 3.3.4 on page 20).

### 3.3.5.6 Can Revenu Québec send your remittance forms directly to the person who prepares your paycheques?

You can authorize the person who prepares your paycheques to receive remittance forms, the *Summary of Source Deductions and Employer Contributions* (RLZ-1.S-V) and other pertinent documents on your behalf. Revenu Québec will then send all of the necessary documents directly to the preparer and you will no longer have to act as an intermediary.

If you are registered for Clic Revenu, use the **change of address service** to make the necessary modifications. If you wish to register for Clic Revenu, contact the office of the Revenu Québec that handles your account.

## 3.4 Starting a new business

### 3.4.1 First remittance

If you are remitting source deductions, employer contributions and compensation tax (compensation tax that must be paid by a specified financial institution **other than a corporation**) for the first time and you do not have a remittance slip, submit a cheque or money order made payable to the Minister of Revenue of Québec, along with a letter indicating

- your name and address,
- the period covered by your payment, and
- the amount of your source deductions of income tax, QPP contributions, contribution to the health services fund and, where applicable, compensation tax.

If you do not have an identification number, your payment and letter should be sent to the Service à la clientèle of the office of Revenu Québec that handles your account. An account will be opened in your name and you will receive a remittance form for your next payment.

If you already have an identification number, send your payment and letter to the office of Revenu Québec that handles your account. Be sure to mention your identification number in your letter.

To obtain an identification number, see section 3.4.2.

#### NOTE

If you are new employer, you cannot make remittances on a quarterly basis. If, after you have operated your business for 12 months, you wish to make quarterly remittances and believe you meet the applicable conditions, contact the office of Revenu Québec that handles your account.

### 3.4.2 Registering for Revenu Québec files

If you are a new employer, you must register with Revenu Québec in order to obtain the identification number referred to in section 3.4.1. To register, you may

- use the electronic service “Registering a new business for Revenu Québec files” available on the Revenu Québec Web site (please note that some businesses cannot use this service); or
- complete form LM-1-V, *Application for Registration*.

For more information about registration and about starting a new business, consult the Revenu Québec Web site at [www.revenu.gouv.qc.ca](http://www.revenu.gouv.qc.ca).

### 3.4.3 Québec enterprise number (NEQ)

The Québec enterprise number (or “NEQ,” for “numéro d’entreprise du Québec”) is an identification number used by businesses operating in Québec, and is valid for all Québec government departments and agencies. This number is assigned to a business when it registers with the Registraire des entreprises (REQ), pursuant to the *Act respecting the legal publicity of sole proprietorships, partnerships and legal persons*.

In their communications with Revenu Québec, businesses may use their NEQ or any other identification numbers currently in use at Revenu Québec. The NEQ is indicated by Revenu Québec on all documents (forms, letters, etc.) sent out to businesses.

**Sole proprietorships and partnerships** (including limited partnerships, general partnerships and undeclared partnerships) operating in Québec may register with Revenu Québec or the Clerk of the Superior Court. However, legal persons must register with the REQ, which is authorized to register all legal forms of business.

#### **Sole proprietorship**

A business operated by an individual who is its sole owner.

#### NOTE

A sole proprietorship is not obliged to obtain an NEQ if its firm name includes the owner’s first and last name.

## 3.5 You stop making remittances

If you stop remitting source deductions, employer contributions and compensation tax (compensation tax that must be paid by a specified financial institution **other than a corporation**) in 2005, you must file the following forms within the time limit applicable to your situation:

- remittance form TPZ-1015.R.14.1-V, TPZ-1015.R.14.2-V, TPZ-1015.R.14.3-V or TPZ-1015.R.14.4-V;
- the *Temporary Summary of Source Deductions and Employer Contributions* (form RLZ-1.ST-V) or the *Summary of Source Deductions and Employer Contributions* (form RLZ-1.S-V);
- temporary RL-1 slips (form RL-1.T, or form RL-1.TL for laser or ink-jet printers) or regular RL-1 slips (form RL-1);
- RL-2 slips and the RL-2 summary (if you pay retirement or annuity income);
- RL-25 slips and the RL-25 summary (if you pay an amount under a profit-sharing plan).

See the table below to find out when each form is to be submitted to Revenu Québec.



Forms to be transmitted	Situation in 2005		
	You continue to operate your business		You stop operating your business
	You temporarily stop making remittances (e.g., seasonal business)	You permanently stop making remittances (e.g., you no longer have employees)	
Remittance form and remittance	Same time limit as would apply if you continued to make remittances <sup>1</sup>	The 20th day of the month after the month of your last remittance of source deductions, employer contributions and compensation tax <sup>2</sup>	The 7th day after the day on which you stop operating your business
Temporary RL-1 slips (form RL-TL) and form RLZ-1.ST-V or RL-1 slips and form RLZ-1.S-V	N/A	The 20th day of the month after the month of your last remittance <sup>3</sup>	The 30th day after the day on which you stop operating your business <sup>4</sup>
	February 28, 2006	N/A	N/A
RL-2 slips and the RL-2 summary	February 28, 2006	The 20th day of the month after the month of your last remittance <sup>5</sup>	The 30th day after the day on which you stop operating your business <sup>5</sup>
RL-25 slips and the RL-25 summary	February 28, 2006	The 20th day of the month after the month of your last remittance <sup>5</sup>	The 30th day after the day on which you stop operating your business <sup>5</sup>

- To find out the time limit, see the table in section 3.3.5 on page 21.  
Please note that you must continue to file a remittance form for each period (**provided you receive a form**). Indicate, on each form you submit, the date on which you expect to resume making source deductions.
- The compensation tax referred to here is that payable by a specified financial institution **other than a corporation**)
- By the same date, you must also remit copies 2 and 3 of the RL-1 slips to your former employees or former beneficiaries, as applicable, and pay your contribution to the financing of the CNT and, where applicable, your contribution to the FNFMO. Use the remittance slip enclosed with form RLZ-1.ST-V (or form RLZ-1.S-V, if version 2005-10 is available) to make your payment, **unless you are making remittances via the Internet**. If you are required to participate in the development of manpower training, you must report the eligible training expenditures you incurred.  
**If your actual contribution rate for the health services fund is different from the rate that you used on your first summary of source deductions and employer contributions (form RLZ-1.ST-V or RLZ-1.S-V), you must file a second summary (form RLZ-1.S-V) by February 28, 2006. Write the word "Amended" at the top of page 1 of this form. On the second summary and the remittance slip, complete only the lines that concern the contribution to the health services fund.**
- By the same date, you must also remit copies 2 and 3 of the RL slips to your former employees or former beneficiaries, as applicable, and pay your contribution to the financing of the CNT and, where applicable, your contribution to the FNFMO (for more information see the second paragraph of note 3 above).  
In calculating your contribution to the health services fund, you must determine your total payroll based only on the salaries or wages that you paid to your employees from January 1, 2005, to your business's closing date. Do not include salaries or wages paid by employers associated with you on the business's closing date. However, **if you are operating another business on December 31, 2005, you must recalculate your total payroll** and take into account the salaries or wages paid by employers associated with you on December 31, 2005. As a result, your contribution rate may be different from the rate you used on form RLZ-1.ST-V (or form RLZ-1.S-V, if version 2005-10 is available) to calculate your contribution for 2005.  
**If the contribution rate is different, you must file, by February 28, 2006, a second summary (form RLZ-1.S-V) for the business you ceased to operate. Write the word "Amended" at the top of page 1 of this form. On the second summary and the remittance slip, complete only the lines that concern the contribution to the health services fund. If the contribution rate is the same, you are not required to file a second summary for the business.**
- By the same date, you must also remit copies 2 and 3 of the RL slips to your former beneficiaries.

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

If one of your employees leaves his or her employment before the end of 2005, you may prepare the RL-1 slip at that time and give the employee copies 2 and 3. If the 2005 version of the RL-1 slip is not available, use the 2004 version; simply cross out "2004" and indicate "2005." Submit copy 1 of the RL-1 slip at the same time as the *Summary of Source Deductions and Employer Contributions* (form RLZ-1.S-V).

### 3.7 Source Deductions Return (form TP-1015.3-V)

Individuals use form TP-1015.3-V to report the deductions and personal tax credits to which they are entitled. You can then take these amounts into account when you calculate income tax withholdings.

#### 3.7.1 Filing deadline

The individual must provide you with a duly completed TP-1015.3-V form within a certain time limit. This time limit varies depending on whether you are paying remuneration as an employer (the individual is your employee) or as a payer (the individual is the beneficiary of the amount paid).

#### NOTE

You will note, from the information below, that an individual is not required to complete a copy of form TP-1015.3-V each year. However, because of the major changes made for 2005, certain individuals should complete a copy of the 2005-01 version of the form (see section 2.3.1 on page 12).

#### 3.7.1.1 Employees

Employees must provide you with a duly completed TP-1015.3-V form

- when they begin to work for you;
- within 15 days after an event that will **reduce** the amounts indicated on the previous TP-1015.3-V form completed. If the amounts used to determine the source deduction code (lines 2 through 9) are reduced but the code does not change, the employee does not have to file another copy of form TP-1015.3-V;
- when they ask you not to withhold income tax from their employment income for the year (see section 3.7.6).

#### 3.7.1.2 Beneficiaries of remuneration that you pay as a payer

Beneficiaries must provide you with a duly completed TP-1015.3-V form

- before they receive remuneration for the first time;
- within 15 days after an event that will **reduce** the amounts indicated on the previous TP-1015.3-V form completed. If the amounts used to determine the source deduction code (lines 2 through 9) are reduced but the code does not change, the beneficiary does not have to file another copy of form TP-1015.3-V.

#### 3.7.1.3 Increase in deductions and credits

An individual may complete form TP-1015.3-V at any time in order to indicate an increase in the deductions or credits to which he or she is entitled.

#### 3.7.2 What if the individual does not submit the form?

If an individual does not complete form TP-1015.3-V, you must take into account only the basic amount of \$9,330 (line 1 of the form) in calculating income tax withholdings. In that case, use "A" as the deduction code.

#### 3.7.3 Annual indexation

The personal income tax system has been automatically indexed since January 1, 2002. The amounts used to determine source deduction codes are shown in section 2.3.3 on page 13.

**Please note that an individual who has already completed form TP-1015.3-V does not have to complete another copy of the form simply because the income tax system is indexed, since the indexation will not affect his or her deduction code.**

You are required to keep the TP-1015.3-V forms submitted to you and to provide them to Revenu Québec on request.

#### 3.7.4 Deduction code "0"

An individual who has already asked another employer or payer to take into account the basic amount of \$9,330 may complete form TP-1015.3-V to request that you use code "0" to calculate income tax withholdings. This will ensure that the basic amount of \$9,330 is not taken into account twice.

#### 3.7.5 Line 19 of the form

You must take into account the amount entered on line 19 of form TP-1015.3-V to calculate the remuneration subject to source deductions of income tax. Subtract this amount from the remuneration you pay to the individual (see section 5.4.1 on page 39).

#### 3.7.6 Exemption from source deductions on employment income (deduction code "X")

Do not withhold Québec income tax from an employee's **employment income** for 2005 if the employee has entered "X" on line 20 of the 2005-01 version of form TP-1015.3-V because he or she estimates that his or her total income from all sources for the year will be less than the total of the following amounts:

- the amount entered on 10, multiplied by 1.25;
- the amount entered on line 19 of the form.

The amounts on lines 10 and 19 represent the deductions and personal tax credits to which the employee is entitled.

**IMPORTANT**

A **beneficiary** of an amount that you pay as a payer cannot claim such an exemption for the amount, because the exemption applies only to employment income. Consequently, code X cannot be used for remuneration received from a payer.

### 3.7.7 Must you always take form TP-1015.3-V into account?

In the case of certain kinds of payments (for example, when you make a single payment or pay an earnings supplement), you must withhold income tax directly on the amount, without taking into account form TP-1015.3-V (or, if the individual did not provide you with form TP-1015.3-V, without taking into account the basic amount of \$9,330).

For example, if you paid a retiring allowance of \$10,000 (in a single payment) to an employee, you are required to withhold 20% in income tax directly on the allowance. The amount withheld is therefore \$2,000 ( $\$10,000 \times 20\% = \$2,000$ ).

**NOTE**

If Revenu Québec has authorized you to decrease the amount of income tax withheld because the individual has submitted form TP-1016-V, *Application for a Reduction in Source Deductions of Income Tax*, you must take this authorization into account.

### 3.7.8 Individuals who are not resident in Canada

There may be a limit on the deductions and personal tax credits an individual can claim on form TP-1015.3-V if the individual is not resident in Canada in 2005, or if he or she becomes resident in Canada during the year (see section 11.14.4 on page 92).

## 3.8 Application for a Reduction in Source Deductions of Income Tax (form TP-1016-V)

Revenu Québec may authorize you to **decrease an individual's remuneration subject** to source deductions of income tax because of the deductions to which the individual is entitled in the calculation of net or taxable income. The deductions may be for (among other things)

- the amounts contributed to the individual's RRSP or a spousal RRSP (unless, under an agreement with the individual, you deduct RRSP contributions from the individual's remuneration and remit them directly to the RRSP issuer, and thus already take the contributions into account in calculating the individual's remuneration subject to source deductions of income tax);
- a loss related to a business;
- interest payable on loans taken out to earn investment income;
- judicial expenses and expenses respecting an objection;
- business investment losses.

Revenu Québec may also authorize you to **decrease the amount of income tax withheld** from the individual's remuneration, because the individual is entitled to tax credits such as

- the tax credit for charitable donations, gifts to a government, gifts to a political education organization and other gifts;
- the tax credit for medical expenses;
- the tax credit for tuition or examination fees;
- the tax credit for expenses incurred to obtain medical services not available in the area in which the individual lives;
- the tax credit respecting a labour-sponsored fund (unless you withhold amounts from the individual's remuneration for the purchase of shares giving entitlement to this credit, and thus already take these amounts into account in calculating the individual's remuneration subject to source deductions of income tax).

As indicated above, a reduction in source deductions of income tax is applied by decreasing either the remuneration subject to source deductions or the amount of income tax to be withheld, not by increasing the amounts indicated on form TP-1015.3-V. The amount of the reduction authorized by Revenu Québec must be distributed evenly over the pay periods remaining in the year (see examples 1 and 2 below).

**IMPORTANT**

The authorization is valid only for the year in which the application is made.

An individual who wishes to apply for such a reduction must submit a duly completed copy of form TP-1016-V, *Application for a Reduction in Source Deductions of Income Tax*. Revenu Québec will send the individual a letter specifying the amount of the reduction that you must take into account. The individual must then submit the letter to you.

Example 1			
Employee's gross remuneration for the pay period			\$1,000
<b>Minus:</b> Contribution to an RPP		–	\$60
Remuneration subject to source deductions of income tax (before reduction)		=	\$940
<b>Minus:</b> Reduction per pay period			
Reduction authorized for RRSP contributions		\$3,000	
Number of pay periods remaining in the year	÷	30	
	=	\$100	– \$100
Remuneration subject to source deductions of income tax for the pay period		=	\$840

<b>Example 2</b>	
Reduction authorized for a tax credit for charitable donations	\$1,150
Number of pay periods remaining in the year	÷ 40
Reduction per pay period	= \$28.75
Québec income tax withholding for the pay period (before reduction)	\$165.00
<b>Minus:</b> Reduction	- \$28.75
Québec income tax withholding for the pay period	= \$136.25

### 3.9 Additional withholdings of income tax (forms TP-1017-V, TP-1015.N-V and TP-1015.3-V)

An individual may elect to have an additional amount of income tax withheld from his or her income subject to source deductions of income tax. To make the election, the individual must complete one of the following forms and submit it to you:

- *Request to Have Additional Income Tax Withheld at Source* (form TP-1017-V), or
- *Source Deductions Return* (form TP-1015.3-V).

The additional amount of income tax is deducted for each pay period.

A self-employed fisher who wishes to have income tax withheld may complete form TP-1015.N-V, *Election by Fishers to Have Income Tax Deducted at Source*. The tax withholding must represent 16% of the amounts paid to the fisher as proceeds of disposition of the catch.

The elections described above remain in effect until the individual submits a new TP-1015.3-V, TP-1017-V or TP-1015.N-V form.

You are required to withhold the additional amount of income tax, provided the request is made within a reasonable time and before you pay the amount on which income tax is withheld.

You must keep the TP-1015.3-V, TP-1017-V and TP-1015.N-V forms submitted to you and provide them to Revenu Québec on request.

### 3.10 Filing your RL-1, RL-2 and RL-25 slips and the relevant summaries

You are required to file RL-1 slips and the *Summary of Source Deductions and Employer Contributions* (form RLZ-1.S-V), RL-2 slips and the RL-2 summary and RL-25 slips and the RL-25 summary for 2005 by February 28, 2006.

However, you may be required to submit the forms before February 28, 2006, if you stop making remittances of source deductions, employer contributions and compensation tax (compensation tax that must be paid by a specified financial institution **other than a corporation**) during 2005. See section 3.5 on page 24 if you are in that situation.

If you do not file the required forms by the prescribed date, Revenu Québec may apply a penalty of \$25 per day, to a maximum of \$2,500. In addition to the penalty, fines may be imposed.

RL-1 slips are used to report employment and other income, RL-2 slips to report retirement and annuity income, and RL-25 slips to report income from a profit-sharing plan.

#### **IMPORTANT**

If you do not prepare and file your own RL-1, RL-2 or RL-25 slips, make sure the person or firm that files the slips also files the *Summary of Source Deductions and Employer Contributions* (form RLZ-1.S-V) and, if applicable, the RL-2 summary and the RL-25 summary. You are responsible for seeing that they are filed. If the person does not file the forms, you must file them yourself.

### 3.11 Registers and supporting documents

At your establishment or residence in Québec, or at another location designated by the Revenu Québec, you must keep registers and supporting documents indicating the amounts paid to employees (that is, the amounts on which your source deductions and employer contributions and compensation tax are based). In the event of an audit, these documents must be made available to Revenu Québec.

Where a register or supporting documents are kept by means of an electronic device or a computer system, no function of any computer program or electronic component must be used to modify, correct, delete, cancel or otherwise alter information without preserving both the original data and all subsequent modifications, corrections, deletions, cancellations and alterations. A person who keeps documents by means of an electronic device or a computer system will be presumed to have used such a function if a computer program or electronic component having the function is found in any place or premises in which the person carries on a business, keeps property, does anything related to any business, or keeps (or should keep) registers pursuant to a fiscal law. This presumption may not apply if it can be shown that the function concerned is incorporated into a computer program or an electronic component without the knowledge or consent of the person who keeps the register or supporting documents.

Registers and supporting documents must generally be kept for six years after the end of the last taxation year to which they relate. However, if you file certain documents for a given

year late, you must keep your registers and supporting documents for six years after the date on which you submitted the documents, rather than for six years after the last taxation year to which the registers and supporting documents relate. This applies, for example, if you fail to file the following documents within the prescribed time limits:

- the corporation income tax return (CO-17);
- the personal income tax return (TP-1-V);
- the *Summary of Source Deductions and Employer Contributions* (RLZ-1.S-V), which must be filed annually by a specified financial institution other than a corporation, to report its 1% compensation tax.

Registers and supporting documents kept on an electronic or computerized medium must be retained in an intelligible form on the same medium, for six years after the end of the last taxation year to which they relate.

To obtain authorization to destroy documents before the six-year period has expired, you must submit a written and signed request to the office of Revenu Québec in your area. The request must contain the following information:

- a precise description of the documents to be destroyed;
- the taxation years covered by the request;
- any other pertinent information.

### 3.12 Sanctions

Heavy penalties and fines may be imposed on employers that contravene the provisions of the *Taxation Act*, the *Act respecting the Québec Pension Plan*, the *Act respecting the Régie de l'assurance maladie du Québec*, the *Act respecting the Ministère du Revenu*, the *Act respecting labour standards*, the *Act to foster the development of manpower training*, or the regulations made under these laws. Sanctions may be applied, for example, where an employer fails to keep adequate registers and books of account or fails to file the returns required with respect to source deductions, employer contributions, etc.

Accordingly, if you fail to deduct or withhold an amount under a fiscal law within the time limit specified in the law, you are liable to a penalty equal to 15% of the amount.

You are also liable to a penalty if you fail to pay or remit, within the time limit specified in a fiscal law, an amount that you deducted, withheld or collected and that you were required to pay or remit under a fiscal law. The rate of the penalty, which varies according to the number of days you are late in fulfilling the obligation, is 7% from the 1st to the 7th day, 11% from the 8th to the 14th day, and 15% as of the 15th day.

Moreover, if you fail to file form TPZ-1015.R.14.1-V, TPZ-1015.R.14.2-V, TPZ-1015.R.14.3-V or TPZ-1015.R.14.4-V within the time limit specified in the *Regulation respecting the Taxation Act*, you are liable to a penalty of \$25 per day, to a maximum of \$2,500. This penalty also applies if you fail to file your RL-1 slips, form RLZ-1.S-V (or form RLZ-1.ST-V, if applicable), RL-2 slips and the RL-2 summary and RL-25 slips and the RL-25 summary within the prescribed time limits.

In addition to the above-mentioned penalties, fines may be imposed. Please note that the penalties and fines cannot be imposed on persons 70 or older who are claiming the tax credit respecting home-support services for seniors and pay salaries or wages by means of "service employment cheques" (this payment procedure is managed by the Services de paie Desjardins).



## 4 Are you required to make source deductions and pay employer contributions and compensation tax?

### 4.1 Conditions that must be met

You must make source deductions and pay employer contributions and compensation tax with respect to the amounts you pay **as an employer to your employees or as a payer to beneficiaries**, provided the basic conditions given in section 4.1.1 are met. The special rules that apply in certain cases are described in section 4.1.2.

#### 4.1.1 Table of basic conditions

	Basic conditions	
	A	and B
Québec income tax	The amount paid is subject to source deductions of income tax (see section 4.2).	The amount is paid to an employee who reports for work at one of your establishments <sup>1</sup> located in Québec. <b>OR</b> The amount is paid to an employee or beneficiary who is not required to report for work at any of your establishments <sup>1</sup> (in Québec or elsewhere), but is paid from one of your establishments <sup>1</sup> located in Québec.
QPP (employee and employer contributions)	The amount paid is subject to QPP contributions (see section 4.2).	
Health services fund	The amount paid is subject to the contribution to the health services fund (see section 4.2).	
CNT	The amount paid is subject to the contribution to the financing of the CNT (see section 4.2).	
FNFMO	The amount paid must be included in the total payroll (see section 4.2).	
Compensation tax	The employer is a specified financial institution and the amount paid is subject to compensation tax (see section 4.2).	

1. The term “establishment” has the meaning given by the *Taxation Act*.

In accordance with these basic conditions, you are not required to make source deductions or pay employer contributions and compensation tax on amounts that you pay to an employee who reports for work **only** at one of your establishments located outside Québec.

#### 4.1.2 Special rules

Where you have an employee who reports for work at one of your establishments located in Québec and at one of your establishments located outside Québec, certain rules apply (see section 4.3 on page 35).

In addition, special rules may apply

- if you pay remuneration **to a person that is not resident in Québec** (see section 11.14 on page 91);
- if you pay remuneration from one of your establishments in Québec to an employee who works outside Canada (see section 11.15.2 on page 93).

Furthermore, you may have to pay certain contributions on the following types of remuneration even if the basic conditions (see table above) are not met:

- the remuneration paid to an employee who is not required to report for work at any of your establishments (located in Québec or elsewhere) and whose salary or wages are not paid from any of your establishments located in Québec (see section 4.4 on page 35).

- the remuneration earned by an individual who is not your employee but is the employee of an employer that does not have an establishment in Québec, for services that the individual provided to you in Québec (see section 4.5 on page 36).

### 4.2 Is the payment subject to source deductions, employer contributions and compensation tax?

#### 4.2.1 Table

Check the table on the next page to determine whether the various amounts you pay are subject to source deductions of income tax, employer and employee QPP contributions, employer contributions to the health services fund and the financing of the CNT, and compensation tax. If this is the case, you must make the source deductions and pay the employer contributions and compensation tax on these amounts **if they are paid to an individual who meets one of the conditions given in column B of the table in section 4.1.1** (also check whether the special rules mentioned in section 4.1.2 apply).

The table also indicates whether the amounts must be included in your total payroll used to calculate the contribution to the FNFMO. If this is the case, you must include them in the calculation **if they are paid to an individual who meets one of the conditions given in column B of the table in section 4.1.1** (also check whether the special rules mentioned in section 4.1.2 apply).

**Table**

	Income tax	QPP	Health services fund	CNT	FNFMO	CT
Benefits paid under a supplementary unemployment benefit plan	Yes	No	No	No	No	No
Benefits provided for by a program administered pursuant to an agreement entered into under section 5 of the <i>Department of Fisheries and Oceans Act</i> (Statutes of Canada)	Yes	No	No	No	No	No
Bonuses and retroactive pay	Yes	Yes	Yes	Yes	Yes	Yes
Commissions	Yes	Yes	Yes	Yes	Yes	Yes
Indemnity in lieu of notice (see section 4.2.2.3 on page 34)	Yes	No	No	Yes	No	No
<b>CSST</b> (see section 11.1, on page 77)						
Indemnities recognized by the CSST (income replacement indemnities)	No	No	No	No	No	No
Indemnities not recognized by the CSST	No	Yes	Yes	Yes	Yes	Yes
Death benefits received from an employer	Yes	No	No	No	No	No
Death benefits from the Régie des rentes du Québec	No	No	No	No	No	No
Directors' fees	Yes	Yes	Yes	No	Yes	Yes
<b>DPSP</b>						
Annuities from a DPSP	Yes	No	No	No	No	No
Single payments (see section 5.13.3 on page 50)	Yes	No	No	No	No	No
Earnings supplement (see section 5.15 on page 51)	Yes	No	No	No	No	No
Employment insurance benefits (see section 4.2.2.4 on page 34)	Yes	No	No	No	No	No
<b>Employee benefit plan</b>						
Amounts paid by an employer to the custodian of an employee benefit plan	No	Yes	Yes	No	Yes	Yes
Amount paid by a custodian of an employee benefit plan	Yes	No	No	No	No	No
Refunds of contributions made by an employee to an employee benefit plan	No	No	No	No	No	No
<b>Employee trust</b>						
Amounts paid by the employer to the trustee of an employee trust	No	Yes	Yes	No	Yes	Yes
Amounts paid by the trustee of an employee trust	No	No	No	No	No	No
Financial assistance paid under a program established by a government or government agency in Canada or by another organization (see section 4.2.2.1 on page 33)	Yes	No	No	No	No	No
<b>Income-averaging annuity</b>						
Amounts paid as consideration for the surrender, cancellation or redemption of an income-averaging annuity contract	Yes	No	No	No	No	No
Indemnity paid further to a precautionary cessation of work (that is, amounts paid to an employee under the <i>Act respecting occupational health and safety</i> for the first five days following the date on which the employee ceased to work)	Yes	Yes	Yes	Yes	Yes	Yes
Patronage dividends	No	No	No	No	No	No
Prizes awarded for a remarkable achievement	No	No	No	No	No	No

	Income tax	QPP	Health services fund	CNT	FNFMO	CT
<b>Profit-sharing plan</b>						
Amounts paid by the employer to the trustee of a profit-sharing plan	No	Yes	Yes	No	Yes	Yes
Amounts paid by the trustee of a profit-sharing plan that can be reasonably attributed to an amount paid after May 12, 1994, to the trustee	No	No	No	No	No	No
Amounts paid by the trustee of a profit-sharing plan that can be reasonably attributed to an amount paid before May 13, 1994, to the trustee	No	Yes	No	No	No	No
Single payment under a profit-sharing plan, in full satisfaction of all an employee's rights in the plan, if the payment is taxable for the employee	Yes	No	No	No	No	No
Single payment under a profit-sharing plan, in full satisfaction of all an employee's rights in the plan, if the payment is not taxable for the employee	No	No	No	No	No	No
Regular salaries or wages (see section 4.2.2.7 on page 34)	Yes	Yes	Yes	Yes	Yes	Yes
Research grants	No	No	No	No	No	No
<b>RESP</b>						
Accumulated income payments made to the subscriber under an RESP or to the subscriber's spouse if the subscriber is deceased (see section 5.13.4 on page 50)	Yes	No	No	No	No	No
Education assistance payments (see section 4.2.2.6 on page 34)	No	No	No	No	No	No
Refunds of RESP premiums	No	No	No	No	No	No
<b>Retirement compensation arrangement</b>						
Amounts paid under a retirement compensation arrangement or resulting from the making of such an arrangement	Yes	No	No	No	No	No
Retiring allowance	Yes	No	No	No	No	No
<b>RPP or other pension plan</b>						
Pension benefits: periodic payments	Yes	No	No	No	No	No
Single payments (see section 5.13.3 on page 50)	Yes	No	No	No	No	No
<b>RRIF (see section 5.14.2 on page 50)</b>						
Portion of the payment from a RRIF that represents the minimum amount	No	No	No	No	No	No
Portion of the payment from a RRIF that exceeds the minimum amount	Yes	No	No	No	No	No
<b>RRSP</b>						
Periodic payments	No	No	No	No	No	No
Single payment	Yes	No	No	No	No	No
<b>Salary deferral arrangements (see section 11.5.1 on page 80)</b>						
Portion of the salary or wages that is not paid in the year but is deferred to another year	Yes	Yes	Yes	Yes	Yes	Yes
Payment under a salary deferral arrangement	No	No	No	No	No	No
Scholarships, bursaries or fellowships paid to a person who is not an employee	No	No	No	No	No	No
<b>Self-funded leaves of absence</b>						
Amounts paid during a self-funded leave of absence (see section 11.5.2 on page 80)	Yes	Yes	Yes	Yes	Yes	Yes
Taxable benefits (see section 4.2.2.2 on page 33)	Yes	Yes	Yes	Yes	Yes	Yes
Tips (including allocated tips)	Yes	Yes	Yes	Yes	Yes	Yes
Vacation pay	Yes	Yes	Yes	Yes	Yes	Yes
Wage loss insurance benefits paid under a wage loss insurance plan to which the employer contributed (see section 4.2.2.5 on page 34)	Yes	No	No	No	No	No



## 4.2.2 Additional information

### 4.2.2.1 Financial assistance

The financial assistance referred to in the previous table is assistance paid under one of the following programs:

- a program established by the Canada Employment Insurance Commission under Part II of the *Employment Insurance Act*,
- a program (other than a prescribed program) that is
  - similar to a program established under Part II of the *Employment Insurance Act*;
  - the subject of an agreement between the government, government agency in Canada or organization, as applicable, and the Canada Employment Insurance Commission.

The portion of such assistance that is related to child-care expenses or tuition fees is not subject to source deductions, employer contributions or compensation tax.

### 4.2.2.2 Taxable benefits

#### General information

Taxable benefits in cash or in kind are considered salary or wages. Therefore, if you grant a taxable benefit to an employee during a pay period, you must add the value of the benefit to the employee's regular remuneration when you calculate the employee's remuneration subject to source deductions of income tax, his or her pensionable salary or wages and the remuneration subject to employer contributions and compensation tax.

In calculating the value of a benefit, you must take into account the GST and QST that the employee would have paid had he or she purchased the property or service concerned. However, do not add the GST or the QST to taxable allowances.

Consult the brochure *Taxable Benefits (IN-253-V)* for particulars concerning the principal taxable benefits.

#### Specific information

See the information below if you granted an individual taxable benefits for

- the stand-by charge and operating costs for an automobile;
- contributions paid to a private health services plan;
- contributions paid to a multi-employer insurance plan;
- benefits received as a result of the exercise of a security option.

You will also find information concerning taxable benefits granted

- to shareholders;
- to partners; or
- in kind (that is, other than in money).

### Stand-by charge and operating costs for an automobile

The value of a benefit respecting an automobile made available to an employee (or a person related to an employee) must be calculated over the course of the year and is therefore based on estimates. You must recalculate the benefit at the end of the year, on the basis of the actual number of kilometres travelled.

### Contributions paid to a private health services fund

Since the value of this benefit must be distributed over all of the pay periods, the amount representing the employee's coverage is necessarily based on estimates. You may use any reasonable estimation method (for example, the estimates may be based on data for the previous calendar year or on a hypothetical premium). At the end of the year, however, you must recalculate the benefit on the basis of the actual data.

### Contributions paid to a multi-employer insurance plan

Once the total contributions you pay to a multi-employer insurance plan with regard to an employee reach an amount corresponding to a reasonable estimate of the taxable benefit the employee would receive if he or she were covered by the plan for the entire year, you are not required to continue withholding income tax respecting the contributions. However, you must continue to pay your employer contributions (and compensation tax) and to withhold QPP contributions.

### Exercising a security option

Benefits resulting from the exercise of a security option are subject to source deductions, employer contributions and compensation tax in the year in which the benefit is taxable for the employee, that is, generally in the year of disposition in the case of an option to purchase shares of a CCPC, and in the year of acquisition in the other cases.

However, there is an **exception** where an election was made under the federal income tax system to defer taxation of a benefit resulting from the exercise of a security option from the year of acquisition of the securities to the year of their disposition. In this case, the benefit is not subject to source deductions of income tax for either year. However, for the year of acquisition of the securities, the benefit is subject to QPP contributions, the contribution to the health services fund, the contribution to the financing of the CNT and compensation tax. You must also, for that year, include the benefit in your total payroll used to determine your contribution to the health services fund and your contribution to the FNFMO.

### Benefits granted to shareholders

The taxable benefits granted to a shareholder of a corporation or to a person related to a shareholder are not subject to source deductions (income tax, employee QPP contributions), employer contributions or compensation tax **unless** the shareholder is also an employee of the corporation and receives the benefit as an employee rather than as a shareholder.

## NOTE

You will note that, according to the definitions of “employment” and “employee” in section 1.4 on page 10, a shareholder of a corporation who is also a director of the corporation is both a shareholder and an employee of the corporation. If such a shareholder receives a benefit as a director (rather than as a shareholder), the benefit is subject to source deductions (income tax and employee QPP contributions), employer contributions and compensation tax.

If you are not paying the director a salary or wages in cash or by cheque for the pay period in which the benefit is granted, you are not required to make source deductions or pay the employer QPP contribution. However, you must include the benefit in the calculation of your employer contributions to the health services fund and the FNFMO, your contribution to the financing of the CNT and compensation tax.

### Benefits granted to partners

The taxable benefits granted to a partner or to a person related to a partner are not subject to source deductions (income tax, employee QPP contributions), employer contributions or compensation tax.

### Benefits granted in kind

Even if a taxable benefit in kind (that is, other than in money) is subject to source deductions of income tax and QPP contributions, you are not required to pay the employer QPP contribution or withhold income tax at source from the benefit **if you are not paying the employee any other sum in cash or by cheque for the pay period in which the benefit is granted.** However, you must include the benefit in the calculation of your employer contributions to the health services fund and the FNFMO, your contribution to the financing of the CNT and compensation tax.

### Other benefits

The following benefits are not subject to QPP contributions:

- a taxable benefit (including an allowance) related to the residence or lodgings provided to a member of the clergy, a member of a religious order or a regular minister of a religious denomination, where the person may, under the *Taxation Act*, deduct the value of this benefit in calculating his or her income;
- a taxable benefit granted to an employee for excepted employment;
- a taxable benefit granted to an employee before or during the month in which the employee reaches age 18;
- a taxable benefit granted to an employee as of the month following the month that includes the date (determined by the Régie des rentes du Québec) on which the employee becomes disabled.

### 4.2.2.3 Indemnity in lieu of notice

As indicated in the table in section 4.2.1, an indemnity in lieu of notice is subject to source deductions of income tax and to the contribution to the financing of the CNT. The indemnity is subject to source deductions because, for the purposes of the *Taxation Act*, it is considered a retiring allowance.

#### Indemnity in lieu of notice

Compensation paid to an employee where the employer terminates an employment contract without giving the employee notice in writing as required by law, or where the employer has not given notice in time.

### 4.2.2.4 Employment insurance benefits

The employment insurance benefits referred to in the table in section 4.2.1 are benefits paid under the *Unemployment Insurance Act*, other than a payment relating to a course or program designed to facilitate the re-entry into the labour market of a claimant under the Act, or benefits paid under Part I, VIII or VIII.1 of the *Employment Insurance Act*.

### 4.2.2.5 Wage loss insurance benefits

The wage loss insurance benefits referred to in this guide are benefits paid by an insurer, to compensate for the loss of all or part of a beneficiary's employment income. The beneficiary must be an employee of the employer that contributed to the insurance plan.

A special rule applies to employee QPP contributions (see section 6.4.2 on page 54).

## NOTE

If you are not an insurer and you pay amounts directly to one of your employees respecting the loss of all or part of his or her employment income, these amounts may be considered wage loss insurance benefits. For more information, contact Revenu Québec.

### 4.2.2.6 Educational assistance payments

#### Educational assistance payments

Payments made to or on behalf of a beneficiary of the RESP for the purpose of paying the cost of the beneficiary's post-secondary studies. Such payments represent a distribution of the income accumulated in an RESP and the Canada Education Savings Grant.

### 4.2.2.7 Salaries or wages

Special rules apply to certain salaries or wages that are subject to source deductions, employer contributions or compensation tax, including

- salaries or wages paid to Indian employees (see section 11.9 on page 82);
- salaries or wages paid to Québec sailors (see section 11.10 on page 84);

- salaries or wages paid to employees of an IFC (see section 11.11 on page 85);
- salaries or wages paid to employees who were not resident in Canada before coming to Québec to work in certain specialized sectors of activity (see section 11.12 on page 87);
- salaries or wages paid to foreign producers (see section 11.13 on page 91);
- salaries or wages paid to employees who are not resident in Canada (see section 11.14.1 on page 91);
- salaries or wages paid to employees who work outside Canada (see section 11.15 on page 92);
- salaries or wages paid to employees that are engaged in excepted employment (employment not subject to QPP contributions) (see section 6.4.1 on page 53);
- salaries or wages paid to domestics (see section 8.3 on page 72);
- salaries or wages paid to employees under the *Act respecting labour relations, vocational training and manpower management in the construction industry* (see section 8.3 on page 72);
- salaries or wages paid to employees if you are governed by a decree under the *Act respecting collective agreement decrees* and the remuneration is subject to a levy by a parity committee (see section 8.3 on page 72);
- salaries or wages paid to employees posted to a country that has a social security agreement with Québec (see section 6.17 on page 60 and section 7.8 on page 70).

You should therefore consult Chapters 5 to 11 of the guide before you conclude that a salary or wages are subject to source deductions, employer contributions or compensation tax.

### 4.3 Employees who report for work at one of your establishments located in Québec and at one of your establishments located outside Québec

If you have an employee who reports for work at one of your establishments located **in Québec** and at one of your establishments located **outside Québec**, the following rules apply.

#### 4.3.1 Remuneration related to a regular pay period

Remuneration related to a regular pay period is subject to the contributions to the health services fund and the FNFMO, the contribution to the financing of the CNT and compensation tax only if during this period the employee reports **primarily** to one of your establishments located in Québec.

#### 4.3.2 Remuneration not related to a regular pay period

Bonuses, retroactive pay, vacation pay, any other remuneration not related to a regular pay period are subject to the contributions to the health services fund and the FNFMO, the contribution to the financing of the CNT and compensation tax only if the employee concerned **ordinarily** reports to one of your establishments located in Québec.

#### 4.3.3 Amounts paid to a custodian or a trustee

Amounts you pay to a custodian under an employee benefit plan or to a trustee under a profit-sharing plan or employee trust are subject to the contributions to the health services fund and the FNFMO and compensation tax only if the employee **ordinarily** reports to one of your establishments located in Québec.

### 4.4 Employees who receive their remuneration from an establishment located outside Québec

You may be required to pay contributions to the health services fund and the FNFMO, as well as the contribution to the financing of the CNT, on the remuneration of an employee who is not required to report for work at any of your establishments (in Québec or elsewhere) and is not paid from one of your establishments located in Québec. This is the case where, for a given period, it may reasonably be considered that the employee is an employee of one of your establishments located in Québec.

In determining whether the employee is an employee of one of your establishments located in Québec, Revenu Québec uses criteria such as

- the location where the employee mainly reports for work;
- the employee's principal place of residence;
- the location where the employee mainly performs his or her duties;
- the establishment from which the employee's work is supervised;
- the nature of the employment duties.

#### **4.5 Services performed by an employee of an employer that does not carry on business in Québec**

If you have an establishment in Québec, and an individual who is not your employee but is an employee of an employer that does not have an establishment in Québec supplies services to you in Québec, you may be deemed to have paid the salary or wages earned by the employee if the following conditions are met:

- The employee reports for work at one of your establishments located in Québec.
- The service is performed as part of the employee's ordinary duties with his or her employer and is supplied in the course of your regular and ongoing activities.
- The service is of the same nature as services supplied by employees of employers that carry on the same type of business as you.

If all these conditions are met, you must take into account the employee's salary or wages in calculating your contribution to the health services fund and your contribution to the financing of the CNT. You must also include the salary or wages in your total payroll used to calculate your contribution to the FNFMO.

Do not take the salary or wages into account in calculating your contributions to the QPP and compensation tax. Furthermore, the salary or wages are not subject to source deductions of income tax.

# 5 Source deductions of Québec income tax

## 5.1 General information

Chapter 5 provides explanations that will help you calculate the source deductions of Québec income tax you must make on the remuneration you pay. The calculation method you use will depend on the type of payment.

As a rule, for remuneration included in section 5.2.2, you must make source deductions using a fixed rate. For remuneration included in section 5.2.1, make source deductions using

- the *Source Deduction Table for Québec Income Tax* (TP-1015.TI-V), after having calculated the remuneration subject to income tax; or
- the mathematical formulas in Chapter 12.

A computer application (“WinRAS”), based on the mathematical formulas, is also available on the Revenu Québec Web site at [www.revenu.gouv.qc.ca](http://www.revenu.gouv.qc.ca). You can use the application to calculate (among other things) the source deductions of Québec income tax for each pay period.

You must remit source deductions of income tax periodically. Use form TPZ-1015.R.14.1-V, TPZ-1015.R.14.2-V, TPZ-1015.R.14.3-V or TPZ-1015.R.14.4-V, according to your remittance frequency (see the table in section 3.3.5 on page 21).

## 5.2 Remuneration subject to source deductions of income tax

Consult the table in section 4.2.1 on page 30 to find out if the remuneration you pay is subject to source deductions of income tax. You must withhold income tax on remuneration subject to source deductions **if the amount is paid to an individual who meets one of the conditions given in column B of the table in section 4.1.1 on page 30** (also check whether the special rules mentioned in section 4.1.2 apply).

The method of calculating source deductions depends on the type of payment made. For certain remuneration, you are required to use the *Source Deduction Table for Québec Income Tax* (TP-1015.TI-V) or the mathematical formulas; for other remuneration you must use a fixed rate or a special calculation method.

### NOTE

If the remuneration you pay is not included in the table in section 4.2.1 or in sections 5.2.1, 5.2.2 and 5.3, contact Revenu Québec to find whether it is subject to source deductions of income tax.

## 5.2.1 Remuneration for which source deductions must be made using table TP-1015.TI-V or mathematical formulas

Use table TP-1015.TI-V or the mathematical formulas to calculate source deductions on the following types of remuneration:

- salary or wages (see the information given on this term in section 1.4 on page 11), **other than**
  - vacation pay paid to an employee **who is not taking holidays**, if you use table TP-1015.TI-V to make source deductions of income tax (see section 5.7 on page 46),
  - bonuses or retroactive pay if you use table TP-1015.TI-V to make source deductions of income tax (see section 5.8 on page 46),
  - bonuses or retroactive pay, if you use the mathematical formulas and the total amount of the employee’s estimated annual salary or wages plus the bonus or retroactive pay does not exceed \$11,650 (see section 5.8 on page 46),
  - overtime paid in a pay period other than the period in which it was earned, if you use table TP-1015.TI-V to make source deductions of income tax (see section 5.9 on page 47),
  - directors’ fees paid to a director who does not receive a salary or wages (see section 5.11 on page 47),
  - commissions paid to an employee who does not have to pay expenses or did not complete form TP-1015.13.1-V, *Statement of Commissions and Expenses for Source Deduction Purposes*, if the commissions are not paid to the employee on a regular basis and you use table TP-1015.TI-V to make source deductions of income tax (see section 5.12.1 on page 48),
  - single payments made further to an order or judgment, as salary or wages owed to an employee or former employee, if a portion of the amount paid relates to a previous year (see section 5.13 on page 49),
  - salary or wages referred to in section 5.3 on page 38,
- wage loss insurance benefits paid under a wage loss insurance plan to **which the employer contributed** (see section 4.2.2.5 on page 34);
- pension benefits from an RPP or other pension plan paid periodically to a person who is resident in Québec;
- the portion of a periodic payment from a RRIF that exceeds the minimum amount (see section 5.14.2 on page 50);
- amounts paid under a retirement compensation arrangement or that result from the making of such an arrangement;
- employment insurance benefits referred to in section 4.2.2.4);
- financial assistance referred to in section 4.2.2.1 on page 33);
- payments received under a supplementary unemployment benefit plan;
- benefits paid under the *Labour Adjustment Benefits Act* (Statutes of Canada);



- benefits paid under a program established under section 5 of the Department of *Fisheries and Oceans Act* (Statutes of Canada);
- annuity payments from a DPSP (including a DPSP whose registration has been revoked), minus any amount determined under sections 883, 884 and 886 of the *Taxation Act*;
- amounts paid by the custodian of an employee benefit plan, other than the return of amounts contributed to the plan (see section 11.6 on page 80).

### 5.2.2 Remuneration on which source deductions must be made using a fixed rate

Use a fixed rate to calculate source deductions on the following types of remuneration:

- bonuses or retroactive pay, where the total amount of an employee's estimated annual salary or wages plus the bonus or retroactive pay does not exceed \$11,650 (see section 5.8 on page 46);
- single payments referred to in section 5.13, on page 49 (for example, a retiring allowance);
- single payments from an RRSP or the portion of a single payment from a RRIF that exceeds the minimum amount;
- earnings supplements paid under a government work incentive program, other than the Return to Work Supplement sponsored by Emploi-Québec (see section 5.15, on page 51);
- payments made, other than in the course of regular and continuous employment, to a person (including a corporation) not resident in Canada for services the person performed for you in Québec (see section 11.14.3 on page 92);
- amounts paid as proceeds of disposition of the catch to a fisher who is a self-employed person, provided the fisher has completed form TP-1015.N-V (see section 3.9 on page 28).

If you pay an income-averaging annuity for artists, you must withhold a special tax (see section 11.7 on page 81).

### 5.3 Remuneration not subject to source deductions of income tax

Remuneration that is not listed in section 5.2 is not generally subject to income tax; consequently, no tax should be withheld from the following remuneration:

- certain taxable benefits referred to in section 4.2.2.2 on page 33;
- amounts paid by a trustee of a profit-sharing plan, other than a single payment made in full satisfaction of all the employee's rights in the plan, if the payment must be included in the beneficiary's income (see section 5.13 on page 49);
- amounts paid by the trustee of an employee trust;

- **deemed indemnities** paid further to a work-related accident (see section 11.1 on page 77);
- pension benefits (single payment or periodic payment) paid to **a person resident outside Québec**;
- periodic payments from an RRSP;
- the portion of a payment from a RRIF that represents the minimum amount;
- patronage dividends;
- amounts that are not taxable;
- scholarships, bursaries or fellowships paid to a person who is not an employee (such amounts when paid to an employee may be considered a taxable benefit and therefore be subject to source deductions of income tax);
- single payments from an RPP, an DPSP or an RRSP, if they are transferred directly to another plan and not paid to the beneficiary;
- employment income paid to an employee who requested an exemption from source deductions by writing "X" on line 20 of the 2005-01 version of form TP-1015.3-V.

Some types of remuneration are subject to special rules under which you are not required to withhold income tax on all or part of the remuneration (see Chapter 11 for information on special cases).

The table in section 4.2.1 also lists various types of payments and indicates whether they are subject to source deductions. If a type of remuneration you pay is not included in the table, or in section 5.2.1, 5.2.2 or 5.3 of this guide, contact Revenu Québec.

### 5.4 Using table TP-1015.TI-V to calculate income tax withholdings

Table TP-1015.TI-V may be used to calculate income tax on remuneration that is paid weekly (52 pay periods per year), every two weeks (26 pay periods per year), twice-monthly (24 pay periods per year) or monthly (12 pay periods per year).

#### NOTE

The 2005-01 version of the *Source Deduction Table for Québec Income Tax* (TP-1015.TI-V) cannot be used to calculate source deductions of income tax when there are 53 or 27 pay periods in the year. If you have 53 or 27 pay periods in 2005, see section 5.4.4 on page 43.

The amount of income tax that you must withhold as the employer or payer of an individual will be based initially on the following factors:

- the individual's remuneration subject to source deductions of income tax (see section 5.4.1 on the next page);
- the deduction code entered on the individual's *Source Deductions Return* (form TP-1015.3-V) (see section 5.4.2 on page 43);
- the number of pay periods in the year (52, 26, 24 or 12).

You must also take into account

- any additional income tax withholdings the individual has requested on form TP-1015.3-V or TP-1017-V; and
- the amount of income tax that Revenu Québec authorized you to subtract from the individual's source deductions of income tax, after the individual completed form TP-1016-V, *Application for a Reduction in Source Deductions of Income Tax*, with respect to certain **tax credits (and not deductions)**, which are included in the calculation of remuneration subject to source

deductions of income tax) to which the individual is entitled, for example, the credit for charitable donations or for medical expenses.

If the amount of remuneration you pay or the number of pay periods you have are not included in table TP-1015.TI-V, follow the instructions given in section 5.4.4 on page 43.

### 5.4.1 Calculating the remuneration subject to source deductions of income tax

In order to determine an income tax withholding using table TP-1015.TI-V, you must first calculate the remuneration subject to source deductions of income tax. The following table shows how this is done.

Remuneration subject to source deductions of income tax	
Calculation for a pay period	Remarks
<ul style="list-style-type: none"> <li>• Gross remuneration (except commissions)</li> </ul>	See sections 5.6 to 5.11 and Chapter 11, where applicable, for information on certain types of remuneration that you might pay during a pay period.
<b>plus</b>	
<ul style="list-style-type: none"> <li>• commissions</li> </ul>	See section 5.12 on page 48.
<b>minus</b> the total of the following amounts:	
<ul style="list-style-type: none"> <li>• contributions to an RPP</li> </ul>	Subtract, from the employee's gross remuneration for the pay period, the amount of the contributions that you withheld and that you paid on his or her behalf to <ul style="list-style-type: none"> <li>• a defined contribution RPP; or</li> <li>• a defined benefit RPP.</li> </ul> If, in 2005, the employee pays contributions for services rendered prior to 1990, the amount you may subtract from the gross remuneration for these contributions is limited (see section 5.4.1.1 on page 41).
<ul style="list-style-type: none"> <li>• contributions to an RRSP</li> </ul>	See section 5.4.1.2 on page 42.
<ul style="list-style-type: none"> <li>• contributions to a retirement compensation arrangement</li> </ul>	Subtract, from the employee's gross remuneration for the pay period, the amount of the contributions that you withheld and that you paid on his or her behalf to a retirement compensation arrangement.
<ul style="list-style-type: none"> <li>• <b>75%</b> of the amount withheld from the employee's remuneration for the purchase of shares in the Fonds de solidarité des travailleurs du Québec (FTQ) or the Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi (called "Fondaction")</li> </ul>	Subtract, from the employee's gross remuneration for the pay period, 75% of the amount withheld if the following conditions are met: <ul style="list-style-type: none"> <li>• The employee has authorized you to withhold the amount.</li> <li>• The shares purchased are class A shares of the Fonds de solidarité des travailleurs du Québec (FTQ), or class A or B shares of the Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi (called "Fondaction").</li> <li>• The employee is the first purchaser of the shares.</li> </ul> The maximum amount that you may subtract from the gross remuneration is \$3,750 per year.
<ul style="list-style-type: none"> <li>• <b>125%</b> of the amount withheld from the employee's remuneration for the purchase of preferred shares qualifying under the CIP</li> </ul>	The amount to be subtracted for each pay period must not exceed <b>30%</b> of the result of the following calculation: <ul style="list-style-type: none"> <li>• the employee's gross salary or wages for the pay period;</li> </ul> <b>minus</b> <ul style="list-style-type: none"> <li>• the contributions that the employee paid to an RPP for the pay period;</li> <li>• the value of the preferred shares that you transferred for the pay period, at the employee's request, to an RRSP of which the employee or his or her spouse is the annuitant.</li> </ul> For example, if for a pay period the employee received a gross salary or wages of \$3,400 and paid \$150 in RPP contributions, and the value of the shares transferred to an RRSP is \$250, the maximum you may subtract for the pay period is \$900 (30% x (\$3,400 – \$150 – \$250)). If the amount you would normally subtract for a pay period exceeds 30%, contact Revenu Québec to find out if you may subtract the entire amount withheld.

**Remuneration subject to source deductions of income tax (cont.)**

Calculation for a pay period	Remarks
<ul style="list-style-type: none"> <li>travel deduction for residents of a designated remote area</li> </ul>	See section 5.4.1.3 on page 42.
<ul style="list-style-type: none"> <li>amount entered on line 19 of form TP-1015.3-V, <i>Source Deductions Return</i>.</li> </ul>	<p>You must take these amounts into account if the individual has indicated them on line 19 of form TP-1015.3-V.</p> <p>Divide the amount by the number of pay periods remaining in the year, in order to determine how much to subtract from the individual's gross remuneration for the pay period.</p> <p><b>NOTE</b></p> <p>The amount on line 19 of form TP-1015.3-V represents the total of the following amounts:</p> <ul style="list-style-type: none"> <li>the housing deduction for residents of a designated remote area;</li> <li>the amount for support payments.</li> </ul>
<ul style="list-style-type: none"> <li>amount respecting a severe and prolonged mental or physical impairment</li> </ul>	<p>You must take this amount into account if the individual indicated it on the most recent TP-1015.3-V form completed <b>and the form dates from a year prior to 2003</b>.</p> <p>If this is the case, divide this amount by the number of pay periods in the year, in order to determine how much to subtract from the individual's gross remuneration for the pay period.</p>
<ul style="list-style-type: none"> <li>amount of <b>deductions</b> authorized by Revenu Québec, if the individual completed form TP-1016-V</li> </ul>	<p>Divide this amount by the number of pay periods remaining in the year, in order to determine how much to subtract from the individual's gross remuneration for the pay period.</p> <p><b>Do not take into account the tax credits</b> authorized by Revenu Québec, since they are used to reduce the income tax payable that is determined using table TP-1015.TI-V.</p>
<ul style="list-style-type: none"> <li>portion of the remuneration paid to an Indian or a person of Indian ancestry that gives entitlement to the deduction for employment income situated on a reserve or premises</li> </ul>	See section 11.9 on page 82.
<ul style="list-style-type: none"> <li>portion of the remuneration that gives entitlement to the deduction respecting employment income earned on a vessel</li> </ul>	See section 11.10 on page 84.
<ul style="list-style-type: none"> <li>portion of the remuneration that gives entitlement to the deduction for employees of an IFC</li> </ul>	See section 11.11 on page 85.
<ul style="list-style-type: none"> <li>portion of the remuneration (paid to a foreign employee) that gives entitlement to the five-year tax exemption</li> </ul>	See section 11.12 on page 87.
<ul style="list-style-type: none"> <li>portion of the remuneration that gives entitlement to the deduction for members of the Canadian Forces or a Canadian police force</li> </ul>	See section 11.16 on page 94.

**IMPORTANT**

In determining an employee's remuneration subject to source deductions of income tax, do not subtract the employee's QPP contributions, employment insurance premiums or union dues from the gross salary or wages.



### Example 1

An employee receives a weekly salary of \$1,000 (52 pay periods per year), as well as \$100 per week in taxable benefits. The employee pays a contribution of \$50 per week to an RPP. As a resident of a designated remote area, the employee is entitled to a weekly deduction of \$48 (amount indicated on form TP-1015.3-V, calculated for the pay period). The remuneration subject to source deductions of income tax is determined as follows:

Weekly salary (52 pay periods per year)		\$1,000	
Taxable benefits	+	\$100	
Gross salary	=	\$1,100	
<b>Minus</b>			
Contribution to an RPP		\$50	
Deduction for residents of designated remote areas	+	\$48	
	=	\$98	- \$98
<b>Remuneration subject to source deductions of income tax</b>	=	\$1,002	

### Example 2

Monthly pension benefit (12 pay periods)	\$4,000
<b>Remuneration subject to source deductions of income tax</b>	\$4,000
Deduction code indicated by the retiree on the <i>Source Deductions Return</i> (form TP-1015.3-V)	Code E

Determine the amount of income tax to withhold as follows:

- Refer to the section of table TP-1015.TI-V marked "12 pay periods per year."
- In the left-hand column, "Remuneration subject to source deductions," locate the bracket that includes \$4,000 (\$3,970 – \$4,009.99).
- Follow the line across to the right until you reach column E. The amount of Québec income tax to withhold is \$442.98.

#### 5.4.1.1 Contributions to an RPP for services rendered prior to 1990

There is a limit on the amount that an employee may deduct with respect to contributions made in 2005, for service rendered before 1990. Once you have reached this limit, you must stop reducing the employee's gross remuneration, since the amount that exceeds the limit does not give entitlement to the deduction.

Employee who did not contribute to the RPP to which he or she makes contributions for services rendered before 1990		Employee who contributed to an RPP
<p><b>Situation in the year the service was rendered</b></p> <p>The employee did not contribute to <b>any</b> RPP</p> <p>The employee contributed to <b>another</b> RPP and the contributions for services rendered prior to 1990 are paid under an agreement signed before March 28, 1988.</p>		N/A
<p>As a rule, the amount that the employee may deduct is equal to the lowest of the following amounts:</p> <p>(a) the total amount of the contributions (other than optional contributions to a defined contribution RPP) made by the employee after 1945, <b>minus</b> the total of the amounts he or she deducted with respect to these contributions for any year prior to 2005;</p> <p>(b) \$5,500;</p> <p>(c) \$5,500 <b>multiplied by</b> the number of years of service prior to 1990 for which the employee made the contributions referred to in (a) above, <b>minus</b> the total of the amounts he or she deducted with respect to these contributions for any year prior to 2005 and with respect to optional contributions for any year prior to 1987</p>		<p>As a rule, the amount that the employee may deduct is equal to the lower of the following amounts:</p> <p>(a) the total amount of the contributions (other than optional contributions to a defined contribution RPP and the contributions covered in the column to the left) made by the employee after 1962, <b>minus</b> the total of the amounts he or she deducted with respect to these contributions for services rendered for any year prior to 2005;</p> <p>(b) \$5,500 <b>minus</b> the total of the amounts deducted in 2005 with respect to the contributions covered in the column to the left and with respect to contributions for current service and for past service rendered after 1989.</p>

### 5.4.1.2 Contributions to an RRSP

You may subtract the RRSP contributions made by an employee from the gross remuneration for a pay period only if, further to an agreement with the employee, you withhold the contributions from the employee's remuneration and remit the contributions directly to the issuer of an RRSP of which the employee or his or her spouse is the annuitant.

If the contributions are not remitted directly to the RRSP issuer, the employee may complete form TP-1016-V, *Application for a Reduction in Source Deductions of Income Tax*. Revenu Québec may then authorize you to reduce the employee's remuneration subject to source deductions.

If an employee purchases shares in a labour-sponsored fund through source deductions, and requests the transfer of the shares to his or her RRSP or a spousal RRSP, you must subtract the value of the transferred shares (to a maximum of \$5,000) from the employee's gross remuneration. Note: The fund may be the Fonds de solidarité des travailleurs du Québec (FTQ) or the Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi (called "Fondation").

If you withhold an amount from an employee's remuneration to allow the employee to purchase preferred shares qualifying under the CIP and, at the employee's request, you transfer the shares to an RRSP of which the employee or his or her spouse is the annuitant, you must subtract the value of the transferred shares in order to determine the remuneration subject to source deductions of income tax.

### 5.4.1.3 Travel deduction for residents of a designated remote area

If an employee's remuneration for a pay period includes the value of a taxable benefit related to trips made by a resident of a designated remote area, you must subtract the employee's allowable travel deduction from his or her gross remuneration for the pay period. However, before subtracting the amount, you should make sure that the employee meets the criteria for claiming the deduction.

#### Does the value of the benefit included in the employee's remuneration give entitlement to a travel deduction?

For an employee to claim a deduction for travel-related benefits that are included in his or her gross remuneration, the following conditions must be met:

- the employee has lived in a designated remote area for a period of at least six consecutive months that began or ended in the year;
- the trip was made by the employee or by a member of his or her household during the period of the year in which the employee lived and worked in the remote area;
- you are not related to the employee;

- the trip was made so that the employee or a member of the employee's household could receive medical care not available in the place where they live (if the trip was made for other reasons, there is a limit on the number of trips that may be claimed, see the note below);
- the employee will not claim, with respect to the taxable benefit, another deduction or tax credit for medical expenses on his or her income tax return;
- no form of financial assistance (other than this taxable benefit) was granted to the employee or a member of the employee's household for travel expenses. Note that this last condition does not apply if the financial assistance was included in the income of the employee or the member of the employee's household.

#### NOTE

The employee may be eligible for a deduction even if the trip in question was not made for medical reasons (that is, so that the employee or a member of the employee's household could receive medical care not available in the place where they live). Trips for **non-medical reasons** include trips made in the course of the employee's annual holidays, or because of a death or other misfortune. If the above-mentioned conditions are met, the employee may claim a deduction for a maximum of two trips for **non-medical reasons** for each member of the household (including the employee).

Calculate the amount of the deduction, where applicable, and subtract it from the gross remuneration.

#### How to calculate the amount to subtract from the employee's gross remuneration

Subtract the amount that the employee can claim as a deduction for a travel-related benefit. To calculate that amount, multiply the value of the taxable benefit by

- 50%, if the remote area is located in an intermediate zone (see version 2003-12 of guide TP-726.21.G-V, *Deduction for Residents of Designated Remote Areas*);
- 100%, if the remote area is located in a northern zone (see guide TP-726.21.G-V).

However, the total amount that you subtract during the year for each trip may not exceed the result of the following calculation:

- the lower of the following amounts:
  - the cost of the trip (see guide TP-726.21.G-V);
  - the employee's maximum allowable deduction for the trip (see "Column E: Additional limit" on page 8 of guide TP-726.21.G-V);
- multiplied by 50% or 100%, depending on whether the remote area is located in an intermediate zone or a northern zone.

Once you have calculated the amount of the deduction, subtract it from the gross remuneration.

## Restrictions

If you expect that the trip will not be made in the year in which the benefit was granted, no amount is to be subtracted with respect to this trip in the calculation of remuneration subject to income tax withholdings.

For further information, see guide TP-726.21.G-V, *Deduction for Residents of Designated Remote Areas*.

### 5.4.2 Deduction codes for 2005

The deduction codes used in table TP-1015.TI-V are given below.

#### Deduction codes

Amount (\$)	Code
Nil	O
1 – 9,330	A
9,331 – 11,000	B
11,001 – 13,000	C
13,001 – 15,000	D
15,001 – 16,000	E
16,001 – 17,000	F
17,001 – 18,000	G
18,001 – 19,500	H
19,501 – 21,500	I
21,501 – 24,000	J
24,001 – 25,000	K
25,001 – 26,000	L
26,001 – 27,000	M
27,001 – 28,500	N
Exemption	X

The deduction code you must use is indicated on the *Source Deductions Return* (form TP-1015.3-V) completed by the employee or beneficiary.

If the amount used to determine the deduction code exceeds \$28,500, **subtract**, for each increment of \$500 (or portion thereof), the amount in column Z of table TP-1015.TI-V from the amount in column N.

### 5.4.3 How to use table TP-1015.TI-V

To determine the amount of income tax to withhold from the remuneration subject to source deductions of income tax, proceed as follows:

- Refer to the section of the table corresponding to the number of pay periods in the year.
- In the left-hand column, locate the pay bracket corresponding to the employee's or beneficiary's remuneration subject to source deductions of income tax.

- Follow the line across to the right until you reach the column that corresponds to the deduction code indicated by the employee or beneficiary on form TP-1015.3-V, in order to determine the amount of income tax to withhold. If no amount is indicated, do not withhold income tax.
- Where applicable, add to the withholding the additional income tax the individual has asked you to withhold. This amount is shown on the TP-1015.3-V or TP-1017-V form submitted to you by the individual.
- Where applicable, divide the total **tax credits** (for charitable donations, medical expenses, etc.) authorized by Revenu Québec after the individual completed form TP-1016-V, by the number of pay periods remaining in the year. Then subtract the result from the income tax to be withheld.

#### Example

Weekly salary or wages (52 pay periods)	\$700
Value (GST and QST included) of meals and accommodation provided free of charge	+ \$100
	= \$800
<b>Minus:</b> Contributions to an RPP and deductions from line 19 of form TP-1015.3-V (calculated for the period in question)	– \$80
<b>Remuneration subject to source deductions of income tax</b>	= \$720
Deduction code indicated by the employee on form TP-1015.3-V	Code C

Determine the amount of income tax to withhold as follows:

- Refer to the section of table TP-1015.TI-V marked "52 pay periods per year."
- In the left-hand column, "Remuneration subject to source deductions," locate the bracket that includes \$720 (i.e., \$720.00 – \$729.99).
- Follow the line across to the right until you reach column C.

The amount of income tax to withhold is \$76.77.

### 5.4.4 Remuneration or number of pay periods not covered in table TP-1015.TI-V

Table TP-1015.TI-V cannot be used to determine the income tax withholding if

- the remuneration subject to source deductions of income tax exceeds a certain maximum for a given period (for example, \$8,000 per pay period where remuneration is paid twice a month); or
- the number of pay periods in the year is not 52, 26, 24 or 12.

In such cases, determine the amount of income tax to withhold as follows:

- (a) Estimate the employee's or beneficiary's annual remuneration by adding to the gross annual remuneration the following amounts (where applicable):
  - the estimated **gross** commissions for the year, if the employee did not complete form TP-1015.R.13.1-V, *Statement of Commissions and Expenses for Source Deduction Purposes*;
  - the estimated **net** commissions for the year, if the employee completed form TP-1015.R.13.1-V. To calculate the estimated net commissions, **multiply** the estimated gross commissions for the year **by** the percentage of commissions determined on line 8 of form TP-1015.R.13.1-V.
- (b) Subtract, from the individual's estimated annual remuneration, the annual amount of withholdings and deductions that you must take into account to determine the remuneration subject to source deductions of income tax (see section 5.4.1 on page 39).
- (c) Estimate the income tax for the year based on the rates given in the table below, then subtract from the estimated income tax one of the following amounts:
  - 20% of the amount indicated on line 10 of form TP-1015.3-V (remember to take indexation into account if the form the individual completed was not version 2005-01);
  - 20% of the basic amount of \$00, if the individual has not completed form TP-1015.3-V.

Result obtained in (b) above		Taxation rate
Over	But not over	
0	\$28,030	16%
\$28,030	\$56,070	\$4,484.80 on the first \$28,030 + 20% on the remainder
\$56,070		\$10,092.80 on the first \$56,070 + 24% on the remainder

- (d) Where applicable, subtract from the amount obtained in (c) (estimated income tax for the year) the total **tax credits** (for charitable donations, medical expenses, etc.) authorized by Revenu Québec after the individual completed form TP-1016-V, *Application for a Reduction in Source Deductions of Income Tax*.
- (e) To determine the deduction rate, **divide** the amount obtained in (d) **by** the estimated annual remuneration (calculated in (a)).
- (f) To determine the amount of income tax to withhold for each pay period, **multiply** the **gross** remuneration for each pay period **by** the deduction rate (calculated in (e)).

### Example 1

An employee who is paid weekly receives a gross salary of \$4,000 and a taxable benefit of \$200 for each pay period. For each pay period, you must withhold \$40 from the employee's remuneration as contributions to an RPP.

The employee, who completed the 2005-01 version of form TP-1015.3-V, entered \$21,550 on line 10 and \$1,320 on line 19.

(a) Estimated salary for the year \$4,000 x 52 pay periods	\$208,000.00
Estimated taxable benefits for the year: \$200 x 52 pay periods	+ \$10,400.00
<b>Estimated annual salary</b>	<b>= \$218,400.00</b>
(b) Contributions to an RPP for the year, and estimated deductions for the year indicated on line 19 of form TP-1015.3-V ((\$40 x 52) + \$1,320)	- \$3,400.00
<b>Annual remuneration subject to source deductions of income tax</b>	<b>= \$215,000.00</b>
(c) Calculation of estimated income tax for the year	
Income tax on the first \$56,070	\$10,092.80
Plus 24% on the remainder (\$215,000 - \$56,070) x 24%	+ \$38,143.20
	= \$48,236.00
Multiply the amount indicated on line 10 of form TP-1015.3-V by 20% (\$21,550 x 20%)	- \$4,310.00
<b>Estimated income tax for the year</b>	<b>= \$43,926.00</b>

- (d) Divide the estimated income tax for the year by the estimated **annual salary**:  $\$43,926.00 \div \$218,400 = 0.2011$ .
- (e) Multiply the **gross salary** for the period by the rate obtained in (d):  $(\$4,000 + \$200) = \$4,200 \times 0.2011 = \$844.62$ .  
The result is the income tax to withhold for the pay period.
- (f) If the salary or wages paid to the employee is the same for each pay period, withhold \$844.62 per pay period. Otherwise, multiply any amount of gross remuneration not covered in table TP-1015.TI-V by the rate of 0.2011.

### Example 2

An employee who is paid every two weeks receives \$8,200 in salary (basic salary and commissions during a pay period (this amount is not covered in table TP-1015.TI-V). Furthermore, the employee's gross salary per pay period is \$769.23, and you estimate that the net commissions for the year will be \$60,000. For each pay period, you must withhold \$100 as contributions to an RPP.

In 2004, the employee completed the 2004-01 version of form TP-1015.3-V, and entered \$9,150 which constitutes the basic amount on line 1 for 2004.

(a) Estimated gross salary for the year \$769.23 x 26 pay periods	\$20,000.00
Estimated net commissions for the year	+ \$60,000.00
<b>Estimated annual salary</b>	<b>= \$80,000.00</b>
(b) Contributions to an RPP \$100 x 26 pay periods	– \$2,600.00
<b>Annual salary subject to source deductions of income tax</b>	<b>= \$77,400.00</b>
(c) Calculation of estimated income tax for the year	
Income tax on the first \$56,070	\$10,092.80
Plus 24% on the remainder (\$77,400 – \$56,070) x 24%	+ \$5,119.20
	<b>= \$15,212.00</b>
Amount indicated on line 10 of form TP-1015.3-V (\$9,330 <sup>1</sup> x 20%)	– \$1,866.00
<b>Estimated income tax for the year</b>	<b>= \$13,346.00</b>
(d) Divide the estimated income tax for the year by the estimated annual salary: \$13,346 ÷ \$80,000 = 0.1668	
(e) Multiply the gross salary and the commissions for the pay period by the rate obtained in (d): \$8,200 x 0.1668 = \$1,367.76  The result is the income tax to withhold for the pay period.	
(f) To determine the income tax to withhold from any other remuneration not covered in table TP-1015.TI-V, multiply the amounts paid by the rate of 0.1668.	
1. As the version of form TP-1015.3-V that the employee completed is not the 2005-01 version, you must index the amount entered on line 10 of the form. In other words, you must use the amount that the employee would have written on line 10 of version 2005-01 of the form. In our example, this amount would be \$9,330.	

## 5.5 Using the mathematical formulas to calculate income tax withholdings

Chapter 12 contains the mathematical formulas that you may use to calculate source deductions of income tax.

In sections 5.6 to 5.13, which explain how to calculate income tax withholdings and remuneration subject to source deductions in the case of certain benefits and payments, you will also find specific information on the mathematical formulas.

If you calculate an income tax withholding using the mathematical formula applicable to regular payments and compare the result with the amount shown in the *Source Deduction Table for Québec Income Tax* (TP-1015.TI-V), you may find that the amounts are not identical. The difference is attributable to the fact that different elements are taken into account in the calculation.

## 5.6 Taxable benefits

### 5.6.1 General information

Taxable benefits in cash or in kind are considered salary or wages. Therefore, if you grant a taxable benefit to an employee during a pay period, you must add the value of the benefit to the employee's regular remuneration when you calculate the remuneration subject to source deductions of income tax.

In calculating the value of a benefit, you must take into account the GST and QST that the employee would have paid had he or she purchased the property or service concerned. However, do not add GST or QST to taxable allowances.

If you use the mathematical formulas to calculate your income tax withholdings, you must include the value of the taxable benefit in variable G.

For detailed explanations of the principal taxable benefits, refer to the brochure *Taxable Benefits* (IN-253-V).

### 5.6.2 Information concerning certain taxable benefits

Section 4.2.2.2 on page 33 provides specific information on the following tax benefits:

- the stand-by charge and operating costs for an automobile;
- contributions paid to a private health services plan;
- contributions paid to a multi-employer insurance plan;
- benefits received as a result of the exercise of a security option.

You will also find information concerning the tax treatment of taxable benefits granted

- to shareholders;
- to partners; or
- in kind (that is, other than in money).



## 5.7 Vacation pay

Where vacation pay is calculated on a percentage basis and paid to an **employee who is taking holidays**, you must use the applicable section of table TP-1015.TI-V, as indicated below:

- 2% – Use the section marked “52 pay periods per year.”
- 4% – Use the section marked “26 pay periods per year.”
- 6% – Divide the vacation pay by 3. Use the section marked “52 pay periods per year,” and multiply the weekly income tax withholding by 3.
- 8% – Divide the vacation pay by 4. Use the section marked “52 pay periods per year,” and multiply the weekly income tax withholding by 4.

To calculate the amount of income tax to withhold from the vacation pay of an **employee who is not taking holidays**, use the method for bonuses given in section 5.8 below. **If you are using the mathematical formulas**, see section 12.3.1.2 on page 97 or section 12.3.2 on page 99, as applicable.

Payments that you make to a trust, as credits for vacation time accumulated by an employee, must be included in the employee’s income for the year in which the payments are made. The payments are subject to source deductions of income tax just as if they had been paid directly to the employee.

## 5.8 Bonuses and retroactive pay

Bonuses and retroactive pay are subject to source deductions of income tax. The examples on the following page show how to calculate the income tax to be withheld (see examples 1 and 2 for bonuses, and example 3 for retroactive pay).

Where the total amount of an employee’s estimated annual salary or wages plus the bonus or retroactive pay does not exceed \$00, income tax of 8% must be withheld from the bonus or retroactive pay.

If you are using the mathematical formulas and the total amount of the employee’s estimated annual salary or wages plus the bonus or retroactive pay does not exceed \$00, do not use these formulas. Simply withhold 8% income tax from the bonus or retroactive payment.

Do not withhold income tax if the employee completed form TP-1015.3-V for 2005 and entered “X” on line 20 of the form.

### Example 1

#### First bonus paid in the year

John, whose weekly remuneration subject to source deductions of income tax is \$540, receives a bonus of \$2,500. The deduction code on his TP-1015.3-V form is “D.”

(a) Divide the bonus by the number of pay periods in the year:  
 $\$2,500 \div 52 = \$48.08$

(b) Add \$48.08 to \$540, for a total of \$588.08 per week.

(c) To calculate the additional weekly source deduction of income tax resulting from the extra weekly income of \$48.08, consult the section of table TP-1015.TI-V marked “52 pay periods per year.”

Amount withheld from \$588.08	\$38.94
Amount withheld from \$540	– \$30.94
Additional source deduction	= \$8.00

(d) To determine the amount to withhold from the bonus of \$2,500, multiply the additional source deduction of \$8 by 52 (that is, the number of pay periods in the year):  $\$8 \times 52 = \$416$

(e) The amount to be withheld from John’s remuneration for the pay period is therefore \$446.94 (i.e.,  $\$30.94 + \$416$ ).

### Example 2

#### Other bonuses paid in the year

Laura, whose remuneration subject to source deductions is \$540 per week, receives a \$2,500 bonus in March and a \$1,040 bonus in July. The deduction code on her TP-1015.3-V form is “E.”

The income tax to be withheld from the first bonus is calculated as in example 1. The income tax to be withheld from the second bonus is calculated as follows:

(a) Divide the amount of the second bonus by the number of pay periods in the year:  $\$1,040 \div 52 = \$20$

Add the result to the weekly remuneration subject to source deductions:  $\$540 + \$20 = \$560$

(b) Divide the amount of the bonuses previously paid by the number of pay periods in the year:  $\$2,500 \div 52 = \$48.08$

(c) Add the amounts obtained in (a) and (b):  
 $\$560 + \$48.08 = \$608.08$

(d) Consult the section of table TP-1015.TI-V marked “52 pay periods per year” to calculate the additional weekly source deduction of income tax resulting from the second bonus.

Amount withheld from \$608.08 (\$560 + \$48.08)	\$39.07
Amount withheld from \$588.08 (\$540 + \$48.08)	– \$35.07
Additional source deduction	= \$4.00

(e) To determine the amount to withhold from the bonus of \$1,040, multiply the additional source deduction of \$4 by 52 (that is, the number of pay periods in the year):  $\$4 \times 52 = \$208$

Use the same method for each subsequent bonus paid to the employee.

### Example 3

#### Retroactive pay

Eric's remuneration subject to source deductions of income tax is increased from \$275 to \$300 a week, retroactive to 10 weeks. He is therefore entitled to \$250 (\$25 x 10) in retroactive pay. The deduction code on his TP-1015.3-V form is "A."

(a) Consult the section of table TP-1015.TI-V marked "52 pay periods per year" to calculate the additional weekly source deduction of income tax resulting from the pay increase.

Amount withheld from \$300 a week		\$12.52
Amount withheld from \$275 a week	-	\$8.52
Additional source deduction	=	\$4.00

(b) Multiply the additional source deduction (\$4) by the number of weeks covered by the retroactive pay increase:  $\$4 \times 10 = \$40$

(c) The amount to be withheld from Eric's remuneration for the pay period is therefore \$52.52 (i.e.,  $\$12.52 + \$40$ ).

## 5.9 Overtime pay

### 5.9.1 If you are using table TP-1015.TI-V

If the overtime worked by an employee during a pay period is paid at the same time as the employee's regular salary or wages for the period, simply add the amount of this payment to the regular salary or wages and calculate the income tax withholding in the usual way.

However, if the overtime is paid in a pay period other than the period in which it was earned (in other words, if you are paying the employee for accumulated overtime), calculate the income tax withholding according to the method applicable to bonuses. This method is described in section 5.8.

### 5.9.2 If you are using one of the mathematical formulas

If you are using the mathematical formula based on regular payments, use one of the two methods applicable to bonuses to calculate the income tax to be withheld from a payment for accumulated overtime (see section 12.3.1.2 on page 97).

However, if the overtime worked by an employee during a pay period is paid at the same time as the regular salary or wages for the period, you are not required to use one of the methods applicable to bonuses. You may add the overtime pay to the regular salary or wages and include the result in variable G of the mathematical formula given in section 12.3.1.1 on page 96.

If you are using the mathematical formula based on a cumulative average, include the payment for accumulated overtime in

- variable B if you are using Method 1 of this formula;
- variable B<sub>3</sub> if you are using Method 2 of this formula.

However, if the overtime worked by an employee during a pay period is paid at the same time as the regular salary or wages for the period, you may include the overtime pay in variable G (instead of in variable B or variable B<sub>3</sub>).

## 5.10 Tips

In calculating an employee's remuneration subject to source deductions of income tax, you must add the amounts of the following tips to the regular salary or wages:

- tips that result from tippable sales and that the employee reported during the pay period on the *Register and Statement of Tips* (TP-1019.4-V) or an equivalent document;
- tips unrelated to tippable sales (for example, tips the employee received as a hotel valet, porter, doorman or cloakroom attendant), reported by the employee on the *Register and Statement of Tips* or an equivalent document;
- tips that, because they constitute service charges added to the customer's bill, are distributed to the employee and do not have to be reported on the *Register and Statement of Tips* or an equivalent document;
- tips that you allocated to the employee for the pay period because the amount of tips reported was less than 8% of tippable sales (or was less than the percentage set by Revenu Québec further to a request for a reduction in the allocation rate).

If you are using the mathematical formulas, include the tips in variable G.

### IMPORTANT

When you cannot make all the source deductions because an employee's basic salary or wages (in money) are insufficient, deduct amounts in the following order: employment insurance premiums, federal income tax, QPP contributions, union dues, and Québec income tax.

If you are an employer in the restaurant and hotel sector, see the brochure *Tax Measures Respecting Tips* (IN-250-V) for more information concerning the reporting of tips, the tip-allocation mechanism and the refundable tax credit you may claim.

## 5.11 Directors' fees

### 5.11.1 Directors who are resident in Canada

If, for a pay period, you pay a member of your board of directors who is resident in Canada both directors' fees and a salary or wages, add the value of the fees to the salary or wages and make an income tax withholding in the usual way. If you are using the mathematical formulas, include the fees in variable G.

You are not required to withhold income tax if you pay **only** directors' fees to such a director and you estimate that the value of the fees for the year will not exceed the total of the amounts indicated by the director on lines 10 and 19 of form TP-1015.3-V (or \$9,330 if he or she did not complete the form). Otherwise, you must withhold income tax using the method explained below. (You must also use this method if the director entered the deduction code "0" on form TP-1015.3-V.)

Determine the amount of income tax to withhold as follows:

- (a) To obtain the monthly amount of directors' fees, divide the value of the fees by the number of months that have elapsed since the later of the following dates: the date of the last payment, or January 1, 2005;
- (b) In the section of table TP-1015.TI-V marked "12 pay periods per year," locate the monthly income tax withholding for the amount determined in (a), and multiply it by the number of months that have elapsed since the later of the following dates: the date of the last payment, or January 1, 2005. The result is the amount of income tax to withhold from the directors' fees.

You cannot use the **mathematical formulas** given in Chapter 12 with the method explained in the previous paragraph. You must therefore do the calculation yourself.

### 5.11.2 Directors who are not resident in Canada

If you pay directors' fees to a director who is not resident in Canada, contact Revenu Québec.

## 5.12 Commissions

Commissions paid to an **employee** constitute salary or wages, and are added to the regular salary or wages or similar payments. Employees who earn commissions and are required to pay certain employment expenses may elect to have only a percentage of their commissions included in their remuneration subject to source deductions of income tax. An employee who wishes to make such an election must complete form TP-1015.R.13.1-V, *Statement of Commissions and Expenses for Source Deduction Purposes*, and submit it to you within the time limit specified in the following paragraph. The employee may revoke the election at any time by notifying you in writing. The revocation takes effect on the date indicated on the notice.

For 2005, the employee must submit form TP-1015.R.13.1-V to you by the latest of the following dates:

- January 31, 2005;
- the 30th day after the date on which the employee begins to be remunerated on a commission basis;
- the 30th day after the date of an event that may change the percentage of commissions to be included in remuneration subject to source deductions of income tax.

### NOTE

An employee whose estimated commission income changes during the year must complete and submit another TP-1015.R.13.1-V form.

### 5.12.1 Employees who do not have to pay their expenses or who did not complete form TP-1015.R.13.1-V

In both these cases, if you use table TP-1015.TI-V and the commissions are **paid on a regular basis** to the employee, add them to the salary or wages when you calculate the remuneration subject to source deductions of income tax. Then determine the income tax withholding in the usual way (see section 5.4.3 on page 43). **If you are using the mathematical formulas**, include the commissions in variable G.

However, if you use table TP-1015.TI-V and the commissions are **not paid on a regular basis**, you may use the method applicable to bonuses (see section 5.8 on page 46). **If you are using the mathematical formula based on regular payments**, you may use either of the methods applicable to bonuses to calculate the income tax withholding. **If you are using the mathematical formula based on a cumulative average**, include the commissions in variable G.

### 5.12.2 Employees who pay their expenses and who completed form TP-1015.R.13.1-V within the prescribed time period

**If you are using table TP-1015.TI-V**, calculate the employee's remuneration subject to source deductions of income tax by adding to his or her basic salary or wages the result of the following calculation:

- the gross commissions paid to the employee for the pay period,
- multiplied by
- the percentage of commissions determined on form TP-1015.R.13.1-V.

Continue the calculation of the remuneration subject to source deductions of income tax (section 5.4.1) and determine the income tax withholding in the usual way (section 5.4.3).

**If you are using the mathematical formulas**, include the commissions in variable G.

## 5.13 Single payments

Certain **single payments** are subject to an income tax withholding of

- 16% (if the payment is \$5,000 or less); or
- 20% (if the payment is more than \$5,000).

These **single payments** are

- a retiring allowance (see section 5.13.1);
- a death benefit (see section 5.13.2);
- a payment made further to an order or judgment respecting salary or wages owing to an employee or former employee, if a portion of the amount owing relates to a previous year.
- a payment made under a pension plan (see section 5.13.3)
  - upon the death, resignation or retirement of an employee or a former employee,
  - upon the winding-up of the plan, in full satisfaction of all the participant's rights in the plan, or
  - upon the amendment of the plan, where the amendment entitles the participant to receive the payment even if he or she continues to participate in the plan;
- a payment made under a profit-sharing plan, in full satisfaction of all the employee's rights in the plan, if the payment must be included in the employee's income for the year in which the payment is received. Otherwise, you do not have to withhold income tax on the payment;
- a payment made under a DPSP, including a DPSP whose registration has been revoked (see 5.13.3);
- an amount paid as proceeds of the surrender, cancellation or redemption of an income-averaging annuity contract;
- certain payments made under an RESP (see section 5.13.4).

You cannot use the **mathematical formulas** to calculate the income tax withholding on single payments. Follow the instructions in this section.

### IMPORTANT

Single payments from an **RRSP** or a **RRIF** are subject to an income tax withholding of **16% only, regardless of the amount of the payment**. Note that in certain cases, no amount is withheld (see section 5.14 on the next page).

### Single payments

Payment that is not part of a series of periodic payments.

#### NOTE

As a rule, a single payment is a payment made to an individual **only once during the year**, in settlement of an amount to which the individual is entitled. For example, a retiring allowance is considered a single payment if the employer pays the allowance in one payment or in several annual payments.

If, at the time of payment, the employer or payer cannot anticipate whether he or she will make other payments of the amount in question to the individual **during the year**, the payment is treated as a single payment and income tax is withheld at the rate of 16% or 20%, as applicable.

However, if the employer or payer expects to make other payments of the amount to the individual **during the year**, the employer or payer must contact Revenu Québec to find out if these payments can be considered single payments. If this is not the case, income tax must be withheld in the usual way.

### 5.13.1 Retiring allowances

A retiring allowance may be transferred in whole or in part to an RPP or an RRSP, either by you at the time of payment, or by the employee or former employee during the taxation year or during the 60-day period following the end of the year. You are not required to withhold income tax from the portion of the retiring allowance that is transferred directly to an RPP or an RRSP and that may be deducted from the employee's or former employee's income. The deductible amount is the amount determined under the *Income Tax Act* (Statutes of Canada).

#### Retiring allowance

Amount paid to an employee upon

- loss of employment;
- retirement (in this case, the amount must be paid to the employee at the time of retirement, or after retirement in recognition of the employee's long service).

#### NOTE

A retiring allowance may include an amount reimbursed for sick leave accumulated but not used before the employee's retirement or resignation, an amount paid for damages, or an indemnity in lieu of notice.

### 5.13.2 Death benefits

If you pay a **death benefit**, you must withhold income tax of 16% or 20%, as applicable, only if the benefit is paid in the year of death or the following year.



### Death benefit

Amount paid to the heirs of a deceased employee, in recognition of services rendered by the employee.

#### NOTE

Such a benefit may be, for example, an amount reimbursed for sick leave accumulated but not used before the employee's death.

### 5.13.3 Pension payments

As a rule, single payments from an RPP, an RRSP or a DPSP are not subject to income tax withholdings if the amounts are transferred directly to another plan without being paid to the beneficiary. **If only a portion of the payment is transferred directly to another plan, you must withhold income tax from the portion that is not transferred directly.**

Single payments from an RPP or other pension plan are not subject to income tax withholdings **if they are paid to a person who resides outside Québec.**

### 5.13.4 Payments from an RESP

Payments made under an RESP, **other than** an educational assistance payment or a refund of premiums, are subject to an income tax withholding of 16% or 20%, as applicable.

However, in the case of an accumulated income payment made to a subscriber under an RESP (or to the subscriber's spouse, if the subscriber is deceased), the **first \$50,000 is not subject** to income tax withholdings if

- it is transferred to an RRSP whose annuitant is either the beneficiary of the payment or the beneficiary's spouse, and
- the payer has reasonable grounds to believe that the beneficiary may deduct the RRSP contribution from his or her income for the year.

If you make a payment under an RESP and are required to withhold 16% or 20% income tax from all or a portion of the payment, **you must also withhold additional income tax of 8%.**

#### Example

If you make an accumulated income payment of \$70,000 to a subscriber under an RESP, and \$50,000 of this amount is transferred to the subscriber's RRSP, calculate the income tax withholding as follows:

Income tax on a single payment: \$20,000 (\$70,000 – \$50,000) x 20%	\$4,000
Additional income tax: \$20,000 x 8%	+ \$1,600
<b>Total income tax withholding</b>	<b>= \$5,600</b>

## 5.14 Payments from an RRSP or a RRIF

If you make a payment from an RRSP or a RRIF, the payment is not subject to an income tax withholding **unless** it is a single payment from an RRSP or the portion of a payment from a RRIF that exceeds the minimum amount.

### 5.14.1 RRSPs

If you make periodic payments from an RRSP, the payments are not subject to an income tax withholding. However, if you make a single payment from an RRSP, it is subject to an income tax withholding of 16% of the amount. For example,

- if you make a single payment of \$6,000, you must withhold \$960 in income tax on the payment;
- if you make a monthly payment of \$1,000, you do not withhold income tax on the payment.

You must also withhold 16% income tax from a single payment paid under a modified RRSP (plan that ceased to be registered as an RRSP before May 26, 1976).

#### Exception

As a rule, single payments from an RRSP are not subject to income tax withholdings if the amounts are transferred directly to another registered plan without being paid to the beneficiary. **If only a portion of the payment is transferred directly to another plan, you must withhold income tax from the portion that is not transferred directly.**

The following amounts from RRSPs are also not subject to income tax withholdings:

- amounts withdrawn from an RRSP under the HBP, to a maximum of \$20,000;
- amounts withdrawn from an RRSP under the LLP, to a maximum of \$10,000 per year and \$20,000 for the LLP participation period;
- amounts you can reasonably consider to be a refund received for undeducted contributions previously made to an RRSP that the beneficiary may deduct in his or her income tax return for the year.

### 5.14.2 RRIFs

You must withhold income tax from **the portion** of a payment from a RRIF **that exceeds the minimum amount.** In the case of a periodic payment, use the *Source Deduction Table for Québec Income Tax* (TP-1015.TI-V) to determine the withholding. If this table does not include the number of pay periods you have, follow the instructions given in section 5.4.4 on page 43.

#### Exception

As a rule, single payments from a RRIF are not subject to income tax withholdings if the amounts are transferred directly to another registered plan without being paid to the beneficiary. **If only a**



portion of the amount is transferred directly to another plan, you must withhold income tax from the portion that is not transferred directly.

The portion of the payments that represents the minimum amount is not subject to income tax withholdings. This is the case for both periodic payments and single payments.

### **5.15 Earnings supplements**

You must withhold 16% of the amount of an earnings supplement paid under a government work incentive program other than the Return to Work Supplement sponsored by Emploi-Québec. For example, if you pay a supplement of \$200, you must withhold \$32 in income tax. However, do not withhold income tax on the portion of the supplement that relates to child-care expenses or tuition fees.

## 6 QPP contributions

### 6.1 General information

The Québec Pension Plan (QPP) provides pension income to employees who have retired or who become disabled. If an employee dies, the QPP provides benefits to the employee's spouse or dependants.

QPP contributions are shared equally by the employer and the employee. As the employer, you are responsible for calculating the employee's QPP contribution and deducting it from the employee's salary or wages. You must remit the employee's QPP contribution to Revenu Québec at the same time as you remit your QPP contribution.

Revenu Québec remits the employee and employer QPP contributions to the Régie des rentes du Québec. The Régie enters the amount of the contributions and the employee's pensionable salary or wages in a Record of Contributors.

This chapter provides explanations that will help you calculate source deductions of QPP contributions. You may use

- the *Source Deduction Tables for QPP Contributions* (TP-1015.TR-V if there are 52, 26 or 24 pay periods in the year, or TP-1015.TR.12-V if there are 12 pay periods); or
- the mathematical formula in section 12.4.

A computer application ("WinRAS"), based on the mathematical formulas, is also available on the Revenu Québec Web site at [www.revenu.gouv.qc.ca](http://www.revenu.gouv.qc.ca). You can use the application to calculate (among other things) the source deductions of Québec income tax for each pay period.

The employee and employer QPP contributions must be remitted periodically. Use form TPZ-1015.R.14.1-V, TPZ-1015.R.14.2-V, TPZ-1015.R.14.3-V or TPZ-1015.R.14.4-V, according to your remittance frequency. Refer to the table in section 3.3.5 on page 21.

### 6.2 Basic data

The QPP data for 2005 are given below. The 2004 data are provided for information purposes.

	2005	2004
Maximum pensionable earnings <sup>1</sup>	\$41,100	\$40,500
Basic exemption	\$3,500	\$3,500
Maximum contributory earnings	\$37,600	\$37,000
Contribution rate	4.95%	4.95%
Maximum employee contribution	\$1,861.20	\$1,831.50
Maximum employer contribution (per employee)	\$1,861.20	\$1,831.50

1. The term "pensionable earnings" is replaced by "pensionable salary or wages" in the texts in this chapter.

#### IMPORTANT

Your QPP contribution is equal to the total of the QPP contributions **withheld** from the pensionable salary or wages of your employees.

#### Social insurance number

Every employee who contributes to the QPP must have a social insurance number (SIN). This number ensures that the employee's contributions and pensionable salary or wages are correctly entered each year in the Record of Contributors kept by the Régie des rentes du Québec. The benefits to which the employee may be entitled are based on the data entered in this record.

Employees may obtain their SIN (and their social insurance card) from any Human Resources Centre of Canada. They may also contact a Human Resources Centre of Canada to have a correction made to the name on the card.

Under the *Act respecting the Québec Pension Plan*, you must require each of your employees who carries out work in Québec to show you his or her social insurance card within 30 days of taking up employment. If you have an employee under the age of 18, you must ask to see the card in the month following his or her 18th birthday.

In your records and in all correspondence, and particularly on the employee's RL-1 slip, you must indicate the employee's first name, last name and social insurance number exactly as they appear on his or her social insurance card.

QPP contributions must be withheld from an employee's pensionable salary or wages even if the employee does not have a social insurance number or refuses to provide it.

### 6.3 Remuneration subject to QPP contributions

Refer to the table in section 4.2.1 to determine whether the remuneration you pay is subject to QPP contributions. **As a rule, QPP contributions are withheld from employment income**, such as the following:

- salaries or wages (see section 1.4 on page 11, for information on the term "salary or wages"), except those described in section 6.4 below;
- benefits resulting from the exercise of a security option, where taxation of the benefit is deferred from the year of acquisition of the securities to the year of their disposition pursuant to an election made under the federal income tax system. **This benefit is subject to QPP contributions in the year of acquisition, not in the year of disposition** (for further information, refer to section 4.2.2.2 on page 33);

- salaries or wages deemed paid to an employee who has a phased retirement arrangement (see section 6.15 on page 60);
- amounts you pay to the trustee of a profit-sharing plan or an employee trust, or to the custodian of an employee benefit plan (see section 11.6 on page 80).

Such remuneration constitutes pensionable salary or wages under the QPP **if it is paid for work performed in Québec**.

### Work performed in Québec

Work is considered to be performed in Québec **if one of the conditions given in column B of the table in section 4.1.1 on page 30 is met**. If this is the case, you must withhold QPP contributions from the types of remuneration listed above. (You should also check whether the special rules mentioned in section 4.1.2 apply.)

#### NOTE

If you temporarily posted an employee to a country that has a social security agreement with Québec, see section 6.17.1 on page 61.

## 6.4 Remuneration not subject to QPP contributions

You need not withhold or pay QPP contributions with respect to the following types of employment income:

- the salary or wages paid to an employee
  - for excepted employment (see section 6.4.1 opposite),
  - before or during the month in which the employee reaches age 18,
  - as of the month following the month that includes the date (determined by the Régie des rentes du Québec) on which the employee becomes disabled;
- certain taxable benefits referred to in section 4.2.2.2 on page 33;
- the salary or wages paid to an employee who is temporarily posted to Québec and is covered by a social security agreement (see section 6.17.2 on page 61).

Similarly, you need not withhold QPP contributions nor pay employer contributions to the QPP with respect to the following types of remuneration (which are not subject to QPP contributions because they are not considered to be employment income):

- **deemed indemnities** paid further to a work-related accident (see section 11.1 on page 77);
- retiring allowances (see the definition in section 5.13.1 on page 49);
- death benefits (see the definition in section 5.13.2 on page 49);
- retirement benefits;
- patronage dividends.

Finally, you are not to withhold QPP contributions or pay employer contributions to the QPP with respect to the following types of remuneration:

- wage loss insurance benefits paid under a wage loss insurance plan to **which the employer contributed** (see section 6.4.2 on the next page);
- amounts paid by the trustee of an employee trust;
- amounts paid by the custodian of an employee benefit plan;
- amounts paid by the trustee of a profit-sharing plan, if the amounts can reasonably be attributed to an amount paid after May 12, 1994, to the trustee.

### 6.4.1 Excepted employment

The following categories of employment are excepted employment and are not subject to QPP contributions:

- employment in agriculture or an agricultural enterprise, horticulture, fishing, hunting, trapping, forestry, logging or lumbering, if
  - you pay the employee less than \$250 cash remuneration during the year, or
  - you hire the employee, in return for cash remuneration, for fewer than 25 working days during the year;
- work performed by your child or dependant, for which no cash remuneration is paid;
- work performed by a member of a religious order who has taken a vow of poverty and whose remuneration is paid to the religious order, either directly or by the member, provided an application was submitted in the prescribed manner before January 1, 1998;
- casual or short-term employment (excluding employment as an entertainer or performer) in a circus, show, exhibition or similar activity, where the employee
  - is not regularly employed by you, **and**
  - is employed by you for fewer than seven days in the year;
- casual or short-term employment carried out on the occasion of a referendum or an election, on behalf of the federal government, a provincial government, a municipality or a school board, where the employee
  - is not regularly employed by you, **and**
  - is employed by you for **fewer than 35 hours** in the year, in order to work on the referendum or election;
- casual or short-term employment respecting disaster relief or rescue operations, if the employee is not regularly employed by you;
- employment in a teaching position, further to an exchange, of a person from a country other than Canada;
- employment conferring the right to a pension plan established by the *Courts of Justice Act* or the *Judges Act* (Statutes of Canada);
- employment as a member of the Canadian Forces or the Royal Canadian Mounted Police;
- employment in Québec by an employer that, under a social security agreement, is exempted from paying QPP contributions (see section 6.17 on page 60);

- employment in Québec by another government or an international organization, other than employment covered by an agreement with the Régie des rentes du Québec;
- employment of a worker who is an Indian or a person of Indian ancestry, if the income gives entitlement to the deduction for employment income situated on a reserve or premises (see section 11.9 on page 82);
- employment in Québec by an employer that does not have an establishment in Québec, unless the employer has made an arrangement with the Régie des rentes du Québec regarding the payment of contributions in respect of the employment for its employees resident in Canada who receive their remuneration from an establishment of the employer located outside Canada.

Employment in a transportation enterprise may also, in some cases, be considered excepted employment, if the work is performed partly within Québec and partly outside Canada. For more information, contact Revenu Québec.

## 6.4.2 Wage loss insurance benefits

The wage loss insurance benefits referred to in this guide are benefits paid by an insurer to compensate for the loss of all or part of a beneficiary's employment income. The beneficiary must be an employee of the employer that contributed to the insurance plan.

### NOTE

If you are not an insurer and you pay amounts directly to one of your employees respecting the loss of all or part of his or her employment income, these amounts may be considered wage loss insurance benefits. For more information, contact Revenu Québec.

Wage loss insurance benefits constitute a pensionable salary or wages for the beneficiary, even though the insurer is not required to withhold and pay QPP contributions. Consequently, a beneficiary who has not already made the maximum QPP contribution for 2005 (generally \$1,861.20) may make optional QPP contributions on the benefits when filing his or her income tax return (line 445).

## 6.5 Basic exemption

For 2005, the first **\$3,500** of an employee's pensionable salary or wages is exempt from QPP contributions.

### 6.5.1 Continuous employment

Employment is considered **continuous** if it does not meet the definition of the term "non-continuous employment" given in section 6.5.2.

#### 6.5.1.1 Regular pay periods

You must divide the basic exemption of \$3,500 by the number of pay periods in the year. For example, if you have 26 pay periods, divide \$3,500 by 26, even if the employee does not work for you for the entire year.

If you are using the *Source Deduction Tables for QPP Contributions* (TP-1015.TR-V and TP-1015.TR.12-V), do not subtract the exemption from the pensionable salary or wages paid to the employee, because the tables take into account the exemption applicable to each pay period.

If you pay pensionable salary or wages to the same employee more than once in the same pay period, you may use the tables for **only one** such payment. For subsequent payments of pensionable salary or wages in the pay period, simply withhold 4.95% of the amount without taking the exemption into account. Stop withholding QPP contributions when you reach the employee's maximum annual contribution. See the example in section 6.6.2.

If you are using the mathematical formula, the same rule applies: you cannot take into account the pay period exemption (V/P) more than once in the pay period.

#### 6.5.1.2 Irregular pay periods

If an employee's pay periods are irregular, the pay period exemption is equal to the higher of the following amounts:

- \$3,500, multiplied by the number of days in the pay period and divided by 365;
- \$67.30.

If the result is an amount with a fraction of a cent, do not take the fraction into account.

To determine the exemption corresponding to the number of days included in an irregular pay period, refer to the table on the last page of the QPP tables in document TP-1015.TR-V.

### 6.5.2 Non-continuous employment

The pay period exemption for an employee whose employment is **non-continuous** is as follows:

- \$1.75 per hour if the employee is paid by the hour ( $\$3,500 \div 2,000 \text{ hours} = \$1.75$ );
- \$14.58 per day if the employee is paid by the day ( $\$3,500 \div 240 \text{ days} = \$14.58$ ).

### IMPORTANT

If you are using Table B in document TP-1015.TR-V, do not subtract the pay period exemption from the pensionable salary or wages paid to the employee, because the tables already take the exemption into account.

### NOTE

If you have an employee whose employment is non-continuous, do not use the mathematical formula given in Chapter 12. Instead, do the calculations yourself or use Table B in document TP-1015.TR-V.

### Non-continuous employment

Work performed for an employer that operates a business or has at least one full-time employee, where the work is performed by

- an employee whose pay period covers fewer than seven days; or
- an employee who normally performs the same type of work for two or more employers in turn.

## 6.6 Using the tables to calculate withholdings of employee contributions

For each pay period, you must withhold QPP contributions from the employee's gross pensionable salary or wages, that is, from the salary or wages calculated before the following withholdings are taken into account:

- union dues;
- contributions to an RPP;
- any other amount that you take into account to determine the remuneration subject to source deductions of income tax.

**When the employee's maximum annual contribution is reached** (see section 6.6.3), **you must stop withholding QPP contributions.**

The QPP source deduction tables applicable to 52, 26 or 24 pay periods per year are contained in document TP-1015.TR-V, and the tables applicable to 12 pay periods per year are contained in document TP-1015.TR.12-V. Use Table A of these documents for continuous employment, and Table B of document TP-1015.TR-V for non-continuous employment.

### IMPORTANT

As stated in section 6.5.1.1, the source deduction tables take into account the pay period exemption. Do not subtract the exemption from the pensionable salary or wages paid to the employee for the pay period.

### 6.6.1 How to use the tables

For continuous employment, locate the pay bracket that includes the employee's gross pensionable salary or wages in the "Remuneration" column of the section of Table A of document TP-1015.TR-V or TP-1015.TR.12-V corresponding to the number of your pay periods per year. The amount to be withheld is shown in the "Deduction" column.

If employment is non-continuous and the employee is paid by the hour, locate the bracket that includes the employee's hourly wage in the "Rate per hour" section of Table B of document TP-1015.TR-V. The amount to withhold for each hour for which the employee is remunerated is in the "Deduction" column.

If employment is non-continuous and the employee is paid by the day, locate the bracket that includes the employee's daily wage in the "Rate per day" section of Table B of document TP-1015.TR-V. The amount to withhold for each day for which the employee is remunerated is in the "Deduction" column.

### Example 1

Mohammed, a 30-year-old employee whose employment is continuous, earns \$795 per week. In accordance with Table A of document TP-1015.TR-V, his employer must withhold a QPP contribution of \$36.04 in each of the first 51 pay periods in the year. The amount to be withheld in the 52nd pay period will be \$23.16, that is, \$1,861.20 (maximum contribution) minus \$1,838.04 (amount already withheld).

### Example 2

Susan, aged 22, earns \$30 per day. Her employment is non-continuous. Susan's employer must withhold a QPP contribution of \$0.76 per day (based on Table B of document TP-1015.TR-V).

### 6.6.2 Overtime pay, bonuses and retroactive pay

If, during a pay period, you pay an employee for overtime, and the amount is paid **separately from the employee's regular salary or wages**, you must withhold **4.95% of the gross amount of overtime pay. Do not take the pay period exemption** into account, since you have already done so when calculating the QPP contribution on the regular remuneration for the period. You must also make sure that the total QPP contributions withheld to date do not exceed the employee's maximum annual contribution.

If you pay the overtime **along with the employee's regular salary or wages**, add the overtime pay to the remuneration and calculate the QPP contribution in the usual way.

Proceed in the same way for bonuses or retroactive pay.



### Example

Anna earns \$515 for the pay period from May 20 to May 27, 2005, and also receives, **separately from her regular wages**, a bonus of \$100. To date, a total of \$500 in QPP contributions has been withheld from her wages. In accordance with Table A of document TP-1015.TR-V, a QPP contribution of \$22.16 must be withheld from the regular wages, and \$4.95 (4.95% x \$100, no exemption) from the bonus of \$100. The total QPP contribution withheld for the pay period is therefore \$27.11. However, the amount withheld cannot exceed the balance to be withheld for the rest of the year (\$1,361.20), that is, Anna's maximum annual QPP contribution (\$1,861.20) minus the QPP contributions already withheld for the year (\$500).

If Anna's bonus were paid **along with her regular wages**, her employer would instead locate the pay bracket that includes pensionable salary or wages of \$615 (\$515 + \$100) in the "Remuneration" column of the section of Table A that covers 52 pay periods per year, and deduct the corresponding QPP contribution (\$27.11).

### 6.6.3 Maximum annual contribution

The total QPP contributions you withhold for an employee in 2005 must not exceed **\$1,861.20**. Once this limit is reached, do not withhold any more contributions. See the QPP data in section 6.2 on page 52 to find out how the maximum annual contribution is determined.

#### Special cases

The employee's maximum annual contribution must be reduced in the following cases:

- If an employee reaches age 18 in 2005, multiply \$1,861.20 by the number of months in the year that follow the month of the employee's 18th birthday, and divide the result by 12 (see example 1 opposite).
- If an employee dies in 2005, multiply \$1,861.20 by the number of months in the year up to and including the month of death, and divide the result by 12 (see example 2 opposite).
- If a QPP or CPP disability pension becomes payable to an employee in 2005, multiply \$1,861.20 by the number of months following the month that includes the date (set by the Régie des rentes du Québec) on which the employee becomes disabled, and divide the result by 12.
- If a QPP or CPP disability pension ceases to be payable to the employee in 2005, multiply \$1,861.20 by the number of months that follow the month in which the pension ceases to be payable, and divide the result by 12.

### Example 1

Lisa turned 18 on August 15, 2005. She receives a salary of \$3,800 per month (\$45,600 per year), which exceeds the maximum pensionable salary or wages (\$41,100).

From January to August 2005, Lisa has no QPP contribution payable.

From September to December 2005,

- the basic monthly exemption is  
 $\$3,500 \div 12 = \$291.66$
- the monthly QPP contribution withheld from Lisa's salary is  
 $(\$3,800 - \$291.66) \times 4.95\% = \$173.66$

**Maximum contribution for 2005:**

$$\$1,861.20 \times 4 \div 12 = \$620.40$$

Lisa's QPP contributions for 2005 must not exceed \$620.40.

### Example 2

At the time of his death, on March 15, 2005, Benjamin was receiving a weekly salary of \$900. His pensionable salary for 2005 was \$9,000. This amount is less than the maximum pensionable salary or wages of \$41,100.

From January to March 2005, Benjamin paid QPP contributions.

- The basic weekly exemption is  
 $\$3,500 \div 52 = \$67.30$
- The weekly QPP contribution withheld from Benjamin's salary is  
 $(\$900 - \$67.30) \times 4.95\% = \$41.22$

**Maximum contribution for 2005**

$$\$1,861.20 \times 3 \div 12 = \$465.30$$

Benjamin's QPP contributions for 2005 must not exceed \$465.30.

### 6.6.4 Remuneration or number of pay periods not covered in tables TP-1015.TR-V and TP-1015.TR.12-V

If the *Source Deduction Tables for QPP Contributions* (TP-1015.TR-V and TP-1015.TR.12-V) do not cover the employee's gross salary or wages or the number of pay periods, or if the pay period is irregular, you must calculate the source deductions of QPP contributions as follows:

- (a) Calculate the employee's contributory earnings for the pay period by subtracting, from the employee's pensionable salary or wages, **the pay period exemption** (see sections 6.6.4.1 and 6.6.4.2 on the next page).
- (b) Multiply the contributory earnings, as determined in (a), by 4.95%.

## NOTE 1

If the result obtained is an amount containing a fraction of a cent, do not take into account a fraction of less than half a cent. A fraction of one-half cent or more is considered a cent. If the pensionable salary or wages paid during a period exceed the pay period exemption, you must withhold at least one cent as a QPP contribution.

Withhold the amount obtained in (b). Once the maximum annual contribution (\$1,861.20) is reached, do not withhold further contributions. In some cases, the maximum annual contribution must be reduced; see "Special cases" in section 6.6.3.

## NOTE 2

If an employee begins or stops working during a normal pay period, calculate the QPP contribution on the employee's contributory earnings as if the employee had worked for the entire pay period.

### Example 1

An employee receives a weekly salary of \$8,500 and taxable benefits worth \$500, for a total salary of \$9,000 per week. You cannot use the tables in this case, because the salary is not covered in the tables. Subtract the pay period exemption (\$67.30) from the pensionable salary (\$9,000) to obtain the employee's contributory earnings (\$9,000 – \$67.30 = \$8,932.70). Multiply the result by 4.95% in order to determine the amount to withhold as a QPP contribution. You must therefore withhold \$442.17 each week until the maximum annual contribution is reached.

### Example 2

Allan, who is 50 years old, is employed only from March 7 to March 25, 2005, and receives wages of \$900 for the entire period. The deduction tables cannot be used in this case because the pay period is irregular. The exemption for the period is \$182.19, that is, \$3,500 x 19/365. You may also refer to the table on the last page of document TP-1015.TR-V. Withhold a QPP contribution of \$35.53, that is, 4.95% x (\$900 – \$182.19).

### Example 3

George is 20 years old. He worked for two days (non-continuous employment) at the rate of \$55 per day, and was paid \$110 by his employer at the end of the two-day period. The exemption is \$14.58 per day. The QPP contribution is therefore \$4, that is, 4.95% of \$80.84 (\$110 – \$29.16 = \$80.84). The same result may be obtained by referring to Table B in document TP-1015.TR-V; in this case the QPP contribution of \$2 per day is multiplied by 2.

## 6.6.4.1 Pay period exemption for continuous employment

The pay period exemption for an employee **whose employment is continuous** (see the explanation of "continuous employment" in section 6.5.1 on page 54) is calculated as follows:

- If the employee's pay periods are regular, divide \$3,500 by the number of pay periods in the year.

Number of pay periods <sup>1</sup>	Pay period exemption
1	\$3,500
12	\$291.66
24	\$145.83
26	\$134.61
52	\$67.30

1. The number of pay periods corresponds to the number of pays the employee normally receives in the year, or would receive if he or she worked for you for the entire year.

- If the employee's pay periods are irregular, select the higher of the following amounts:
  - \$3,500, multiplied by the number of days in the pay period and divided by 365;
  - \$67.30.

If the result is an amount with a fraction of a cent, do not take the fraction into account.

To determine the exemption for an irregular pay period, you may use the table on the last page of document TP-1015.TR-V.

## 6.6.4.2 Pay period exemption for non-continuous employment

The pay period exemption for an employee whose employment is **non-continuous** (see the definition in section 6.5.2 on page 54) is as follows:

- \$1.75 per hour if the employee is paid by the hour (\$3,500 ÷ 2,000 hours = \$1.75);
- \$14.58 per day if the employee is paid by the day (\$3,500 ÷ 240 days = \$14.58).

## 6.7 Using the mathematical formula to calculate withholdings of employee contributions

You can use the mathematical formula given in Chapter 12 only for an employee whose employment is **continuous** (see the definition of this term in section 6.5.1 on page 54) and whose pay periods are regular.

If you use this mathematical formula, you should read the following paragraphs.

You must withhold QPP contributions from the **contributory earnings** of an **employee** until the total contributions withheld since the beginning of the year equal the employee's maximum annual contribution. The term "**contributory earnings**" refers to the portion of the pensionable salary or wages that exceeds the pay period exemption. In the mathematical formula, the contributory earnings are represented by the following equation:  $(S_3 - V/P)$ .

### Pay period exemption (V/P)

To calculate the pay period exemption for an employee **whose employment is continuous** (see the explanation of "continuous employment" in section 6.5.1 on page 54) and **whose pay periods are regular**, divide the basic exemption of \$3,500 by the number of pay periods in the year.

Number of pay periods (P)	V/P
1	\$3,500
12	\$291.66
24	\$145.83
26	\$134.61
52	\$67.30

#### IMPORTANT

If an employee has not worked for you for the entire year, variable P corresponds to the number of pay periods for which you would have paid a salary or wages to the employee had he or she worked for you for the entire year. For example, if an employee worked for two months in the year and is paid on a monthly basis, variable V/P is \$291.66 ( $\$3,500/12$ ) for each of the employee's pays. The exemption you will take into consideration will be \$583.32, rather than the full annual exemption (\$3,500).

## 6.8 Employer contribution

You must pay a QPP contribution equal to the total of the QPP contributions **withheld** from the pensionable salaries or wages of your employees. For example, if you make monthly remittances, calculate the total QPP contributions withheld from the remuneration paid to your employees during the month. Your monthly contribution is equal to this amount.

## 6.9 Successive employers

Where, during the year, you immediately succeeded another employer following the formation or winding-up of a corporation or the acquisition of a major portion of the property of an undertaking or of a separate part of an undertaking, and there was no interruption of the employees' service, you must take into account the amounts that the previous employer deducted from the pensionable salaries or wages paid to the employees from the beginning of the year.

If either you or the previous employer failed to withhold the QPP contribution correctly for an employee, both you and the other employer are obliged to remit the portion of the employee contribution that was not withheld. Each of you must also remit the corresponding employer contribution.

### 6.9.1 Corporate amalgamation

The amalgamation of two or more corporations does not affect their obligations with respect to the Régie des rentes du Québec.

The new corporation may keep the corporate name of one of the original corporations or adopt a new name, but must ask Revenu Québec for a new identification number. In addition, the new corporation must file an application with Revenu Québec to have the funds in accounts that are to be closed transferred to its active account. A copy of the new instrument of incorporation must be enclosed with the application.

As a rule, a corporation resulting from the amalgamation of two or more other corporations does not constitute a new employer for the purposes of QPP contributions if the corporations are amalgamated

- under Part 1A of the *Companies Act*, in the case of corporations governed by the Act;
- under the *Canada Business Corporations Act* (Statutes of Canada);
- under the *Cooperatives Act*;
- under section 323 of the *Act respecting health services and social services*;
- under the *Act respecting trust companies and savings companies*;
- under a statute of another province of Canada which provides that the new corporation is to continue the legal existence of any of the corporations it replaces.

In the above cases, the corporation created by the amalgamation must take into account the employee QPP contributions already withheld, and the employer QPP contributions already paid, by each of the original corporations from the beginning of the year to the time of amalgamation.

The new corporation must not withhold QPP contributions from the salaries or wages paid to employees who, prior to the amalgamation, had already paid the maximum annual QPP contribution.

The new corporation must file a single set of RL-1 slips respecting the QPP contributions remitted by the new corporation and by the original corporations. The RL-1 slips must be submitted to Revenu Québec by the last day of February of the year following the year of amalgamation.

## 6.9.2 Employee transferred from one employer to another

If an employee of one of the following entities changes employers as the result of an incorporation, amalgamation, annexation, division or regrouping, the new employer is deemed to be the same as the previous employer:

- a municipality;
- a metropolitan community;
- a school board;
- a CEGEP; or
- a public institution or private institution under agreement within the meaning of the *Act respecting health services and social services* or the *Act respecting health services and social services for Cree Native persons*.

The new employer must take into account the QPP contributions withheld from the salary or wages paid to the employee by the previous employer.

## 6.10 Tips

In calculating an employee's pensionable salary or wages, you must add the amounts of the following tips to the regular salary or wages:

- tips that result from tippable sales and that the employee reported during the pay period on the *Register and Statement of Tips* (TP-1019.4-V) or an equivalent document;
- tips unrelated to tippable sales (for example, tips the employee received as a hotel valet, porter, doorman or cloakroom attendant), reported by the employee on the *Register and Statement of Tips* or an equivalent document;
- tips that, because they constitute service charges added to the customer's bill, are distributed to the employee and do not have to be reported on the *Register and Statement of Tips* or an equivalent document;
- tips that you allocated to the employee for the pay period because the amount of tips reported was less than 8% of tippable sales (or was less than the percentage set by Revenu Québec further to a request for a reduction in the allocation rate).

If you are using the mathematical formula, include the tips in variable  $S_3$ .

### IMPORTANT

When you cannot make all the source deductions because an employee's basic salary or wages (in money) are insufficient, deduct amounts in the following order: employment insurance premiums, federal income tax, QPP contributions, union dues, and Québec income tax.

If you are an employer in the restaurant and hotel sector, see the brochure *Tax Measures Respecting Tips* (IN-250-V) for more information concerning the reporting of tips, the tip-allocation mechanism and the refundable tax credit you may claim.

## 6.11 Directors' fees

### 6.11.1 Director resident in Canada

If you pay directors' fees to a person who is resident in Canada and who also receives a regular salary or wages, add the amount of the fees to the salary or wages and determine the QPP contribution in the usual way. If you pay only directors' fees to the person, divide the annual QPP exemption of \$3,500 by the number of fee payments made during the year.

#### Example

Anita is a director of XYZ corporation. She receives \$1,000 in directors' fees each quarter, but no other remuneration. The exemption for each quarter is \$875 (that is, \$3,500 divided by four fee payments). The amount to be withheld is \$6.19, or  $4.95\% \times (\$1,000 - \$875)$ .

### 6.11.2 Director not resident in Canada

If you pay directors' fees to a person not resident in Canada, contact Revenu Québec.

## 6.12 Employees who reach 18 in 2005 or who receive a disability pension

As stated in section 6.4, QPP contributions must not be withheld from the remuneration paid to an employee

- before or during the month in which the employee reaches age 18;
- as of the month following the month that includes the date (determined by the Régie des rentes du Québec) on which the employee becomes disabled.

## 6.13 Employees who are 70 or older in 2005 or who receive a retirement pension

You must withhold QPP contributions from the pensionable salary or wages paid to an employee during the year, even if the employee is 70 or older or receives a retirement pension under the QPP or the CPP.

## 6.14 Employees who work for more than one employer

You must make source deductions regardless of whether other amounts have been, are being or will be withheld by another employer with respect to the same employee, unless you have succeeded another employer in the circumstances described in section 6.9. An employee whose contributions exceed the maximum for the year may claim a refund of the excess contributions in his or her income tax return.



## 6.15 Employees who have signed a phased retirement arrangement

Employees who are at least 55 years old but under 70 years old, and who reduce their working time prior to retirement may, if certain conditions are met, make a phased retirement arrangement with the employer. The employee and employer agree that all or part of the amount by which the employee's salary or wages is reduced is deemed, for the purposes of determining the QPP contribution, to have been paid to the employee.

A phased retirement arrangement between you and an employee must be recorded on the form prescribed by the Régie des rentes du Québec and is valid only if approved by the Régie. Payment of the additional QPP contributions resulting from the arrangement is shared equally by you and the employee. For more information, contact a representative of the Régie des rentes du Québec.

### Pensionable salary or wages

The amount agreed upon in the arrangement is considered a pensionable salary or wages that you pay the employee at the frequency provided for in the arrangement. Consequently, in order to calculate the QPP contribution for a pay period, you must add to the salary or wages actually paid to the employee the corresponding portion of the amount agreed upon in the arrangement.

**If you are using the mathematical formula**, the deemed income paid to the employee for the pay period must be included in variable  $S_3$ .

#### Example

You sign a phased retirement arrangement with an employee whose annual salary is \$36,000. The employee's normal work week is then reduced by 20%. The arrangement provides that \$7,200 (20% of \$36,000) will be considered a pensionable salary that you pay during the year at weekly intervals. The employee's "deemed income" is therefore \$138.46 per week ( $\$7,200 \div 52$  weeks).

The QPP contribution to be withheld for each weekly pay period is calculated on a salary of \$692.31, that is, the salary actually earned by the employee [ $(\$36,000 - \$7,200) \div 52 = \$553.85$ ] plus the employee's deemed income (\$138.46).

#### NOTE

The amount deemed to be income for the purposes of the additional contribution to the QPP is indicated in box U ("Retraite progressive," that is, phased retirement) of the employee's RL-1 slip.

## 6.16 Employees transferred from an establishment covered by the CPP to an establishment covered by the QPP

If you transfer an employee from an establishment covered by the Canada Pension Plan to an establishment covered by the Québec Pension Plan, you must take into account the amounts you withheld under the CPP to ensure that the total contributions withheld under both pension plans does not exceed the employee's maximum contribution for the year.

Where an employee is transferred during a pay period, you are not required to divide the contributions between the CPP and the QPP. The employee is considered to have worked during the entire period at the establishment to which he or she was transferred, and you must remit to the new plan the full amount withheld from the employee's salary or wages for the pay period.

#### Example

An employer with one establishment in Québec and another in Ontario pays the employees every Friday. A 30-year-old employee who earns \$830 a week is occasionally transferred from one establishment to the other. The amount to be withheld from the employee's remuneration is calculated as follows:

During the first 20 weeks of the year, the employee works at the establishment in Québec.	
Source deductions for the QPP (according to Table A of document TP-1015.TR-V) $\$38 \times 20$ weeks	\$760.00
At the beginning of the 21st week, the employee is transferred to the establishment in Ontario, where he works until the middle of the 30th week.	
Source deductions for the CPP $\$38 \times 9$ weeks	+ \$342.00
During the 30th week, the employee is recalled to the establishment in Québec, where he works until the end of the year.	
Source deductions for the QPP $\$38 \times 19$ weeks	+ \$722.00
Deduction for the 49th week	+ \$37.20
Deduction for the 50th, 51st and 52nd week	+ 0
<b>Total</b>	<b>= \$1,861.20</b>

## 6.17 Social security agreements

The social security agreements reached between Québec and various countries are designed to protect workers' vested rights. Under these agreements, persons who are temporarily posted to a foreign country can continue to pay contributions in their country of origin without having to pay contributions in the country to which they are posted. The agreements therefore apply to employees who work outside Canada temporarily and to employees who come to Québec temporarily to work.



Social security agreements are in effect between Québec and the following countries:		
• Austria	• France	• Norway
• Barbados	• Germany	• the Philippines
• Chile	• Greece	• Portugal
• Croatia	• Ireland	• Sainte-Lucie
• Cyprus	• Italy	• Slovenia
• the Czech Republic	• Jamaica	• Sweden
• Denmark	• Luxembourg	• Switzerland
• Dominica	• Malta	• the United States
• Finland	• the Netherlands	• Uruguay
Negotiations are under way with other countries, and new agreements could take effect in 2005.		

To benefit from these social security agreements, you must obtain a certificate of coverage. Contact the Bureau des ententes de sécurité sociale at (514) 866-7332 (extension 7801) or at 1 800 565-7878 (extension 7801).

## 6.18 Was the correct amount of contributions withheld during the year?

You may use the table below to verify whether the total amount of QPP contributions you withheld in 2005 for an employee was correct. The table may be used only for continuous employment.

Table

Continuous employment		
Employee's situation in 2005	Total employee QPP contributions for 2005 (choose the amount in column A or B, whichever is lower)	
	A	B
The employee was 18 or over <b>throughout the year</b> and did not receive a disability pension under the QPP or the CPP.	\$1,861.20	4.95% x [pensionable salary or wages for 2005 – (pay period exemption x number of pay periods for which you paid a pensionable salary or wages – amount by which the pay period exemption <sup>1</sup> exceeds the pensionable salary or wages for a pay period)]
The employee turned 18.	$\$1,861.20 \times (\text{number of months after the month of the employee's 18th birthday}) \div 12$	
The employee began to receive a disability pension under the QPP or the CPP.	$\$1,861.20 \times (\text{number of months up to and including the month that includes the date (set by the Régie des rentes du Québec) on which the employee becomes disabled}) \div 12$	
The employee stopped receiving a disability pension under the QPP or the CPP.	$\$1,861.20 \times (\text{number of months after the month in which the employee stopped receiving the disability pension}) \div 12$	
The employee died.	$\$1,861.20 \times (\text{number of months in the year up to and including the month of the employee's death}) \div 12$	
The employee was 17 or under <b>throughout the year</b> .	No QPP contributions	

1. The pay period exemption must not exceed the pensionable salary or wages for the period. For example, if the pay period exemption is \$67.30 and you paid a pensionable salary or wages of \$60 for a pay period, multiply the pay period exemption (\$67.30) by the number of pay periods for which you paid a pensionable salary or wages to the employee, and subtract \$7.30 from the result.

### 6.17.1 Québec employee temporarily posted to a foreign country

If you have temporarily posted an employee to a country that has reached a social security agreement with Québec, you are required under certain conditions to remit employee and employer QPP contributions.

### 6.17.2 Foreign employee temporarily posted to Québec

You are not required (if certain conditions are met) to withhold QPP contributions or pay employer QPP contributions on salaries or wages paid to employees who are not resident in Canada and who are temporarily posted to Québec by an employer in a country that has reached a social security agreement with Québec.

### 6.18.1 Excess contributions

Under certain circumstances, you may have made an overpayment of QPP contributions for a year. This may happen if, for example, an employee died during the year, received a disability pension under the QPP after you deducted the maximum contribution for the year, or was under 18 when you withheld contributions.

The overpayment for the year will be refunded to you if you submit a **written** request within four years after the end of the year in which the excess amount was paid.

If the overpayment results from a decision under section 65 of the *Act respecting the Québec Pension Plan* regarding the determination of an individual's employment status, or from a decision regarding an objection or appeal, you will receive a refund without having to request one.

Employees may request a refund of an overpayment for a given year by indicating the amount of their QPP contributions on line 452 of their income tax return for the year.

### 6.18.2 Insufficient QPP contributions

If you did not withhold a sufficient amount as a QPP contribution, you are required to remit to Revenu Québec the amount you did not withhold, together with the employer contribution. However, you may recover the employee contribution that you paid out of your own funds by deducting the amount from any pensionable salary or wages you pay the employee in the 12 months following the date on which the contribution should have been withheld. From each payment of pensionable salary or wages, you may withhold only one of the QPP contributions that you previously failed to withhold.

### 6.18.3 Time limit in which Revenu Québec may make an assessment

Revenu Québec may recalculate the amount you are required to pay and make a reassessment or an additional assessment. Once you are notified of the amount assessed, you must pay it immediately. If you are not satisfied with the decision, you may request an explanation or take one of the steps described in the folder *Recourse for Your Tax-Related Problems* (IN-106-V).

Revenu Québec has four years after the date on which an amount becomes payable to make an assessment. However, this deadline does not apply if you

- have not filed a return;
- have made a false statement or committed fraud in supplying the required information; or
- have filed a waiver on the prescribed form.

## 6.19 Employee or self-employed?

You may ask Revenu Québec to determine a worker's employment status if you and the worker do not agree. Such a request must be transmitted to Revenu Québec by April 30 of the year following the calendar year to which the request applies. You must submit the following forms: *Application for Determination of Status as an Employee or a Self-Employed Worker* (RR-65-V) and *Questionnaire to Determine the Status of an Employee or a Self-Employed Person* (RR-65.A-V). Revenu Québec must take into account the information provided by both parties, and make known its decision with dispatch and in the manner it considers suitable.

### Self-employed persons

Persons who are self-employed must base their QPP contributions on the income of the business they carry on (either directly or as an active member of a partnership), not on their withdrawals. As a rule, self-employed persons must pay their QPP contributions in instalments, separately from the QPP contributions of their employees. The amount of the instalments is generally indicated on form TPZ-1026.A-V, *Instalment Payments Made by an Individual*.

# 7 Contribution to the health services fund

## 7.1 General information

As a rule, you must pay a contribution to the health services fund based on the total salaries or wages subject to the contribution that you paid to your employees. The contribution rate varies from 2.7% to 4.26%, according to your total payroll. Certain public sector employers must pay a contribution of 4.26%, regardless of their total payroll. Special rules apply to an **employer that is an Indian**, an Indian band, a band council or an Indian organization (see section 11.8.2 on page 82).

To calculate the contribution, you may use the mathematical formula given in section 12.5. A computer application (“WinRAS”), based on this mathematical formula, is also available on the Revenu Québec Web site at [www.revenu.gouv.qc.ca](http://www.revenu.gouv.qc.ca). You can use the application to calculate (among other things) the employer contribution to the health services fund for each pay period.

The contribution must be remitted periodically. Use form TPZ-1015.R.14.1-V, TPZ-1015.R.14.2-V, TPZ-1015.R.14.3-V or TPZ-1015.R.14.4-V, according to your remittance frequency (see the table in section 3.3.5 on page 21).

### NOTE

Employees are not required to pay a contribution to the health services fund except (in certain cases) when they file their income tax return.

## 7.2 Remuneration subject to the contribution

Refer to the table in section 4.2.1 on page 31 to determine whether the remuneration you pay is subject to the contribution to the health services fund. **As a rule, the contribution is based on employment income, such as the following:**

- salaries or wages (see section 1.4 on page 11, for information on the term “salary or wages”), **except**
  - a portion of the salaries or wages paid to the employees of an IFC (see section 11.11.2 on page 87).
  - the salaries or wages paid to employees who come to work temporarily in Québec and who are covered by a social security agreement (see section 7.8.2 on page 70).
- benefits resulting from the exercise of a security option, where taxation of the benefit is deferred from the year of acquisition of the securities to the year of their disposition pursuant to an election made under the federal income tax system. **This benefit is subject to the contribution to the health services fund in the year of acquisition, not in the year of disposition** (for further information, refer to section 4.2.2.2 on page 33);
- amounts you paid to the trustee of a profit-sharing plan or an employee trust, or to the custodian of an employee benefit plan (see section 11.6 on page 80);

- salaries or wages paid (by you or by another person) to an employee posted to a country that has a social security agreement with Québec (see section 7.8.1 on page 70).

You must pay a contribution to the health services fund **if the remuneration is paid to an individual who meets one of the conditions given in column B of the table in section 4.1.1 on page 30** (also check whether the special rules mentioned in section 4.1.2 apply).

You are not required to pay the contribution on certain remuneration if you are an employer that is eligible for the temporary exemption (see section 7.3).

### Information concerning certain taxable benefits

Consult section 4.2.2.2 on page 33 for information on the following benefits:

- the stand-by charge and operating costs for an automobile;
- contributions paid to a private health services plan;
- contributions paid to a multi-employer insurance plan;
- benefits received as a result of the exercise of a security option.

You will also find information concerning the tax treatment of taxable benefits granted

- to shareholders;
- to partners; or
- in kind (that is, other than in money).

## 7.3 Temporary exemptions

Certain employers are entitled to an exemption from the contribution to the health services fund. This section outlines the conditions they must meet in order to obtain the exemption.

### NOTE

Even if you are entitled to an exemption, you must include the exempted salaries or wages in the **total payroll** used to determine your contribution rate.

### 7.3.1 Five-year exemption

A new corporation whose first taxation year began before March 30, 2004 (but after March 25, 1997) may, **under certain conditions**, be exempted from the contribution for five years. One of the conditions is that the corporation’s paid-up capital must not exceed \$15 million. The exemption period begins on the first day of the corporation’s first taxation year. For example, a corporation whose first taxation year begins on February 1, 2004, is entitled to an exemption from the contribution on the salaries or wages paid from February 1, 2004, to January 31, 2009.

For a taxation year beginning after June 12, 2003, the exemption applies to 75% of the **first** \$700,000 of salaries or wages paid for the taxation year.

To calculate the exemption when you file the *Summary of Source Deductions and Employer Contributions* (form RLZ-1.S-V), use form LE-34-V, *Application for an Exemption from the Contribution to the Health Services Fund*. You are not required to submit form LE-34-V, but you must keep it for your files.

#### NOTE 1

If the taxation year is shorter than 51 weeks, you must reduce the \$700,000 ceiling in proportion to the number of days in the taxation year. For example, if your taxation year is 200 days long, the ceiling is \$383,562 (\$700,000 x 200/365). Similarly, if the end of the last taxation year for which the exemption may be claimed does not coincide with the end of the five-year exemption period, you must reduce the \$700,000 ceiling in proportion to the number of days in the taxation year that are included in the exemption period.

#### NOTE 2

If, at any time during your first taxation year or before the end of your exemption period, you no longer meet the conditions to be considered a new corporation, you may still, under certain circumstances, be entitled to an exemption from the contribution. For more information, contact Revenu Québec.

#### NOTE 3

If the corporation operates a manufacturing or processing business in a remote resource region referred to in section 7.3.2.1, consult section 7.3.2.

### 7.3.2 Temporary exemption for manufacturing businesses in remote resource regions

A corporation that operates a manufacturing or processing business in one of the remote resource regions of Québec may, under certain conditions, be exempted from the contribution until December 31, 2010.

#### NOTE

Even if you have one or more establishments that are not located in a remote resource region, you may be exempted from the contribution if all or substantially all (90% or more) of your total payroll for the taxation year in question is attributable to employees who work at your establishments located in remote resource regions.

If you wish to claim the exemption when filing the *Summary of Source Deductions and Employer Contributions* (form RLZ-1.S-V), you must complete the work chart included in the *Guide to Filing the RL-1 Slip* (RL-1.G-V). You are not required to submit the work chart, but you must keep it for your files.

If you are eligible for the five-year tax exemption for new corporations (see section 7.3.1), you may elect to claim instead the temporary exemption for manufacturing businesses (which, like the five-year tax exemption for new corporations, applies not only to the contribution to the health services fund, but also to income tax and the tax on capital). To make the election, complete Part I of form CO-737.18.18, *Exonération pour les PME manufacturières des régions ressources éloignées*. This election is irrevocable.

#### 7.3.2.1 Remote resource regions

The following administrative regions and regional county municipalities are remote resource regions:

- Bas-Saint-Laurent (region 01);
- Saguenay–Lac-Saint-Jean (region 02);
- Abitibi-Témiscamingue (region 08);
- Côte-Nord (region 09);
- Nord-du-Québec (region 10);
- Gaspésie–Îles-de-la-Madeleine (region 11);
- in Mauricie (region 04): the regional county municipalities of Haut-Saint-Maurice and Mékinac;
- in Outaouais (region 07): the regional county municipalities of La-Vallée-de-la-Gatineau and Pontiac;
- in Laurentides (region 15): the regional county municipality of Antoine-Labelle.

#### 7.3.2.2 Salaries or wages exempted from the contribution

To determine the amount of salaries or wages exempted from the contribution for a taxation year included in your exemption period, you must do a calculation. The calculation will vary depending on your paid-up capital (calculated on a consolidated basis) for the preceding taxation year.

Paid-up capital (calculated on a consolidated basis) for the preceding taxation year	Salaries or wages exempted for a taxation year that begins or ends in 2005
\$20 million or less	75% of salaries or wages paid
More than \$20 million but less than \$30 million	75% of <b>qualified</b> salaries or wages <sup>1</sup>
\$30 million or more	No exemption <sup>2</sup>
<p>1. Use the following formula to calculate <b>qualified salaries or wages</b>:</p> $\text{Salaries or wages paid} \times \frac{[\$30 \text{ million} - \frac{\text{paid-up capital (calculated on a consolidated basis) for the preceding taxation year}}{\$10 \text{ million}}]}{\$10 \text{ million}}$	
<p>2. Even if you cannot claim the exemption from the contribution for a particular taxation year, you may be entitled to the exemption for a subsequent taxation year if your paid-up capital (calculated on a consolidated basis) for the preceding taxation year is less than \$30 million.</p>	

### Example

#### Basic data

Taxation year of the corporation ..... June 1, 2004, to May 31, 2005

Paid-up capital (calculated on a consolidated basis) for the taxation year ending on May 31, 2004..... \$24,000,000

Salaries or wages paid from June 1, 2004, to May 31, 2005 ..... \$260,000

Qualified salaries or wages for the taxation year

$$\$260,000 \times \frac{\$30,000,000 - \$24,000,000}{\$10,000,000} = \$156,000$$

Salaries or wages exempted for the taxation year

$$75\% \times \$156,000 = \$117,000$$

### 7.3.2.3 Paid-up capital calculated on a consolidated basis

#### Paid-up capital calculated on a consolidated basis

Paid-up capital calculated on a consolidated basis (that is, on a worldwide basis) takes into account the paid-up capital of all the corporations with which a corporation is associated, regardless of the location in which they carry out their activities and regardless of whether they are subject to the *Taxation Act*.

Your paid-up capital calculated on a consolidated basis for a particular taxation year therefore corresponds to

- your paid-up capital calculated for the preceding taxation year; and
- the paid-up capital of the corporations with which you are associated during the particular taxation year, calculated for their last taxation year ending in the 12 months preceding the particular taxation year.

#### NOTE

If this is your first taxation year, calculate the paid-up capital used to determine the exemption on the basis of your opening balance sheet, prepared according to generally accepted accounting principles.

### 7.3.3 BDCs

The five-year exemption for a corporation that carries out an innovative project in a BDC was eliminated on March 30, 2004. However, the following corporations may continue to be eligible for the exemption under the previous terms and conditions (as explained below):

- corporations that were carrying out an innovative project in a BDC on March 30, 2004;
- corporations that hold a qualification certificate from Investissement Québec, pursuant to a written application filed with that body before March 30, 2004.

The exemption applies to the salaries or wages paid during the five-year period beginning on the first day of the corporation's first taxation year. The exemption rate varies according to the date on which the corporation applied to Investissement Québec for a qualification certificate confirming that it operates or may operate a business that is carrying out an innovative project in a BDC.

#### 7.3.3.1 Conditions that must be met

The corporation is not required to pay the contribution to the health services fund on the salaries or wages it pays during its exemption period, provided it is an exempt corporation for the taxation year in which the salaries or wages are paid.

As a rule, the corporation is an exempt corporation for a taxation year if the following conditions are met:

- The corporation does not result from an amalgamation or merger of two or more corporations.
- The corporation holds an unrevoked qualification certificate issued by Investissement Québec confirming that it operates or may operate a business that is carrying out an innovative project in a BDC.
- All or substantially all of the corporation's activities in the taxation year and in any preceding year consist in operating an eligible business.
- The corporation's taxation year is included in whole or in part in its exemption period.
- The corporation has submitted a copy of its qualification certificate to Revenu Québec.

#### 7.3.3.2 Exemption rate

As stated above, the corporation must hold a qualification certificate in order to be exempted from the contribution to the health services fund. The exemption rate depends on the date on which the corporation applied for the certificate.

For a corporation that submitted its application before June 12, 2003, the exemption rate is 100%. The corporation is therefore entitled to a full exemption on the salaries or wages paid during its exemption period.

For a corporation that submitted its application after June 11, 2003, the exemption rate is 75%. For example, if the corporation pays \$100,000 in salaries or wages in 2005, it may claim an exemption with regard to \$75,000 of the salaries or wages. It must therefore pay the contribution on \$25,000. If the corporation's contribution rate is 4%, the contribution for 2005 will be \$1,000 (\$25,000 x 4%).

#### NOTE

Where control of a corporation that is entitled to the exemption for a corporation carrying out an innovative project in a BDC is acquired, see section 7.3.8.



For more information, see form CO-771.12, *Exemption pour une société qui réalise un projet novateur dans un CDTI, un CNE ou un CDB*.

### 7.3.4 ITDCs and MNEs

The five-year exemption for a corporation that carries out an innovative project in an ITDC or an MNE was eliminated on June 12, 2003. However, the following corporations may continue to be eligible for the exemption under the previous terms and conditions (as explained below):

- corporations that held a qualification certificate on June 12, 2003;
- corporations that hold a qualification certificate from Investissement Québec, pursuant to a written application filed with that body before June 12, 2003.

The exemption applies to the salaries or wages paid during the five-year period beginning on the first day of the corporation's first taxation year.

#### Conditions that must be met

The corporation is not required to pay the contribution to the health services fund on the salaries or wages it pays during its exemption period, provided it is an **exempt corporation for the taxation year** in which the salaries or wages are paid.

As a rule, the corporation is an **exempt corporation for a taxation year** if the following conditions are met:

- The corporation does not result from an amalgamation or merger of two or more corporations.
- The corporation holds an unrevoked qualification certificate issued by the Ministère des Finances or Investissement Québec, as applicable, confirming that it operates or may operate a business that is carrying out an innovative project in an ITDC or an MNE.
- All or substantially all of the corporation's activities in the taxation year and in any preceding year consist in operating an eligible business.
- The corporation's taxation year is included in whole or in part in its exemption period.
- The corporation has submitted a copy of its qualification certificate to Revenu Québec.

#### NOTE

Where control of a corporation that is entitled to the exemption for a corporation that carries out an innovative project in an ITDC or an MNE is acquired, see section 7.3.8.

For more information, see form CO-771.12, *Exemption pour une société qui réalise un projet novateur dans un CDTI, un CNE ou un CDB*.

### 7.3.5 Stock exchange business or securities clearing-house business

A corporation that operates a stock exchange business or securities clearing-house business within the territory of the Ville de Montréal may, under certain conditions, be exempted from the contribution to the health services fund. The exemption applies to 75% of the salaries or wages paid to employees of the business for pay periods ending before December 31, 2010.

#### Conditions that must be met

As a rule, such a corporation is entitled to the exemption if both of the following conditions are met:

- The corporation performs eligible activities (that is, activities related to transactions carried out as a stock exchange or a securities clearing-house) in an establishment located within the territory of the Ville de Montréal.
- More than half of the salaries or wages that the corporation pays to its employees are paid to employees of an establishment located in Québec.

The exemption is calculated on form LE-33, *Exemption de la cotisation au FSS pour une société qui exploite une entreprise de bourse de valeurs ou de chambre de compensation de valeurs*. This form must be enclosed with the *Summary of Source Deductions and Employer Contributions* (form RLZ-1.S-V).

### 7.3.6 Montréal international trade zone at Mirabel

The exemption for a corporation or partnership that operates a business within the Montréal international trade zone at Mirabel was eliminated on June 12, 2003. The following corporations and partnerships may, however, continue to be eligible for the exemption until December 31, 2013, under the previous terms and conditions (as explained below):

- those that held a qualification certificate on June 12, 2003;
- those that obtained a qualification certificate after June 11, 2003, because they were in a special situation (for example, further to a corporate reorganization);
- those that hold a qualification certificate pursuant to an application filed before June 12, 2003.

The exemption applies to all salaries or wages paid to employees who perform at least 75% of their duties within the Montréal international trade zone at Mirabel.

#### Conditions that must be met

As a rule, the corporation or partnership is entitled to the exemption if both of the following conditions are met:

- The corporation or partnership holds a certificate issued by the Ministère des Finances or Investissement Québec, as applicable, confirming that its activities relate to the activities indicated on the certificate.
- The salaries or wages are paid during the exemption period of the corporation or partnership (that is, the period covered by the certificate).

## NOTE

Where control of a corporation that is entitled to the exemption for a corporation that operates a business within the Montréal international trade zone at Mirabel is acquired, see section 7.3.8.

### 7.3.7 Major investment project

The tax measure providing for a ten-year exemption from the contribution to the health services fund for a corporation or partnership that operates a business carrying out a major investment project in Québec has been under review since June 12, 2003.

Consequently, only the following corporations or partnerships may continue to be eligible for the exemption for a taxation year:

- those that, on June 12, 2003, held an initial qualification certificate from the Ministère des Finances and that hold for the taxation year an annual qualification certificate from the Ministère;
- those that hold an initial qualification certificate from the Ministère des Finances, pursuant to an application filed before June 12, 2003, and that hold for the taxation year an annual qualification certificate from the Ministère.

The exemption applies to the salaries or wages related to eligible activities and paid by the corporation or partnership for pay periods included in the exemption period.

Note that where a pay period is not entirely included in the exemption period, the exemption may be claimed only with regard to the portion of the salaries or wages related to the exemption period.

The exemption may be claimed for a maximum of 10 years.

For more information, contact Revenu Québec.

### 7.3.8 Acquisition of control of an exempt corporation

Where control of an exempt corporation is acquired by another corporation, special rules apply. Subject to certain exceptions, if control of a corporation that is exempt from the contribution to the health services fund is acquired by a corporation that is not exempt, the former corporation is no longer eligible for the exemption. In such cases, contact Revenu Québec.

For these purposes, an “exempt corporation” is

- a corporation that is carrying out an innovative project in a BDC, an ITDC or an MNE; or
- a corporation (or partnership) that operates a business within the Montréal international trade zone at Mirabel.

### 7.3.9 Corporations that cease to be exempt during the year

A corporation may in certain cases be exempted from the contribution to the health services fund even if, at some time during its first taxation year or before the end of its exemption period, it ceases to meet the requirements to be considered

- a corporation that is carrying out an innovative project in an ITDC;
- a corporation that is carrying out an innovative project in a BDC; or
- a corporation that is carrying out an innovative project in an MNE.

For more information, contact Revenu Québec

## 7.4 Calculating the contribution

Your contribution to the health services fund for 2005 is the result obtained when you subtract the exempted salaries or wages (section 7.3) from the total remuneration subject to the contribution (section 7.2) you paid in 2005, and multiply that amount by a rate based on your **total payroll** for 2005. The rate varies from 2.7% to 4.26%.

The contribution is based on gross remuneration (before source deductions).

### 7.4.1 Total payroll

**Total payroll is used only** for the purposes of determining your rate of contribution to the health services fund. For a calendar year, your total payroll equals the total of the following remuneration paid during the year by you **and by any employer associated with you** at the end of the year:

- the remuneration subject to the contribution (section 7.2), including remuneration that gives entitlement to a temporary exemption (section 7.3);
- the portion of the salaries or wages paid to the employees of an IFC that is **not subject to the contribution** (see section 11.11.2 on page 87). **All salaries or wages** paid to employees of an IFC **must be included in total payroll**, not only the portion that is subject to the contribution;
- the salaries or wages paid to employees who come to work temporarily in Québec and who are covered by a social security agreement, even if you are not required to pay a contribution to the health services fund on these salaries or wages (see section 7.8.2 on page 70).

### Associated employers

Associated employers must be taken into account on a **world-wide basis** (that is, **regardless of the location in which they carry out their activities and regardless of whether they are subject to the *Taxation Act***), and the total payroll used to determine the contribution rate must include all the re-

muneration referred to above paid by all the employers that are associated with you at the end of the calendar year. Subject to certain adaptations, the rules set forth in the *Taxation Act* must be applied to determine whether two or more employers are considered to be associated.

### 7.4.2 Public-sector employers

The following public-sector employers are required to pay a contribution to the health services fund equal to 4.26% of the salaries or wages subject to the contribution, regardless of the amount of their **total payroll**:

- the government of Canada or of a province;
- a Canadian municipality;
- a mandatory body of the State or of the government of Canada, a province or a Canadian municipality;
- a Canadian public body (for example, a school board) that carries out government duties and is exempt from income tax at a given time in the calendar year;
- a corporation, commission or association that is exempt from income tax at a given time in the calendar year pursuant to section 985 of the *Taxation Act* (in particular, a corporation at least 90% owned by the government).

## 7.5 Periodic remittances of the contribution

If you are required to pay the contribution to the health services fund, you must make periodic remittances. Use form TPZ-1015.R.14.1-V, TPZ-1015.R.14.2-V, TPZ-1015.R.14.3-V or TPZ-1015.R.14.4-V, according to your remittance frequency. Refer to the table in section 3.3.5 on page 21).

At the time you make your remittances in 2005, you will not know your actual contribution rate for the year because the rate depends on your **total payroll**, which cannot be determined until the end of the year. Consequently, you must use an estimated contribution rate (see section 7.5.1) in order to calculate your remittances for 2005.

#### NOTE

If you are an employer referred to in section 7.4.2, you must calculate your periodic remittances using the 4.26% rate.

### 7.5.1 Estimated contribution rate

#### 7.5.1.1 You are a new employer

In this case, the contribution rate for each remittance made during the **first two consecutive calendar years** in which you are subject to the contribution will correspond to the rate that would apply if your **total payroll** for the calendar year were equal to the portion of your **total payroll** paid from the beginning of the year to the end of the period covered by the remittance. The contribution rate must therefore be adjusted for each remittance period on the basis of the **cumulative total payroll** for the preceding periods, as shown in the following example.

#### Example (monthly remittances)

Month	Total payroll for the month	Cumulative total payroll	Contribution rate	Date of remittance
January	\$425,460	\$425,460	2.7%	February 15
February	\$474,540	\$900,000	2.7%	March 15
March	\$611,420	\$1,511,420	2.9%	April 15
April	\$875,875	\$2,387,295	3.24%	May 15
May	\$1,219,457	\$3,606,752	3.72%	June 15
June	\$1,540,360	\$5,147,112	4.26%	July 15

- As long as the **total payroll** since the beginning of the year does not exceed \$1 million, the contribution rate remains 2.7%.
- Once the total payroll exceeds \$1 million (and is still less than \$5 million), the contribution rate is determined in accordance with the following formula:

$$W (\%) = 2.31 + [0.39 \times S]$$

In the formula, W represents the contribution rate, and S represents the result obtained by dividing the **cumulative total payroll** by \$1 million. For example, if your **total payroll** is \$1,500,000, the letter "S" equals 1.5. The contribution rate is therefore 2.9%.

Contribution rates must be rounded off to the second decimal place. Where the number in the third decimal place is 5 or more, the number in the second decimal place must be rounded off to the next highest number. For example, if the result is 2.934%, the contribution rate is 2.93%; if the result is 3.285%, the rate is 3.29%; if the result is 2.899%, the rate is 2.9%.

- Once the total payroll reaches \$5 million, the contribution rate will be 4.26% until the end of the year.

**Starting with the third calendar year**, you must determine your contribution rate by following the instructions in section 7.5.1.2.

#### 7.5.1.2 You are not a new employer

In this case, your contribution rate is the rate that would apply if your **total payroll** for 2005 were the same as your **total payroll** for 2004.

This means that your estimated contribution rate for 2005 will be equal to your actual contribution rate for 2004. For example, if your **total payroll** for 2004 did not exceed \$1 million and your actual contribution rate for 2004 was therefore 2.7%, your periodic remittances of the contribution for 2005 must be based on a rate of 2.7%.

### Example 1

#### Basic data for a new corporation entitled to the five-year exemption where the corporation is in its fourth year of operation

Taxation year of the corporation .....	March 1, 2004, to February 28, 2005
Remittance frequency for 2005.....	Monthly
Total payroll for the 2004 calendar year .....	\$800,000
Actual contribution rate for the 2004 calendar year .....	2.7%
Salaries or wages paid during the month of January 2005 .....	\$15,000
Salaries or wages paid from March 1, 2004, to December 31, 2004 .....	\$690,000

#### Salaries or wages exempted for the month of January 2005

The lower of the following amounts, multiplied by 75%:

- \$10,000 (\$700,000 – \$690,000);
- \$15,000.

$$\$10,000 \times 75\% = \$7,500$$

#### Contribution to the health services fund payable on filing form TPZ-1015.R.14.1-V for the period from January 1 to January 31, 2005

$$2.7\% \times (\$15,000 - \$7,500) = \$202.50$$

### Example 2

#### Basic data for a manufacturing business in a remote resource region

Taxation year of the corporation .....	January 1 to December 31, 2005
Paid-up capital (calculated on a consolidated basis) for the taxation year ending on December 31, 2004 .....	\$5,000,000
Remittance frequency for 2005.....	Monthly
Total payroll for the 2004 calendar year.....	\$950,000
Actual contribution rate for the 2004 calendar year .....	2.7%
Salaries or wages paid during the month of January 2005 .....	\$35,000

#### Salaries or wages exempted for the month of January 2005

$$\$35,000 \times 75\% = \$26,250$$

#### Contribution to the health services fund payable on filing form TPZ-1015.R.14.1-V for the period from January 1 to January 31, 2005

$$2.7\% (\$35,000 - \$26,250) = \$236.25$$

## 7.5.2 Can you use a rate that is lower than the estimated contribution rate?

If you expect that your total payroll for 2005 will be lower than your total payroll for 2004 and that, as a result, your actual contribution rate for 2005 will be lower than the estimated rate you would normally be required to use, you may use a lower rate to calculate your remittances.

However, if the contribution rate you use to calculate your periodic remittances is lower than your estimated contribution rate, and also turns out to be lower than your actual contribution rate, the following rules apply:

- If your actual contribution rate is lower than your estimated contribution rate, the balance resulting from the difference between the two rates may bear interest as of the due date for each remittance.
- If your actual contribution rate is higher than your estimated contribution rate, the portion of the balance resulting from the difference between the actual rate and the estimated rate may be paid by the deadline for filing form RLZ-1.S-V. The other portion of the balance may bear interest as of the due date for each remittance.

## 7.5.3 Deficient payments

If your payments of the contribution to the health services fund during the year were lower than they would have been had you based them on your estimated contribution rate, and this results in a balance owing, you will be charged interest on the balance. The interest will be calculated at the rate prescribed by law, as of the due date for each remittance.

A penalty of up to 15% of the unpaid amount may also be imposed.

## 7.6 Determining the actual contribution rate

You will determine your actual contribution rate for 2005 when you file the *Summary of Source Deductions and Employer Contributions* (form RLZ-1.S-V).

This rate will depend on your total payroll for 2005, as indicated below:

- If your total payroll for 2005 is \$1 million or less, your contribution rate will be 2.7%.
- If your total payroll for 2005 is more than \$1 million but less than \$5 million, your contribution rate will be determined according to the formula given in section 7.5.1, except that the letter "S" will represent the result obtained by dividing your total payroll for the calendar year by \$1 million.
- If your total payroll for 2005 is \$5 million or more, your contribution rate will be 4.26%.

## 7.7 Balance resulting from the difference between the actual contribution rate and the estimated contribution rate

If your actual contribution rate is higher than your estimated contribution rate, you will have a balance payable. This amount must be received at an office of Revenu Québec or at a financial institution **no later than the due date for form RLZ-1.S-V**.

However, if the contribution rate you use is lower than your estimated contribution rate, see section 7.5.2.

## 7.8 Social security agreements

### 7.8.1 Québec employee temporarily posted to a foreign country

If you are a Québec employer, and you posted an employee to a country that has a social security agreement with Québec providing for reciprocal coverage of health insurance plans, you must pay the employer contribution to the health services fund on the salary or wages paid to the employee. Under such an agreement, the employee is subject only to the Québec legislation to which

reciprocity applies and is deemed to report for work at your Québec establishment.

Currently, Québec has an agreement with the following countries:		
• Denmark	• Finland	• France
• Luxembourg	• Norway	• Portugal
• Sweden		
Negotiations are under way with other countries, and new agreements could take effect in 2005.		

**If you did not pay the employee's salary or wages** for the period in which the employee was posted outside Canada in 2005, **the following rules apply:**

- The employee must inform you in writing, by March 1, 2006, of the salary or wages that he or she was paid for the period.
- You are deemed to have paid the salary or wages to the employee on March 1, 2006. You must therefore include the amount concerned, **for 2006**, in your salaries or wages subject to the contribution to the health services fund and in your **total payroll**.

### 7.8.2 Foreign employee temporarily posted to Québec

You are not required to pay the contribution on salaries or wages that you pay to employees who are not resident in Canada and who are temporarily posted to Québec by an employer located outside Canada, provided the country concerned has a social security agreement with Québec.



## 8 Contribution to the financing of the CNT

### 8.1 General information

As a rule, you are required to pay a contribution to the financing of the Commission des normes du travail (CNT) equal to 0.08% of the total remuneration you paid to your employees.

You must pay your 2005 contribution by February 28, 2006.

#### 8.1.1 Employers not subject to the contribution

Certain employers are not subject to the contribution to the financing of the CNT. The **principal** employers in this category are

- religious institutions;
- day-care centres;
- parity committees constituted under the *Act respecting collective agreement decrees*;
- fabriques;
- corporations of trustees for the erection of churches;
- institutions or charities whose object is to assist, directly and free of charge, persons in need;
- businesses whose labour relations are governed by the *Canada Labour Code* (such as banks, airports and radio stations);
- the Comité de gestion de la taxe scolaire de l'île de Montréal;
- public transport authorities mentioned in section 1 of the *Act respecting public transport authorities*;
- metropolitan communities;
- municipalities;
- school boards;
- educational institutions;
- the Québec government, its departments and certain of its agencies;
- the Commission de la construction du Québec;
- entities established by a Québec statute or by a decision of the Québec government, the Conseil du trésor or a minister;
- the Lieutenant-Governor, the National Assembly and any person appointed by the National Assembly to an office under the jurisdiction of the National Assembly;
- the federal government and its mandataries.

#### 8.1.2 Indian employer

If you are an employer that is an Indian, you are subject to the contribution to the financing of the CNT.

If you are an employer that is an Indian band or a band council, contact Revenu Québec.

### 8.2 Remuneration subject to the contribution

Refer to the table in section 4.2.1 on page 31 to determine whether the remuneration you pay is subject to the contribution to the financing of the CNT. As a rule, the contribution is based on **employment income**, such as the following:

- salaries or wages (see section 1.4 on page 11, for information on the term "salary or wages"), except those described in section 8.3;
- benefits resulting from the exercise of a security option, where taxation of the benefit is deferred from the year of acquisition of the securities to the year of their disposition pursuant to an election made under the federal income tax system. **This benefit is subject to the contribution to the financing of the CNT in the year of acquisition, not in the year of disposition** (for further information, refer to section 4.2.2.2 on page 33).

The contribution to the financing of the CNT must also be paid on the following types of remuneration:

- an indemnity in lieu of notice (see definition on page 34);
- amounts paid as damages upon cancellation of an employment contract.

You must pay a contribution to the financing of the CNT **if the remuneration is paid to an individual who meets one of the conditions given in column B of the table in section 4.1.1 on page 30** (also check whether the special rules mentioned in section 4.1.2 apply).

#### Information concerning certain taxable benefits

Consult section 4.2.2.2 on page 33 for information on the following benefits:

- the stand-by charge and operating costs for an automobile;
- contributions paid to a private health services plan;
- contributions paid to a multi-employer insurance plan;
- benefits received as a result of the exercise of a security option.

You will also find information concerning the tax treatment of taxable benefits granted

- to shareholders;
- to partners; or
- in kind (that is, other than in money).

### 8.3 Remuneration not subject to the contribution

You are not required to pay a contribution to the financing of the CNT on the following types of remuneration:

- remuneration paid to an employee under the *Act respecting labour relations, vocational training and manpower management in the construction industry*;
- remuneration paid to an employee if you are governed by a decree adopted under the *Act respecting collective agreement decrees* and if the remuneration is subject to a contribution by a parity committee;
- 50% of the remuneration earned by an employee using a truck, tractor, loader, skidder or similar heavy equipment that the employee provides at his or her own expense;
- the amount by which the remuneration paid to the employee for the year exceeds \$56,000;
- remuneration paid to a domestic (see the definition opposite);
- remuneration paid to an employee whom section 3 of the *Act respecting labour standards* excludes from the application of the Act. This category of employees includes, in particular, students who work during the school year in an establishment selected by an educational institution, under a job induction program approved by the Ministère de l'Éducation;
- remuneration paid to an employee whose duties consist solely in taking care of or providing care to a child or to a sick, handicapped or aged person, where the care is provided in the home, and you are not seeking to make a profit from the work;
- directors' fees;
- remuneration paid to an employee by an institution, a regional board or a family-type resource referred to in the *Act respecting health services and social services*, in proportion to the amounts received by such entities under the Act;
- remuneration paid to an employee by an institution, a regional council or a foster family referred to in the *Act respecting health services and social services for Cree Native persons*, in proportion to the amounts received by such entities under the Act;

- wage loss insurance benefits paid under a wage loss insurance plan to which the employer contributed (see section 4.2.2.5 on page 34);
- amounts you paid to the trustee of a profit-sharing plan or an employee trust, or to the custodian of an employee benefit plan (see section 11.6 on page 80);
- certain taxable benefits described in section 4.2.2.2 on page 33;
- amounts paid by the trustee of an employee trust;
- amounts paid by the custodian of an employee benefit plan;
- amounts paid by the trustee of a profit-sharing plan.

#### Domestic

A domestic is an employee who works for an individual and whose main function is the performance of domestic duties in the individual's dwelling. This includes an employee whose main function is to take care of or provide care to a child or to a sick, handicapped or elderly person, and to perform household chores in the dwelling that are not directly related to the immediate needs of the person in question.

### 8.4 Payment of the contribution

Your contribution to the financing of the CNT for 2005 must be received at an office of Revenu Québec or at a financial institution by February 28, 2006. When you pay the contribution, you must submit the remittance slip included with the *Summary of Source Deductions and Employer Contributions* (form RLZ-1.S-V). If you are making a remittance via the Internet, do not submit the paper remittance slip to Revenu Québec.

To calculate your contribution, use form LE-39.0.2-V, *Calculation of the Employer Contribution to the Financing of the Commission des Normes du Travail*.

If you stop making remittances of source deductions and employer contributions in 2005 because you stop operating your business or no longer have employees, see section 3.5 on page 24.

## 9 Contribution to the FNFMO

### 9.1 General information

If your total payroll for 2005 exceeds **\$1 million**, you are required to participate in the development of worker training for the year by allotting an amount representing at least 1% of your total payroll to eligible training expenditures. If you fail to do so, you must pay to the Fonds national de formation de la main-d'œuvre (FNFMO) a contribution equal to the **difference between 1% of your total payroll and the amount of your eligible training expenditures**.

You must pay your contribution to the FNFMO for 2005 by February 28, 2006.

#### 9.1.1 Exempted employers

You may be exempted from paying the contribution to the FNFMO for three consecutive calendar years if you request an exemption from Emploi-Québec and meet the following conditions:

- In the three calendar years preceding your application, you made eligible training expenditures representing, on average, at least 2% of your total payroll.
- Your training service has been accredited by the Ministère de l'Emploi, de la Solidarité sociale et de la Famille.
- You have a comprehensive training plan covering all categories of personnel, and an agreement regarding the plan has been reached with personnel representatives.
- You sign a memorandum of agreement concerning certain requirements.

For more information, contact Revenu Québec or Emploi-Québec.

#### 9.1.2 Indian employer

Special rules apply to an employer that is an Indian, an Indian band or a band council (see section 11.8.4 on page 82).

### 9.2 Total payroll

Refer to the table in section 4.2.1 on page 31 to determine whether the remuneration you pay must be included in your total payroll used to calculate the contribution to the FNFMO. **As a rule, the total payroll is based on employment income**, such as the following:

- salaries or wages (see section 1.4 on page 11, for information on the term "salary or wages");
- benefits resulting from the exercise of a security option, where taxation of the benefit is deferred from the year of acquisition of the securities to the year of their disposition pursuant to an election made under the federal income tax system. **This benefit is subject to the contribution to the FNFMO in the year of acquisition, not in the year of disposition** (for further information, refer to section 4.2.2.2 on page 33).

- amounts you paid to the trustee of a profit-sharing plan or an employee trust, or to the custodian of an employee benefit plan (see section 11.6 on page 80).

You must include the remuneration in the calculation of your total payroll **if the remuneration is paid to an individual who meets one of the conditions given in column B of the table in section 4.1.1 on page 30** (also check whether the special rules mentioned in section 4.1.2 apply).

#### 9.2.1 Information concerning certain taxable benefits

Consult section 4.2.2.2 on page 33 for information on the following benefits:

- the stand-by charge and operating costs for an automobile;
- contributions paid to a private health services plan;
- contributions paid to a multi-employer insurance plan;
- benefits received as a result of the exercise of a security option.

You will also find information concerning the tax treatment of taxable benefits granted

- to shareholders;
- to partners; or
- in kind (that is, other than in money).

#### 9.2.2 Why calculate total payroll?

The amount of your total payroll determines whether you are required to participate in the development of worker training and, if so, the minimum amount of your eligible training expenditures (1% of your total payroll).

For example, you must participate in the development of worker training if your total payroll is \$1,300,000 because this amount exceeds the threshold of \$1 million. Your eligible training expenditures must be at least \$13,000 (that is, 1% of \$1,300,000). If your eligible training expenditures are only \$12,000, you are required to pay a contribution to the FNFMO of \$1,000 (\$13,000 – \$12,000).

### 9.3 Eligible training expenditures

If, in 2005, you are required to participate in the development of worker training, but you were not required to do so in 2004, you may carry forward to 2005 the training expenditures made in 2004 that would have been considered eligible expenditures had you been required to participate. These expenditures become eligible training expenditures for 2005.

Similarly, if your total eligible training expenditures for 2005 exceed 1% of your total payroll for the year, you may carry over the excess amount to 2006. The excess amount becomes an eligible training expenditure for 2006.

For audit purposes, you must keep the registers and supporting documents related to your eligible training expenditures for six years after the last taxation year to which the registers and documents apply.

For more information on eligible training expenditures, contact Revenu Québec or Emploi-Québec.

## **9.4 Payment of the contribution**

Your contribution to the FNFMO for 2005 must be received at an office of Revenu Québec or at a financial institution by February 28, 2006. When you pay the contribution, you must submit the remittance slip included with the *Summary of Source Deductions and Employer Contributions* (form RLZ-1.S-V). If you are making a remittance via the Internet, do not submit the paper remittance slip to Revenu Québec.

To calculate your contribution, use form RLZ-1.S-V. Also indicate on this form your total payroll and your eligible training expenditures.

If you stop making remittances of source deductions and employer contributions in 2005 because you stop operating your business or no longer have employees, see section 3.5 on page 24.

# 10 Compensation tax

## 10.1 Does this section apply to you?

Chapter 10 of the guide contains information about the compensation tax payable by a specified financial institution operated by an individual, a partnership, a trust, an estate, an organization or an association.

**For further information regarding the compensation tax that must be paid by a specified financial institution that is a corporation** (for example, banks, corporations trading in securities, insurance corporations) consult sections 10.2 and 10.3. Note as well that sections 10.4 and 10.5 do not apply to a specified financial institution that is a corporation. The method of payment and the calculation of compensation tax are different for corporations.

For more information, see form COZ-1027.R-V, *Monthly Remittance of Income Tax, Tax on Capital or Compensation Tax by a Corporation*.

### Indian employer

Special rules apply to an employer that is an Indian, an Indian band or a band council (see section 11.8.4 on page 82).

## 10.2 What is a specified financial institution?

The term “specified financial institution” includes, in particular,

- a bank;
- a corporation that is licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering to the public its services as a trustee;
- a savings and credit union;
- an insurer or any other person whose principal business is providing insurance under insurance policies;
- a segregated fund of an insurer;
- a person whose principal business is the lending of money or the purchasing of debt securities or a combination thereof;
- an investment plan;
- a person providing the services referred to in section 158 of the *Excise Tax Act* (Statutes of Canada), that is, a discounter within the meaning of the *Tax Rebate Discounting Act* (Statutes of Canada);
- a corporation deemed to be a financial institution, pursuant to section 151 of the *Excise Tax Act*;
- a person whose principal business is as a trader or dealer in financial instruments or as a broker or salesperson of financial instruments.

## 10.3 Remuneration subject to compensation tax

Consult the table in section 4.2.1 on page 31 to find out if the remuneration you pay is subject to compensation tax. As a rule, compensation tax is based on employment income, such as the following:

- salaries or wages (see section 1.4 on page 11 for information on the term “salary or wages”);
- the benefit resulting from the exercise of a security option where an election was made under the federal income tax system to defer taxation from the year of acquisition to the year of disposition. **This benefit is subject to compensation tax in the year of acquisition of the securities, not in the year of their disposition** (for further information concerning security options, see section 4.2.2.2 on page 33);
- amounts that you pay to a trustee of a profit-sharing plan or an employee trust, or to the custodian of an employee benefit plan (see section 11.6 on page 81).

You must pay compensation tax on remuneration **if the amounts are paid to an individual who meets one of the conditions given in column B of the table in section 4.1.1 on page 30** (also check whether the special rules mentioned in section 4.1.2 apply).

### NOTE

Since March 31, 2004, salaries and wages paid to employees of an IFC are subject **in full** to compensation tax (see section 2.12 on page 15).

### Information concerning certain taxable benefits

Consult section 4.2.2.2 on page 33 for information on the following benefits:

- the stand-by charge and operating costs for an automobile;
- contributions paid to a private health services plan;
- contributions paid to a multi-employer insurance plan;
- benefits received as a result of the exercise of a security option.

You will also find information concerning the tax treatment of taxable benefits granted

- to shareholders;
- to partners; or
- in kind (that is, other than in money).



## 10.4 Calculation of compensation tax

If you are a specified financial institution **other than a corporation**, you must pay compensation tax equal to 1% of the remuneration subject to the tax.

If you do not operate a specified financial institution throughout the year, you are required to pay compensation tax equal to 1% of the salaries or wages you pay during the portion of the year in which you operate a financial institution.

### NOTE

For information on the calculation of compensation tax for a specified financial institution **that is a corporation**, see form COZ-1027.R-V, *Monthly Remittance of Income Tax, Tax on Capital or Compensation Tax by a Corporation*.

## 10.5 Periodic remittances of compensation tax

You must remit 1% compensation tax at the same time as your source deductions and employer contributions, using the same remittance form. Calculate the amount of compensation tax payable for the period covered, based on the remuneration subject to compensation tax paid during the period, and enter the amount on the form.

### NOTE

For information on the calculation of compensation tax for a specified financial institution **that is a corporation**, see form COZ-1027.R-V, *Monthly Remittance of Income Tax, Tax on Capital or Compensation Tax by a Corporation*.

# 11 Special cases

## 11.1 Worker's compensation from the CSST

Section 11.1 provides an explanation concerning the amounts you pay to an employee who is absent from work following a work-related accident.

### NOTE

In this section, the term “net salary or wages” means the net salary or wages as defined in the *Act respecting industrial accidents and occupational diseases*.

### 11.1.1 Amount paid on the day of the accident

If one of your employees suffers an employment injury and is unable to work for the rest of the day, you must pay the employee an amount equal to 100% of his or her **net salary or wages** for the portion of the day when the employee was absent. This amount constitutes salary or wages, and is therefore subject to source deductions of income tax, contributions to the QPP or the health services fund, the contribution to the financing of the CNT, and compensation tax, and should be included in your total payroll used to calculate your rate of contribution to the health services fund and your contribution to the FNFMO.

Please note that this amount is not reimbursed by the CSST.

### 11.1.2 Amounts paid in the days following the accident

Section 11.1.2 deals with amounts you paid to the employee during his or her absence.

#### 11.1.2.1 Are amounts paid to the employee during his or her absence deemed to be a salary or wages?

Under the *Act respecting industrial accidents and occupational diseases*, you must pay the employee 90% of his or her **net salary or wages** during a period of not more than 14 days following the date on which the employee became unable to work. If the absence lasts longer than 14 days (or longer than 15 days, including the date of the accident), you may be required to continue to pay amounts to the employee, to a maximum of his or her regular remuneration. All of these amounts may be reimbursed to you by the CSST.

If you pay more than the amounts referred to above, the excess amount is deemed to be a salary or wages, and is therefore subject to source deductions, employer contributions and compensation tax. For example, if 90% of an employee's **net salary or wages** is equal to \$500, and you pay the employee \$600, you must withhold source deductions and pay employer contributions and compensation tax on \$100 (\$600 – \$500).

You should note that, if the CSST decides to reimburse the amounts referred to in the first paragraph of this section (11.1.2.1), the amounts are deemed to be income replacement indemnities, and are therefore not subject to source deductions, employer contributions and compensation tax. If, on the other hand, the amounts are not reimbursed by the CSST, they are deemed to be a salary or wages and are therefore subject to source deductions, employer contributions and compensation tax.

Until the CSST renders its decision, Revenu Québec **presumes** the amounts paid are income replacement **indemnities**. This means that you must not make source deductions or pay employer contributions or compensation tax with respect to the amounts until you are informed of the CSST's decision.

#### 11.1.2.2 What happens when the CSST makes its decision?

As stated above, if the amounts you paid to the employee are reimbursed by the CSST, they are deemed to be income replacement indemnities and are not subject to source deductions, employer contributions or compensation tax. If you followed the instructions given in section 11.1.2.1 while waiting for the CSST's decision and treated the amounts paid as indemnities, you will not have any adjustments to make. Please note that you do not have to complete an RL slip with respect to the amounts, as the CSST is responsible for reporting the amounts paid (and the amounts reimbursed) on an RL-5 slip issued to your employee.

If the amounts are not reimbursed (or are reimbursed only in part) by the CSST, the portion that is not reimbursed is deemed to be a salary or wages, and is subject to source deductions, employer contributions, and compensation tax. However, even if the portion that is not reimbursed is deemed to be a salary or wages, you will not be required to make source deductions of income tax with respect to the amount.

#### 11.1.2.3 What if the portion not reimbursed by the CSST was paid in a previous year?

If the portion that was not reimbursed by the CSST (and is therefore deemed to be a salary or wages) was paid in a previous year, and you have already filed the RL-1 slip and the *Summary of Source Deductions and Employer Contributions* (form RLZ-1.S-V) for that year, you will need to include the portion that was not reimbursed on an amended RL-1 slip, and remit your employer contributions and compensation tax with respect to that portion, together with another copy of form RLZ-1.S-V. For more information, refer to the *Guide to Filing the RL-1 Slip* (RL-1.G-V).

### 11.1.3 Amounts paid for the employee's care or rehabilitation

In addition to the amounts referred to in sections 11.1.1 and 11.1.2, certain other amounts paid further to a work-related accident are also deemed to be income replacement indemnities and are therefore not subject to source deductions, employer contributions and compensation tax:

- the **net salary or wages** (100%) paid to an employee for each day or part of the day on which the employee was obliged to miss work in order to receive care or undergo medical tests, **unless the amounts were paid in respect of an employee who was absent from work in order to undergo a medical test at your request** (in which case, the amount paid constitutes a salary or wages and is therefore subject to source deductions of income tax, employer contributions and compensation tax);
- the **net salary or wages** (100%) paid to an employee for each day or part of a day on which the employee was obliged to miss work in order to carry out activities as part of a personalized rehabilitation program.

If you pay more than the amounts referred to above (for example, if you pay more than 100% of the employee's **net salary or wages**), the excess amount is deemed to be a salary or wages, and is therefore subject to source deductions, employer contributions and compensation tax.

#### NOTE

You may ask the CSST to reimburse you for the **net salary or wages**, unless you are a self-insurer.

### 11.1.4 Self-insurer

The rules given in sections 11.1.1 through 11.1.3 also apply to a self-insurer. However, given that a self-insurer does not contribute to the CSST, the CSST does not reimburse the self-insurer; the CSST only determines whether the amounts paid constitute income replacement indemnities. Consequently, in sections 11.1.1 to 11.1.3 the verb "reimburse" should be read as "recognize."

**Amounts recognized by the CSST** as income replacement indemnities are not subject to source deductions, employer contributions or compensation tax.

**Amounts not recognized by the CSST** are deemed to be a salary or wages and are therefore subject to source deductions, employer contributions and compensation tax. However, even if the amounts not recognized by the CSST are deemed to be a salary or wages, you are not required to make source deductions of income tax with respect to the amounts.

#### Self-insurer

An employer that does not contribute to the CSST but guarantees employees the payment of indemnities recognized by the CSST in the event of a work-related accident. The indemnities are paid out of the employer's own funds.

## 11.2 Amounts paid following the death of an employee

Where an employee dies during the year, any amounts the employee would have received during the year are subject to

- source deductions of income tax;
- employer and employee contributions to the QPP;
- the employer contribution to the health services fund;
- the contribution to the financing of the CNT;
- compensation tax.

You must also include the amount in your total payroll used to calculate your rate of contribution to the health services fund and your contribution to the FNFMO.

Examples of such amounts include an amount for accumulated vacation time, or retroactive salary or wages paid under a collective agreement signed **before** the employee's death.

However, if the payment of such an amount was **unforeseeable** at the time of the employee's death, do not include it in the employee's income. This applies, for example, to a lump sum paid under a collective agreement signed **after** the employee's death.

#### NOTE

An amount paid for accumulated sick leave is considered a death benefit and is therefore subject only to income tax withholdings. Income tax is withheld at a rate of 16% or 20%, as applicable (see section 5.13.2 on page 49).

## 11.3 Employment at a special work site or remote work location

A benefit granted in cash or in kind with respect to employment at a special work site or remote work location **is not taxable** if the benefit covers the employee's expenses incurred for board and lodging or for transportation, and if the conditions outlined in sections 11.3.1 and 11.3.2 are met.

**If the benefit is not taxable**, it is not subject to source deductions, employer contributions or compensation tax, and you must not include its value in your total payroll used to calculate your rate of contribution to the health services fund and your contribution to the FNFMO.

However, **if the benefit is taxable** because the conditions outlined below are not met, the benefit is subject to source deductions, employer contributions and compensation tax, and you must include its value in your total payroll used to calculate your rate of contribution to the health services fund and your contribution to the FNFMO.

**IMPORTANT**

If you pay an allowance for board and lodging or transportation to an employee who works outside Canada, refer to section 11.15 on page 92 (and, specifically, section 11.15.3 on page 93).

### 11.3.1 Board and lodging

A benefit granted for the board and lodging of an employee is not taxable if all of the following conditions are met:

- The benefit corresponds to the employee's board and lodging expenses incurred for a period during which the employee's duties require the employee to be, for **at least 36 hours**, away from his or her principal place of residence or at a special work site or a remote work location.
- **Where the board and lodging were provided at a special work site**, the employee performed duties of a temporary nature at that work site and the dwelling that is the employee's principal place of residence
  - remained available throughout the period for occupancy by the employee and was not rented to another person, and
  - was far enough from the special work site that the employee could not reasonably be expected to return home on a daily basis (see note 1 below).
- **Where the board and lodging were provided at a remote work location**, the location was so remote from any established community that the employee could not reasonably be expected to establish or maintain a dwelling there (see note 2 opposite).

**NOTE 1**

As a rule, Revenu Québec considers that an employee cannot reasonably be expected to travel daily to and from his or her principal place of residence if the distance between the principal place of residence and the place of work, by the most direct route ordinarily travelled, is over 80 kilometres. Where this condition is not met, Revenu Québec may nonetheless consider such factors as

- road conditions;
- the means of transportation available;
- the number of hours of work required of the employee;
- the length of the rest period if the employee returns home daily;
- the employee's general physical and mental health;
- the amount of time it takes to travel the distance, and the time of day the travel is undertaken.

**NOTE 2**

As a rule, the work location is considered remote if it is 80 kilometres or more, by the most direct route ordinarily travelled, from the nearest established community of at least 1,000 inhabitants.

However, Revenu Québec may also consider such factors as

- the means of transportation available;
- the distance between the remote work location and the nearest established community of at least 1,000 inhabitants;
- the time required to travel the distance.

A community is considered to be an established community if it is made up of dwellings that are relatively close together and if people reside there on a permanent basis. An established community offers essential community services and housing facilities.

**Duties of a temporary nature**

Duties performed on a short-term or interim basis.

**NOTE**

As a rule, an individual's duties are considered to be of a temporary nature where it is expected that they will not provide continuous employment, for the individual or another person, for more than two years.

**Dwelling**

A house, apartment or similar place in which a person ordinarily eats and sleeps and that has a kitchen and bathroom facilities.

**NOTE**

A dormitory, bunkhouse, hotel room or room in a boarding house does not constitute a dwelling.

### 11.3.2 Transportation

A benefit granted for the transportation of an employee is not taxable if all of the following conditions are met:

- The benefit corresponds to the employee's transportation expenses incurred for a period during which the employee's duties require the employee to be, for **at least 36 hours**, away from his or her principal place of residence or at a special work site or a remote work location.
- For that period, the employee also received a benefit in cash or in kind in respect of board and lodging.
- The employee was transported
  - between his or her principal place of residence and the special work site, or
  - between the remote work location and a location in Canada or in the country in which he or she was employed.

## 11.4 Employees of employment agencies

An individual who works for you but is remunerated by an employment agency is considered an employee of the agency, even if a relationship of subordination exists between you and the individual. It is therefore up to the employment agency to withhold amounts from the employee's remuneration and pay the related employer contributions and compensation tax.

However, for purposes of calculating your contribution to the health services fund, your contribution to the financing of the CNT, and your total payroll used to calculate your contribution to the FNFMO, you may be deemed to have paid the salary or wages that an employee of an employment agency that does not have an establishment in Québec earned to perform services for you in Québec. If such an employee performed services for you, see section 4.5 on page 36.

If an employment agency places a worker with you but does not have a contract with the worker, and there is no relationship of subordination between you and the worker, source deductions, employer contributions and compensation tax are not required. To determine whether a relationship of subordination exists between you and a worker, consult interpretation bulletin RRO. 1-1/R2 and the brochure *Are You Self-Employed?* (IN-300-V).

## 11.5 Salary deferral arrangements and self-funded leaves of absence

### 11.5.1 Salary deferral arrangements

If you made a salary deferral arrangement with an employee and, under the arrangement, part of the salary or wages earned in 2005 is to be paid in another year, the amounts of income tax and QPP contributions that you must withhold from the portion of the salary or wages that you pay to the employee (the salary or wages earned for the pay period, minus the portion that is deferred to another year) must be determined as if you had paid the employee the total salary or wages that he or she earned for the pay period.

Moreover, the portion of the salary or wages earned by the employee in 2005 that will be paid in a subsequent year is subject, in 2005 (not in the year of payment), to

- employer QPP contributions;
- the employer contribution to the health services fund;
- the contribution to the financing of the CNT;
- compensation tax.

You must also include the deferred portion of the salary or wages in your total payroll used to calculate your rate of contribution to the health services fund and your contribution to the FNFMO.

When you pay the deferred portion of the salary or wages to the employee, you must not withhold income tax or QPP contributions from the payment. You will not have to pay employer contributions or compensation tax on the payment, nor should you include the payment in your total payroll used to calculate your contribution to the health services fund or your contribution to the FNFMO.

### 11.5.2 Self-funded leaves of absence

Amounts that you pay (or that a trustee pays) to an employee during a self-funded leave of absence described in section 47.16R1 of the *Regulation respecting the Taxation Act* (other than amounts deemed to be paid under a salary deferral arrangement or an employee benefit plan) are subject, in the year of payment, to

- income tax withholdings;
- employee and employer QPP contributions;
- the employer contribution to the health services fund;
- the contribution to the financing of the CNT;
- compensation tax.

You must also include these amounts, in the year of payment, in your total payroll used to calculate your rate of contribution to the health services fund and your contribution to the FNFMO.

These rules also apply to certain arrangements under which professional athletes are allowed to defer their salary.

## 11.6 Profit-sharing plans, employee trusts and employee benefit plans

### 11.6.1 Amount paid to a custodian or trustee

An amount that you pay to a custodian under an employee benefit plan, or a trustee under a profit-sharing plan or an employee trust is not subject to source deductions of income tax or to the contribution to the financing of the CNT. However, it is subject, at the time it is paid, to employer and employee contributions to the QPP, the employer contribution to the health services fund and compensation tax.

Such an amount must also be included, at the time it is paid, in your total payroll used to calculate your rate of contribution to the health services fund and your contribution to the FNFMO.

#### NOTE

If you paid an amount to a custodian or a trustee on behalf of an employee who reports for work at one of your establishments located in Québec and at one of your establishments located outside Québec, see section 4.3.3 on page 35.



## 11.6.2 Amount paid by a custodian or trustee

As a rule, where a custodian or trustee pays amounts to one of your current or former employees, the amounts are not subject to source deductions, employer contributions or compensation tax.

### Exceptions

An amount paid by the custodian of an employee benefit plan is subject to source deductions of income tax, unless the amount is a return of an amount contributed by the employee to the plan.

An amount paid by the trustee of a profit-sharing plan (except for an amount referred to in the following paragraph) is subject to employer and employee contributions to the QPP, only if the amount can reasonably be attributed to an amount paid before May 13, 1994, to the trustee.

A single payment made by the trustee of a profit-sharing plan in full satisfaction of all of the individual's rights in the plan is subject to an income tax withholding of 16% (if the payment is \$5,000 or under) or 20% (if the payment is over \$5,000), to the extent that the payment must be included in the individual's income in the year it was received.

## 11.7 Income-averaging annuity for artists

If you are a person authorized to offer an eligible income-averaging annuity and you pay an amount under such an annuity to a recognized artist, you must withhold income tax equal to 24% on the amounts paid and remit the amount withheld to Revenu Québec within 30 days. If you fail to withhold an amount, or if you withhold less than 24% (for example, if you withhold 20% instead of 24%), you must pay the difference to Revenu Québec yourself. However, you may recover the amount from the beneficiary.

Any amount you pay during the year from an income-averaging annuity must be entered on the artist's RL-2 slip.

### Recognized artist

An individual who is a professional artist within the meaning of the *Act respecting the professional status of artists in the visual arts, arts and crafts and literature, and their contracts with promoters* or an artist within the meaning of the *Act respecting the professional status and conditions of engagement of performing, recording and film artists*.

### Person authorized to offer an eligible income-averaging annuity

A person licensed or otherwise authorized under the laws of Québec or Canada to carry on an annuities business or offer trustee services in Québec and who is authorized by Revenu Québec to offer an eligible income-averaging annuity.

### Eligible income-averaging annuity

An income-averaging annuity established by agreement that meets the following requirements:

- the annuity is acquired through a single payment;
- the amounts provided for under the income-averaging annuity are paid in equal annual or more frequent periodic payments of sufficient amount to ensure full payment of the annuity over no more than seven years from the date of the first payment;
- the first annuity payment is made no later than ten months after the date of the single payment made to acquire the annuity;
- the artist is entitled to request full or partial commutation of the annuity at any time;
- the annuity can be paid only to the artist or, if that individual dies, to his or her succession or designated beneficiary, as the case may be;
- the artist's interest in the contract cannot be disposed of other than by the surrender or cancellation of the annuity by the authorized person, except in the case of the artist's death;
- the artist's interest in the contract cannot be pledged or transferred as security by any manner whatsoever;
- the contract complies with the standard contract previously approved by Revenu Québec.

## 11.8 Indian employer

### 11.8.1 Source deductions of income tax and QPP contributions

The rules concerning source deductions of income tax and QPP contributions apply to all employers, including Indian employers. Therefore, if you have an employee who is an Indian or a person of Indian ancestry, the rules given in sections 11.9.1.1 and 11.9.2 on pages 82 and 83 apply to you.

However, a special rule applies where the employer is

- an Indian band that possesses a reserve;
- a band council that represents one or more Indian bands possessing reserves;
- an Indian organization controlled by one or more similar bands or band councils and exclusively devoted to the social, cultural, educational or economic development of Indians who, for the most part, live on reserves.

Such an employer is not required to withhold income tax or withhold and pay contributions to the QPP on a salary or wages paid to an Indian if the following conditions are met:

- The employer manages and administers the business on a reserve or premises.
- The Indian's employment duties are part of the employer's non-commercial activities which are intended for the greater welfare of Indians.

## 11.8.2 Employer contribution to the health services fund

If you are an employer that is an Indian, an Indian band or a band council, you are not required to pay the contribution to the health services fund on the salaries or wages that you pay to your employees **from an establishment located on a reserve**. This is the case regardless of whether the employees are Indians.

Moreover, no contribution to the health services fund is required with respect to salaries or wages that are reasonably attributable to the non-commercial activities of an Indian organization resident on a reserve and dedicated to the well-being of Indians or persons of Indian ancestry who live on a reserve. One of the purposes of the organization must be the social, cultural, educational or economic development of Indians or persons of Indian ancestry who live on a reserve, and the organization must be controlled by one or more bands or by one or more band councils representing one or more bands.

In all other cases, the employer must pay the contribution to the health services fund, even if the employer is an Indian, an Indian band, a band council or an Indian organization.

## 11.8.3 Contribution to the financing of the CNT

If you are an employer that is an Indian, you are subject to the contribution to the financing of the CNT.

If you are an employer that is an Indian band or a band council, contact Revenu Québec.

## 11.8.4 Contribution to the FNFMO and compensation tax

If you are an employer that is an Indian, an Indian band or a band council, you are not required to pay compensation tax with respect to the salaries or wages that you pay to your employees **from an establishment located on a reserve**, nor are you required to include these salaries or wages in your total payroll used to calculate your contribution to the FNFMO. This is the case regardless of whether the employees are Indians.

In all other cases, the employer must participate in the development of worker training if the total payroll exceeds \$1 million in 2005, even if the employer is an Indian, an Indian band or a band council.

## 11.8.5 Do you have Indian employees?

If you have employees who are Indians, see section 11.9 opposite.

## 11.8.6 Definitions

### Indian employer

An employer who is an Indian within the meaning of the *Indian Act* (Statutes of Canada), that is, an individual who is registered as an Indian with the Department of Indian and Northern Affairs or is entitled to be so registered.

### NOTE

A corporation whose shareholders are Indians cannot be considered an **Indian employer** because a corporation is a legal person, not an individual.

See section 11.9.4 for definitions of the following terms:

- Indian
- Indian or person of Indian ancestry who lives on a reserve
- person of Indian ancestry
- reserve

For definitions of the terms “band” and “band council,” contact Revenu Québec.

## 11.9 Indian employees

This section is for all employers (regardless of whether they are Indians) that have an employee who is an Indian or a person of Indian ancestry.

### 11.9.1 Salary or wages derived from employment duties performed partly or entirely on a reserve or premises

#### 11.9.1.1 Source deductions of income tax and QPP contributions

If an Indian (or person of Indian ancestry) performs his or her employment duties partly or entirely on a reserve or premises, you are not required to withhold income tax from the **employment income** (or portion thereof) **that gives entitlement to the deduction for employment income situated on a reserve or premises**.

Nor are you required to withhold or remit QPP contributions with respect to the **employment income** (or portion thereof) **that gives entitlement to the deduction**.

If the conditions given in the following table are met, **all** of the employment income earned by an Indian (or person of Indian ancestry) **gives entitlement to the deduction**. Otherwise, only the portion of the income attributable to the employment duties performed on the reserve or premises **gives entitlement to the deduction**.

Description of employment	Conditions that must be met for all the income from the employment to give entitlement to the deduction
At least 90% of the employment duties are performed on a reserve or premises	None
More than 50% (but less than 90%) of the employment duties are performed on a reserve or premises	<ul style="list-style-type: none"> <li>The Indian (or person of Indian ancestry) lives on a reserve.</li> </ul> <b>OR</b> <ul style="list-style-type: none"> <li>The employer manages and administers the business on a reserve or premises.</li> </ul>
More than 50% of the employment duties are performed outside a reserve or premises	<ul style="list-style-type: none"> <li>The Indian (or person of Indian ancestry) lives on a reserve.</li> </ul> <b>AND</b> <ul style="list-style-type: none"> <li>The employer manages and administers the business on a reserve or premises.</li> </ul>
See section 11.8.1 (2nd and 3rd paragraphs) if the employer is an Indian band, a band council or an Indian organization that pays a salary or wages to an Indian whose employment duties are part of the employer's non-commercial activities which are intended for the greater welfare of Indians.	

### Example

An employer that manages and administers a business on a reserve pays an Indian employee a gross salary of \$500 per week. 40% of the employee's duties are performed on the reserve and 60% are performed outside the reserve. The employee does not live on a reserve.

In this case, the conditions for all the employment income to give entitlement to the deduction have not been met. When more than 50% of the employment duties are performed outside a reserve or premises, the Indian (or person of Indian ancestry) must live on a reserve for the full amount of employment income to be deducted in the calculation of his or her taxable income. Consequently, only the portion of the income attributable to the duties performed on the reserve (\$200, that is, 40% of \$500) is considered to be employment income situated on a reserve or premises and therefore gives entitlement to the deduction.

Consequently, the employer must withhold income tax and the employee contribution to the QPP only from the portion of the income attributable to the duties performed outside the reserve, that is, \$300 (60% of \$500). The employer's contribution to the QPP with respect to the income is equal to the employee's.

If the same employee had lived on a reserve, the employer would not have been required to deduct income tax at source or withhold or remit QPP contributions, because the conditions would have been met and the full amount of the income (\$500) would have given entitlement to the deduction.

## 11.9.1.2 Other employer contributions and compensation tax

### Indian employer

Special rules apply to an employer that is an Indian, an Indian band, a band council, or an Indian organization. See section 11.8.

### Other employers

All of the salaries and wages paid to an Indian or a person of Indian ancestry are subject to the employer contribution to the health services fund, the contribution to the financing of the CNT and compensation tax, even if the salaries and wages are employment income that gives entitlement to the deduction for employment income situated on a reserve or premises.

Similarly, all of the salaries and wages paid to an Indian or a person of Indian ancestry are included in the calculation of your total payroll used to calculate your rate of contribution to the health services fund and your contribution to the FNFMO.

## 11.9.2 Other income attributable to employment duties performed partly or entirely on a reserve or premises

As a rule, you are not required to withhold income tax from amounts you pay to an Indian or a person of Indian ancestry if the amounts are from employment income that gives entitlement to the deduction for employment income situated on a reserve or premises. Such an amount may be

- a benefit paid under the *Unemployment Insurance Act* or the *Employment Insurance Act* (Statutes of Canada);
- a benefit paid under the *Act respecting the Québec Pension Plan* or under an equivalent plan, within the meaning of the Act;
- a retiring allowance;
- a benefit paid under an RPP;
- a benefit paid under a wage loss insurance plan to which the beneficiary's employer contributed.

Where only a portion of the employment income gives entitlement to the deduction (as in the example in section 11.9.1.1), only an equivalent portion of the amounts referred to in the preceding paragraph also gives entitlement to the deduction in the calculation of the taxable income of the Indian (or person of Indian ancestry). Consequently, you are not required to withhold income tax on the portion of the amount that gives entitlement to the deduction.

### 11.9.3 Definitions

#### Dwelling

A house, apartment or similar place in which a person ordinarily eats and sleeps and that has a kitchen and bathroom facilities.

#### NOTE

A dormitory, bunkhouse, hotel room or room in a boarding house does not constitute a dwelling.

#### Indian

An individual who is an Indian within the meaning of the *Indian Act* (Statutes of Canada), that is, an individual who is registered as an Indian with the Department of Indian and Northern Affairs or is entitled to be so registered.

#### Indian or person of Indian ancestry who lives on a reserve

An Indian or person of Indian ancestry who lives in a dwelling situated on a reserve, if the dwelling is his or her principal place of residence and the centre of his or her daily routine.

#### Person of Indian ancestry

An individual who usually resides on a reserve or who is employed therein, and whose mother or father is an Indian.

#### Premises

A place in Québec used exclusively for negotiations between the Québec government and an agency representing Indians of Québec and so designated by the government.

#### Reserve

A territory reserved for Indians that is

- a reserve within the meaning of subsection 2(1) of the *Indian Act* (Statutes of Canada);
- category IA or IA-N lands within the meaning of the *Cree-Naskapi (of Quebec) Act* (Statutes of Canada);
- the Indian settlements of Hunter's Point, Kitcisakik (Grand-Lac-Victoria), Pakuashipi (Saint-Augustin) or Winneway (Longue-Pointe);
- the Indian settlements referred to in the *Indians and Bands on Certain Indian Settlements Remission Order* or in the *Indians and Bands on Certain Indian Settlements Remission Order (1997)*; or
- Sechelt lands within the meaning of the *Sechelt Indian Band Self-Government Act* (Statutes of Canada).

For definitions of the terms "Indian band" and "band council," contact Revenu Québec.

### 11.10 Sailors

If you are an eligible shipowner and you employ a sailor who is resident in Québec in 2005, for whom you obtained a certificate from the Ministère des Transports, you are not required to withhold income tax from the **portion of the sailor's gross remuneration that gives entitlement to a deduction respecting employment income earned on a vessel** (that is, 75% of the remuneration).

#### NOTE

If you grant the employee a taxable benefit because the employee disposed of a share acquired under a stock option, the value of the benefit may give entitlement to the deduction in question, even if the employee receives the benefit for a period in which he or she is no longer entitled to the deduction. As a rule, this applies if the stock option was exercised during a period in which the employee was entitled to the deduction. For more information, contact Revenu Québec.

If, for a pay period, the conditions of the sailor's employment are not the same as at the time you obtained the certificate, you must withhold income tax from the full amount of the gross remuneration for the period.

An employee may claim a deduction in his or her 2005 income tax return only if you indicate, in the centre of the employee's RL-1 slip, the amount of remuneration that gives entitlement to the deduction.

#### NOTE

The remuneration paid to a sailor is subject to

- employee and employer QPP contributions;
- the employer contribution to the health services fund;
- the contribution to the financing of the CNT;
- compensation tax.

Similarly, the remuneration is included in the calculation of your total payroll used to calculate your rate of contribution to the health services fund and your contribution to the FNFMO.

#### Eligible shipowner

A shipowner that is

- a person resident in Canada;
- a corporation that is a foreign affiliate of a person resident in Canada; or
- a partnership, where more than 10% of the fair market value of the interests in the partnership is attributable to interests belonging to its members resident in Canada (including members that are corporations controlled by persons resident in Canada).

## 11.11 IFC employees

### 11.11.1 Source deductions of income tax

As a rule, employees who work in an IFC can claim a deduction in the calculation of their taxable income with respect to the salary or wages they receive. Their employer is required to take the deduction into account in calculating their remuneration subject to source deductions of income tax.

#### 11.11.1.1 Calculation of the remuneration subject to source deductions of income tax

If the conditions in the following table are met, calculate the remuneration subject to source deductions of income tax of an employee working in an IFC that is a corporation or partnership by subtracting from the gross remuneration that you pay to the employee for a pay period the portion of the remuneration that gives entitlement to the deduction for employees of an IFC or the deduction for foreign specialists.

However, if the conditions in the following table are not met, calculate the income tax withholding on the employee's remuneration in the usual way.

Conditions that must be met for an employee to be entitled to a deduction respecting the remuneration paid	
Foreign specialist in qualified international financial transactions (deduction for foreign specialists)	Other employee (deduction for employees of an IFC)
<ul style="list-style-type: none"> <li>You obtained a certificate or a qualification certificate with regard to the employee from the Ministère des Finances for the preceding taxation year.</li> <li>The remuneration is paid during the employee's exemption period.<sup>1</sup></li> <li>The employee was not resident in Canada immediately before taking up, for the <b>first</b> time, employment that entitled him or her to the deduction for foreign specialists, or immediately before the contract relating to that employment was entered into.<sup>2</sup></li> <li>The conditions of employment for the pay period are substantially the same as the conditions in effect at the time the certificate or qualification certificate was issued.</li> </ul>	<ul style="list-style-type: none"> <li>You obtained a qualification certificate with regard to the employee from the Ministère des Finances for the preceding taxation year.</li> <li>The remuneration is paid during the employee's exemption period, that is, during the period covered by the qualification certificate.</li> <li>The conditions of employment for the pay period are substantially the same as the conditions in effect at the time the qualification certificate was issued.</li> </ul>
<p>1. The exemption period of a foreign specialist is the period during which the employee is entitled to the deduction for foreign specialists. The exemption period is five years. The employee is entitled to only <b>one</b> five-year exemption period, even if he or she holds more than one type of employment qualifying for the deduction in question. The exemption period is <b>continuous</b> for employees who enter into an <b>employment contract after March 30, 2004</b>.</p> <p>However, if the employee signed a contract before March 31, 2004, and renews the contract after March 30, 2004, and if, under tax legislation, the contract is not deemed to be separate from the contract signed prior to March 31, 2004, the employee's exemption period <b>may be non-continuous</b>. This means that if the employee stops working before the end of the five-year exemption period, the period in which he or she is not working is not taken into account in calculating the five-year period as long as the employee does not sign a new (separate) contract.</p> <p>2. An individual spending more than 182 days in Québec in a year is deemed to be resident in Québec throughout the year. However, this rule does not apply for the purposes of determining whether a foreign specialist was resident in Canada immediately before taking up his or her employment duties.</p>	



### 11.11.1.2 Portion of the remuneration that gives entitlement to the deduction

#### Employees of an IFC (other than foreign specialists)

To calculate the portion of the remuneration that gives entitlement to the deduction for an employee of an IFC, subtract from the gross remuneration for each pay period certain expenses that the employee is required to assume for the pay period, and then multiply the result by 37.5%.

#### NOTE

If you pay remuneration pertaining to a period prior to June 13, 2003 (for example, retroactive salary or wages pertaining to that period), multiply the result of the subtraction by 50% (instead of 37.5%). If only a portion of the remuneration pertains to that period, only that portion is to be multiplied by 50%.

The maximum deduction for IFC employees is \$50,000 per year. Once you have reached this limit (that is, once the total of the amounts that you subtract from an employee's remuneration during the year for the purposes of the deduction has reached \$50,000), you must stop reducing the employee's remuneration because the amount that exceeds \$50,000 does not give entitlement to the deduction.

#### Foreign specialists

To calculate the portion of the remuneration that gives entitlement to the deduction for foreign specialists, multiply the gross remuneration that you pay for the pay period by a rate that varies depending on (among other things) the date on which the contract was signed (see table below).

Foreign specialists	
Contract entered into before March 31, 2004 <sup>1</sup>	Contract entered into after March 30, 2004 <sup>1</sup>
<p>Multiply the employee's gross remuneration by 100% if the contract was entered into before June 13, 2003, and the employee took up employment duties no later than September 1, 2003. In all other cases, multiply the employee's gross remuneration by 75%.</p> <p>An employee is also entitled to a deduction equal to 100% of his or her total income for the remainder of the five-year period, where the employer continues to operate a business further to a corporate reorganization (for example, a corporate amalgamation or the winding-up of a corporation wholly owned by another corporation) and remains eligible for purposes of the deduction.</p>	<p>Multiply the employee's gross remuneration by one of the following rates:</p> <ul style="list-style-type: none"> <li>• 100%, if the employee is in the first two years of his or her five-year exemption period;</li> <li>• 75%, if the employee is in the third year of his or her five-year exemption period;</li> <li>• 50%, if the employee is in the fourth year of his or her five-year exemption period;</li> <li>• 37.5%, if the employee is in the fifth year of his or her five-year exemption period.</li> </ul>
<p>1. If, after March 30, 2004, an employee renews an employment contract entered into before March 31, 2004, the employee continues to be entitled to the rates that apply for contracts entered into before March 31, 2004, unless the renewed contract is deemed under tax legislation to be a new contract.</p>	

#### NOTE

The exemption applies to the employee's total income, not only the salary or wages.

### 11.11.1.3 How to obtain a certificate or a qualification certificate

To find out how to proceed, consult the Web site of the Ministère des Finances at [www.finances.gouv.qc.ca](http://www.finances.gouv.qc.ca).

As a rule, an application for a certificate for 2005 must be submitted to the Ministère des Finances by February 28, 2006.

### 11.11.1.4 Documents to be remitted to the employee

You must give the employee a copy of the certificate or qualification certificate issued by the Ministère des Finances so that the employee may claim the deduction to which he or she is entitled in his or her 2005 income tax return. If the employee is not a foreign specialist, you must remit to him or her a letter containing the following information:

- the period during which the employee worked in an IFC;
- any other relevant information concerning the deduction to which the employee is entitled.

You must also indicate on the RL-1 slip of an employee who is a foreign specialist

- the portion of remuneration giving entitlement to the exemption;
- the exemption rate.

### 11.11.1.5 Pay period that is not entirely covered by the exemption period

Where only a portion of the gross remuneration that you pay to an employee for a pay period was earned during the employee's exemption period (that is, during the period in which the employee is entitled to the deduction referred to in this section), you must withhold income tax, in the usual way, from the portion of the remuneration that is not related to the employee's exemption period.

### 11.11.1.6 Use of the mathematical formulas

If you use the mathematical formulas to calculate source deductions of income tax, include in variable F the amount of remuneration giving entitlement to the deduction for employees of an IFC or the deduction for foreign specialists.

### 11.11.2 Employer contribution to the health services fund

A corporation or partnership that operates an international financial centre (IFC) may be exempted from the employer contribution to the health services fund on a portion of the salaries or wages paid. The following salaries or wages are not subject to the contribution:

- 75% of the salaries or wages paid to employees who hold a certificate or qualification certificate issued by the Ministère des Finances;
- 75% of the portion of the salaries or wages paid to other employees that relates to duties concerning the operations of the IFC.

Note that the exemption rate is 100% (instead of 75%) if the salaries or wages paid relate to a period before June 13, 2003. This may be the case if, for example, you pay retroactive salary or wages pertaining to that period. If only a portion of the remuneration pertains to that period, only that portion is to be multiplied by 100%.

#### Example

An employee of an IFC is paid on January 20, 2005. The employee does not have a certificate or a qualification certificate. The remuneration is as follows:

Employee's gross salary or wages for the period from January 6 to 20, 2005 .....	\$1,800
Portion of the gross salary or wages that relates to duties concerning the operations of the IFC .....	\$1,200
Retroactive pay that relates to the period from January 1 to May 31, 2003.....	\$2,000
Portion of the retroactive pay that relates to duties concerning the operations of the IFC .....	\$1,400

#### Exempted salary or wages:

$$(\$1,200^1 \times 75\%) + \$1,400^2 = \mathbf{\$2,300}$$

1. The employee does not have a certificate or a qualification certificate. Therefore, only the portion of the employee's salary or wages that relates to duties concerning the operations of the IFC may be taken into consideration for the purposes of calculating exempted salary or wages.
2. The employee does not have a certificate. Therefore, only the portion of the employee's retroactive pay that relates to duties concerning the operations of the IFC (\$1,400) may be taken into consideration for the purposes of calculating exempted salary or wages. Moreover, the retroactive pay of \$1,400 must not be multiplied by 75% because this amount relates to a period before June 13, 2003.

### 11.11.3 QPP contributions, other employer contributions and compensation tax

All of the salaries and wages paid to employees of an IFC (including foreign specialists) are subject to QPP contributions, the contribution to the financing of the CNT and compensation tax.

Similarly, all of the salaries and wages are included in the calculation of your total payroll used to calculate your rate of contribution to the health services fund and your contribution to the FNFMO.

## 11.12 Foreign employees entitled to a five-year tax exemption

### 11.12.1 Source deductions of income tax

As a rule, an individual who is not resident in Canada and who comes to Québec to work in certain specialized sectors of activity (hereafter called an "employee") is entitled to a full or partial tax exemption for a period of five years. The exemption consists in a deduction in the calculation of taxable income and covers the employee's salary or wages, or the employee's total income if the employee is a specialist who works in the Montréal international

trade zone at Mirabel or for a corporation that operates a stock exchange business or a securities clearing-house business.

Such an employee is entitled to **only one** five-year exemption period, even if he or she holds more than one type of employment qualifying for the exemption. The exemption period is continuous in the case of employees who enter into an **employment contract after March 30, 2004**.

However, if the employee signed a contract before March 31, 2004, and renews the contract after March 30, 2004, and if, under tax legislation, the contract is not deemed to be separate from the contract signed prior to March 31, 2004, the employee's exemption period **may be non-continuous**. This means that if the employee stops working before the end of the five-year exemption period, the period in which he or she is not working is not taken into account in calculating the five-year period as long as the employee does not sign a new (separate) contract.

You must obtain a certificate or a qualification certificate from the Québec government with regard to the employee in order for the employee to claim the exemption (see section 11.12.1.2). This document will confirm that the employee meets the conditions that the body issuing the certificate is responsible for verifying.

In order to obtain the exemption, the employee must also meet certain other conditions, which are listed below.

#### **11.12.1.1 Calculation of the remuneration subject to source deductions of income tax**

In calculating an employee's remuneration subject to source deductions of income tax, you must subtract from the gross remuneration that you pay to the employee for a pay period the **portion of the remuneration that gives entitlement to a tax exemption**.

Proceed in this way only if the following conditions are met:

- You obtained a certificate or a qualification certificate with regard to the employee.
- The employee was not resident in Canada immediately before taking up, for the **first time**, employment that entitled him or her to a five-year tax exemption, or immediately before the contract relating to that employment was entered into.
- The requirements specified in Table 1 on the next page are met.
- The conditions of employment for the pay period are substantially the same as the conditions in effect at the time the certificate or qualification certificate was issued.

To calculate the **portion of the remuneration that gives entitlement to an exemption**, multiply the gross remuneration that you pay for the pay period by a rate that varies depending on (among other things) the date on which the contract was signed.

#### **NOTE**

If you grant the employee a taxable benefit because the employee disposed of a share acquired under a stock option, the value of the benefit may give entitlement to the deduction in question, even if the employee receives the benefit for a period in which he or she is no longer entitled to the deduction. As a rule, this applies if the stock option was exercised during a period in which the employee was entitled to the deduction. For more information, contact Revenu Québec.

Consult Table 1 on the next page to find out

- the location or sector of activity in which an employee must work in order to obtain a tax exemption;
- the requirements that must be met (in addition to those listed above concerning the employee's place of residence and the employer's obligation to obtain a certificate or qualification certificate);
- the name of the body that issues the required certificate or qualification certificate.

Consult Table 2 on page 90 for information on the exemption rate.

**Table 1**

Job title	Location or sector in which the employee works	Requirements	Issuer of the certificate or the qualification certificate
Specialist	Innovation centre	The employee took up employment duties after March 19, 2002, under a contract entered into after that date.	Investissement Québec
	ITDC (innovative project)	The employee took up employment duties after March 25, 1997, under a contract entered into after that date.	Investissement Québec
	Laval BDC	The employee took up employment duties after March 29, 2001, under a contract entered into after that date.	Investissement Québec
	Lévis BDC	The employee took up employment duties after July 11, 2002, under a contract entered into after that date.	Investissement Québec
	Sherbrooke and Saint-Hyacinthe BDCs	The employee took up employment duties after March 19, 2002, under a contract entered into after that date.	Investissement Québec
	Cité de la biotechnologie agroalimentaire, vétérinaire et agroenvironnementale de Saint-Hyacinthe	The employee took up employment duties after December 19, 2002, under a contract entered into after that date.	Investissement Québec
	City of Biotechnology and Human Health of Metropolitan Montréal	The employee took up employment duties after March 19, 2002, under a contract entered into after that date.	Investissement Québec
	E-Commerce Place	The employee took up employment duties after May 11, 2000, under a contract entered into after that date.	Investissement Québec
	Cité du multimédia	The employee took up employment duties after March 14, 2000, under a contract entered into after that date.	Investissement Québec
	MNE (innovative project)	The employee took up employment duties after March 9, 1999, under a contract entered into after that date.	Investissement Québec
	MNE (other than an innovative project)	The employee took up employment duties after March 14, 2000, under a contract entered into after that date.	Investissement Québec
	CNNTQ (designated premises for the purposes of the tax credit for corporations established in the CNNTQ)		
	CNNTQ (designated premises for the purposes of the tax credit for E-business activities)	The employee took up employment duties after March 19, 2002, under a contract entered into after that date.	Investissement Québec
	Nutraceuticals and functional foods sector, in the Québec City area		
	E-Commerce Zone		
	Montréal international trade zone at Mirabel <sup>1</sup>	The employee took up employment duties after March 9, 1999, under a contract entered into after that date.	Investissement Québec
	Zone de développement des biotechnologies de Sherbrooke	The employee took up employment duties after March 19, 2002, under a contract entered into after that date.	Investissement Québec
Corporation that operates a stock exchange business or a securities clearing-house business	The employee took up employment duties after April 26, 2000, under a contract entered into after that date.	Ministère des Finances	
Researcher on a post-doctoral internship	Eligible university entity or public research centre	<ul style="list-style-type: none"> <li>• The employee took up employment duties after March 31, 1998, under a contract entered into after that date.</li> <li>• The employee's duties are almost exclusively related to R&amp;D.</li> </ul>	Ministère de l'Éducation

Job title	Location or sector in which the employee works	Requirements	Issuer of the certificate or the qualification certificate
Researcher or expert	Business in Canada that carries out R&D or has R&D carried out on its behalf in Québec	<ul style="list-style-type: none"> <li>• <b>Researchers:</b> The employee's duties are almost exclusively related to R&amp;D.</li> <li>• <b>Experts:</b> <ul style="list-style-type: none"> <li>– The employee took up employment duties after March 9, 1999, under a contract entered into after that date.</li> <li>– The employee's duties are carried out almost exclusively under an R&amp;D project.</li> </ul> </li> </ul>	Ministère du Développement économique et régional et de la Recherche
Professor	Québec university	The employee took up employment duties after June 29, 2000, under a contract entered into after that date.	Ministère de l'Éducation

1. The exemption applies to the employee's total income, not only the salary or wages.

**Table 2**

Exemption rates	
Contract entered into before March 31, 2004 <sup>1</sup>	Contract entered into after March 30, 2004 <sup>1</sup>
<p>Multiply the employee's gross remuneration by 100% if the contract was entered into before June 13, 2003, and the employee took up employment duties on or before September 1, 2003. In all other cases, you must multiply the employee's gross remuneration by 75%.</p> <p>An employee is also entitled to an exemption equal to 100% of his or her total income for the remainder of the five-year period, where the employer continues to operate a business further to a corporate reorganization (for example, a corporate amalgamation or the winding-up of a corporation wholly owned by another corporation) and remains eligible for purposes of the tax exemption.</p>	<p>Multiply the employee's gross remuneration by one of the following rates:</p> <ul style="list-style-type: none"> <li>• 100%, if the employee is in the first two years of his or her five-year exemption period;</li> <li>• 75%, if the employee is in the third year of his or her five-year exemption period;</li> <li>• 50%, if the employee is in the fourth year of his or her five-year exemption period;</li> <li>• 25%, if the employee is in the fifth year of his or her five-year exemption period. However, if the employee works for a corporation that operates a stock exchange business or a securities clearing-house business, the rate is 37.5% instead of 25%.</li> </ul>
<p>1. If, after March 30, 2004, an employee renews an employment contract entered into before March 31, 2004, the employee continues to be entitled to the rates that apply for contracts entered into before March 31, 2004, unless the renewed contract is deemed under tax legislation to be a new contract.</p>	

### 11.12.1.2 How to obtain a certificate or qualification certificate

To find out how to proceed, contact the government body responsible for issuing the certificate or qualification certificate (see Table 1 on the previous page).

As a rule, you must obtain a certificate or qualification certificate for an employee each year. Your application for a given year must be submitted by the last day of February of the following year. For example, your application for a certificate for 2005 must be submitted by February 28, 2006.

### 11.12.1.3 Documents to be given to the employee

You must give the employee a copy of the certificate or qualification certificate so that the employee may claim the tax exemption to which he or she is entitled in his or her 2005 income tax return. You must also indicate on the employee's RL-1 slip for 2005

- the portion of remuneration giving entitlement to the exemption;
- the exemption rate.

### 11.12.1.4 Pay period that is not entirely covered by the exemption period

Where only a portion of the gross remuneration that you pay an employee for a pay period was earned during the employee's exemption period, you must withhold income tax, in the usual way, from the portion of the remuneration that is not related to the employee's exemption period.

### 11.12.1.5 Employee who spends more than 182 days in Québec

An individual who spends more than 182 days in Québec in a year is deemed to be resident in Québec throughout the year. However, this rule does not apply for the purposes of determining whether a foreign employee was resident in Canada immediately before taking up his or her employment duties.

For example, if such an employee was in Québec from March 1 to September 1, 2005 (a period of more than 182 days), and started to work on October 1, 2005, the employee is not deemed to have



been resident in Québec since January 1, 2005. Consequently, the employee was not resident in Canada before taking up employment duties on October 1, 2005.

#### 11.12.1.6 Use of the mathematical formulas

If you use the mathematical formulas to calculate source deductions of income tax, include in variable F the portion of the remuneration giving entitlement to the five-year tax exemption.

#### 11.12.2 Employer contribution to the health services fund

All of the salaries and wages paid to foreign employees claiming a five-year exemption are subject to the employer contribution to the health services fund. However, the following employers may, under certain conditions, claim a total or partial exemption from the contribution:

- a corporation that carries out an innovative project in an ITDC, a BDC or an MNE;
- a corporation (or partnership) that operates a business within the Montréal international trade zone at Mirabel;
- a corporation (or partnership) that operates a business carrying out a major investment project in Québec;
- a corporation that operates a stock exchange business or a securities clearing-house business.

For further information, see section 7.3 on page 63.

#### 11.12.3 QPP contributions, other employer contributions and compensation tax

All of the salaries and wages paid to foreign employees claiming a five-year exemption are subject to QPP contributions, the contribution to the financing of the CNT and compensation tax.

Similarly, all of the salaries and wages are included in the calculation of your total payroll used to calculate your rate of contribution to the health services fund and your contribution to the FNFMO.

### 11.13 Foreign producers

If you employ a foreign producer who holds a certificate issued by SODEC attesting that he or she works for the year as a producer on a film production recognized by SODEC, you are not required to withhold income tax from the portion of the gross remuneration that you pay to the producer with regard to the production.

If a portion of the producer's remuneration is not related to a film production recognized by SODEC, you must withhold income tax, in the usual way, from that portion of the remuneration.

If the producer performed services for you **other than in the course of regular and continuous employment**, see section 11.14.3.

## 11.14 Amount paid to a person not resident in Québec

### 11.14.1 Salary or wages

You must make source deductions with respect to the salary or wages paid to an employee who is not resident in Québec **if the employee meets one of the conditions given in column B of the table in section 4.1.1 on page 30** (also check whether the conditions given in section 4.1.2 apply). The salary or wages are also subject to employer contributions and compensation tax.

However, if you have an employee **who is not resident in Canada and whose employment is not regular and continuous**, see section 11.14.3.

If you pay directors' fees to a director who is not resident in Canada, contact Revenu Québec.

#### Exceptions

You are not required to withhold income tax from the salary or wages (or a portion thereof) paid to a foreign employee if

- the employee does not hold employment in Canada (see the note below);
- the employee is a foreign specialist who works in an IFC (see section 11.11);
- the employee is covered by the measures described in section 11.12 or 11.13; or
- the salary or wages are exempt from income tax under a tax treaty or agreement between Québec and the employee's country of origin, and Revenu Québec has authorized you not to withhold income tax (after the employee filed form TP-1016-V, *Application for a Reduction in Source Deductions of Income Tax*).

#### NOTE

You must withhold income tax from the salary or wages paid to an employee who is not resident in Canada and who does not hold employment in Canada if

- the salary or wages are reasonably attributable to employment duties that are or will be performed in Québec by the employee; or
- the employee ceased to reside in Québec in the year or in a previous year. However, in this case, you are not required to withhold income tax **if** the salary or wages are subject to income tax in a country other than Canada **or if** the salary or wages are paid with respect to the sale of goods, the negotiation of contracts or the provision of services for you, one of your foreign affiliates or another person with whom you are not dealing at arm's length, in the course of a business carried on by you, the foreign affiliate or that other person.

If an employee whose country of origin has a social security agreement with Québec is temporarily posted to Québec, the employee's salary or wages are generally not subject to

- employee and employer QPP contributions (see section 6.17 on page 60);
- the employer contribution to the health services fund (see section 7.8 on page 70).

### 11.14.2 Payments other than salary or wages

You are not required to withhold income tax from an amount other than salary or wages (for example, a pension benefit paid in one or more instalments) if you pay the amount to a beneficiary who is not resident in Québec at the time of the payment.

### 11.14.3 Persons not resident in Canada that perform services in Québec

If you make a payment, **other than in the course of regular and continuous employment**, to a person (including a corporation) not resident in Canada for services the person performed in Québec, you must withhold 9% income tax from the payment.

#### NOTE

In the preceding paragraph, the term "employment" does not include an office.

If the person performing the services is an individual who holds a certificate from SODEC attesting that he or she works during the year as a producer on a film production recognized by SODEC, you are not required to withhold income tax from the amounts (including salary or wages) that you pay him or her with regard to the film production.

If you are required to withhold 9% income tax from a payment but fail to do so, you become a debtor of the State for the amount that should have been withheld. A penalty equal to 15% of that amount may also be imposed. However, you may recover the **amount of the withholding** from the person that received the payment, either by bringing an action in a court of competent jurisdiction or by deducting an **equivalent amount** from any amount that you are required to pay or credit to the person.

Please note that, if the person to whom you make a payment is an employee, the payment is subject to employee and employer QPP contributions. It may also be subject to the employer contribution to the health services fund.

### 11.14.4 Source Deductions Return (form TP-1015.3-V)

If an individual is not resident in Canada in 2005 or becomes a resident in 2005, the deductions and personal tax credits that the individual may enter on form TP-1015.3-V may be limited.

### 11.14.4.1 Individual who spends fewer than 183 days in Québec

An individual who spends fewer than 183 days in Québec in 2005 and expects to include at least 90% of his or her income for the year from all sources in the calculation of taxable income earned in Canada may enter, on form TP-1015.3-V (version 2005-01), the total of the amounts to which he or she is entitled on lines 1 through 6 and line 8. (This does not apply if the individual earned income in another province or territory of Canada; in that case, contact Revenu Québec.)

However, such an individual cannot enter an amount on form TP-1015.3-V with regard to the deduction for support payments.

Furthermore, no amount may be entered on form TP-1015.3-V if the individual expects that less than 90% of his or her income for the year from all sources will be included in the calculation of taxable income earned in Canada.

### 11.14.4.2 Individual who spends more than 182 days in Québec

An individual who spends more than 182 days in Québec in 2005 is deemed to be resident in Québec for the entire year, and may enter on form TP-1015.3-V (version 2005-01) the total of the amounts used to calculate the tax credits and deductions to which he or she is entitled.

### 11.14.4.3 Individual who becomes a Canadian resident

Contact Revenu Québec to find out what amounts should be entered on the TP-1015.3-V form of an individual who becomes a Canadian resident in 2005.

## 11.15 Employees who work outside Québec

### 11.15.1 General information

As indicated in section 4.1.1, you are not required to make source deductions or pay employer contributions and compensation tax on amounts that you pay to an employee who reports for work **only** at one of your establishments located **outside** Québec.

However, you are required to make source deductions of income tax and employee QPP contributions on the remuneration of an employee who is not required to report for work at any of your establishments (in Québec or elsewhere) but is paid from one of your establishments located in Québec. You must also pay employer contributions and compensation tax with respect to the remuneration. If the employee works outside Canada, see section 11.15.2.

If an employee reports for work at one of your establishments located in Québec and at one of your establishments located outside Québec, see section 4.3 on page 35.

If an employee is transferred from an establishment covered by the CPP to an establishment covered by the QPP, see section 6.16 on page 60.

### 11.15.2 Special rules concerning an employee who works outside Canada

If an employee works outside Canada, special rules may apply with respect to QPP contributions and the employer contribution to the health services fund.

#### 11.15.2.1 QPP contributions

Remuneration for work performed outside Canada is **not subject** to employee or employer QPP contributions, **except in the following cases:**

- The remuneration is paid from one of your establishments located in Québec, **and** you have signed an agreement with the Régie des rentes du Québec respecting work performed outside Canada by employees who were resident in Québec at the time of their posting to a foreign country (see the note below).
- The work is performed in a country that has signed a social security agreement with the Québec government, by employees who were resident in Québec at the time of their posting to a foreign country (see section 6.17 on page 60).

#### NOTE

If the remuneration is paid from one of your establishments located in Québec, but you have not signed an agreement with the Régie des rentes du Québec respecting work performed outside Canada by employees who were resident in Québec at the time of their posting to a foreign country, contact Revenu Québec.

#### 11.15.2.2 Employer contribution to the health services fund

If you posted one or more employees to a country that has signed a social security agreement with Québec, under which reciprocal coverage of health insurance plans is provided, you must pay the employer contribution to the health services fund on the salary or wages paid from your establishment located outside Canada (see section 7.8 on page 70).

### 11.15.3 Information concerning employees of a specified employer

The information provided in this section concerns the source deductions of income tax that a **specified employer** must make with respect to the remuneration paid to an employee who is resident in Québec.

An employee who is resident in Québec may be entitled to a deduction in the calculation of taxable income if he or she works outside Canada for a **specified employer** for a period of at least 30 consecutive days. This deduction pertains to the salary or wages (including allowances for meals, accommodation and transportation) that the employee receives from the **specified employer** for work that is carried out outside Canada in connection with a contract or for the purpose of obtaining a contract under which the employer carries on, outside Canada,

- a business related to the exploration for or exploitation of petroleum, natural gas, minerals or similar resources;
- a business related to any agricultural, construction, installation or engineering activity;
- a business related to an activity consisting in implementing a computer, telematic or office automation system, or a similar system, if the activity is the principal object of the contract;
- a business related to a scientific or technical services activity;
- a business related to a management or administration activity related to an activity described above.

If you are a **specified employer**, please note that **you must not take the deduction into account** in calculating the remuneration subject to source deductions of income tax. In other words, you cannot decrease the amount of income tax withheld because of the deduction, **unless you received authorization from Revenu Québec after the employee completed form TP-1016-V, *Application for a Reduction in Source Deductions of Income Tax*.**

#### **Specified employer**

An employer that is

- a person resident in Canada;
- a corporation that is a foreign affiliate of a person resident in Canada; or
- a partnership, where more than 10% of the fair market value of the interests in the partnership is attributable to interests belonging to its members resident in Canada (including members that are corporations controlled by persons resident in Canada).

## 11.16 Members of the Canadian Forces or a Canadian police force

Members of the Canadian Forces or a Canadian police force assigned to a recognized special mission may claim a deduction, with respect to employment income from the mission, in the calculation of their taxable income.

In calculating the employee's remuneration subject to source deductions of income tax, you must subtract from the employee's gross remuneration for a pay period **the portion of the remuneration that gives entitlement to the deduction in question.**

However, the **deduction is limited** to the maximum remuneration a member of the Canadian Forces can receive. Therefore, once you have reached this limit (that is, **once the total of the amounts that you subtracted in the year for the purposes of the deduction has reached the maximum amount**), **you must stop reducing the employee's remuneration** because the excess amount does not give entitlement to the deduction.

### Use of the mathematical formulas

If you use the mathematical formulas to calculate source deductions of income tax, include in variable F the amount of remuneration giving entitlement to the deduction.

# 12 Computerized calculation of Québec income tax withholdings, QPP contributions and the contribution to the health services fund

## 12.1 General information

You may use the mathematical formulas in this chapter to calculate source deductions of Québec income tax. One formula is used to calculate withholdings for employees who receive a regular salary or wages. The other formula, used to calculate withholdings for employees whose remuneration varies, is based on a cumulative-averaging method.

Formulas for calculating employee QPP contributions and the employer contribution to the health services fund are also included in this chapter.

Any changes you wish to make to the formulas must be submitted to Revenu Québec for approval. For information, contact

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### NOTE

You cannot use the mathematical formulas to calculate source deductions of income tax if the source deduction is calculated using a fixed rate that must be applied to the gross remuneration. For example, you cannot use the formulas for the following payments:

- single payments (see section 5.13 on page 49);
- earnings supplements (see section 5.15 on page 51).

## 12.2 Principal changes

### 12.2.1 Variable E – Total personal tax credits

For 2005, the indexation factor used to calculate the value of personal tax credits is 1.427%. Thus, for 2005, variable E corresponds to the total of

- variable  $E_1$  for 2005 (see section 12.2.2)
  - multiplied by  $[1 + .01427$  (indexation factor for 2005)], for individuals who did not complete the 2005-01 version of form TP-1015.3-V, unless the individual is an employee who took up employment duties in 2005 or is a “new” beneficiary, or
  - multiplied by 1, for employees who took up employment duties in 2005, individuals who completed the 2005-01 version of form TP-1015.3-V, and “new” beneficiaries;

plus

- variable  $E_2$ .

### 12.2.2 Variable $E_1$ – Personal tax credits subject to indexation

The basic amount for 2005 (line 1 of form TP-1015.3-V) is equal to \$9,330, that is, the result of the following calculation: \$9,200 multiplied by  $[1 + .01427$  (indexation factor for 2005 calculated using the new indexation formula)].

This amount of \$9,330 is also used to calculate the amount transferred from one spouse to the other.

Please note that it is the amount of \$9,200 that is indexed, not the basic amount for 2004 (\$9,150). The same is true of the amount transferred from one spouse to the other. Thus, if the individual did not complete the 2005-01 version of form TP-1015.3-V, you must add one of the following amounts to variable  $E_1$ :

- \$50; or
- \$100, if the individual claimed the amount transferred from one spouse to the other on the last TP-1015.3-V form he or she remitted to you.

For 2005, variable  $E_1$  therefore corresponds to

- the amount on line 5 of form TP-1015.3-V, for individuals who completed the 2005-01 version of the form;
- \$9,330 (the basic amount for 2005), for employees who took up employment duties in 2005 and did not complete form TP-1015.3-V, or for “new” beneficiaries who did not complete the form;
- the indexed value of variable  $E_1$  for 2004, plus \$50 or \$100 (as applicable) in the other situations.

### 12.2.3 Variable F – Deductions

The following deductions are added to variable F and, consequently, to variable  $F_1$ :

- the travel deduction for residents of a designated remote area (see section 5.4.1.3 on page 42);
- the deduction for members of the Canadian Forces or a Canadian police force (see section 11.15.2.2 on page 93).

In addition, if an employee authorizes you to withhold an amount from his or her remuneration for the purchase of preferred shares qualifying under the CIP, you must now subtract from his or her gross remuneration for each pay period an amount equal to 125% of the amount withheld. Previously, you were required to subtract an amount equal to 125%, 112.5%, 93.75% or 75% (as applicable) of the amount withheld.

Please note that the amount you are required to subtract for each pay period is subject to another limit (see the table in section 5.4.1 on page 39).



The maximum deduction for IFC employees (other than foreign specialists) is now \$50,000 per year. This means that, once the total of the amounts that you include in variable F for the purposes of the deduction has reached \$50,000, you must stop including amounts in variable F with respect to the deduction for IFC employees (other than foreign specialists).

### 12.2.4 Variable K – Adjustment of the income tax rates

For 2005, the income tax rates applicable to the three income tax brackets remain at 16%, 20% and 24%. However, the thresholds that determine the bracket in which an individual's taxable income is situated have been indexed as follows:

- The 16% rate applies to taxable income of up to \$28,030 (the threshold was previously \$27,635).
- The 20% rate applies to taxable income over \$28,030 but not over \$56,070 (the threshold was previously \$55,280).
- The 24% rate applies to taxable income over \$56,070.

The values of variable K have therefore been increased from \$1,105 to \$1,121 and from \$3,316 to \$3,364.

### 12.2.5 Variable M – QPP

The maximum pensionable earnings under the QPP have been raised from \$40,500 to \$41,100. As a result, variable M, which was equal to \$1,831.50, is now equal to \$1,861.20.

## 12.3 Source deductions of Québec income tax

### 12.3.1 Calculating income tax withholdings on regular payments

You must use this formula for remuneration that you pay at regular intervals to an individual (employee or beneficiary).

If the payment you make to an employee covers not only the employee's regular salary or wages, but also a bonus, retroactive pay or similar lump-sum payment (for example, a payment covering accumulated overtime or unused vacation time), do the calculation under section 12.3.1.2 on the following page.

#### NOTE

If you pay remuneration in an amount that varies from one pay period to another (this may be the case if, for example, you pay sales commissions to an employee), use instead the method described in section 12.3.2 on page 99.

#### 12.3.1.1 Regular payments

##### Definition of variables

A = Québec income tax to be withheld at source for the pay period

$$= \frac{(Y/P)}{1.01427} + L$$

If the result is negative, enter 0.

E = Indexed value of the personal tax credits indicated on form TP-1015.3-V

$$= E_1 \times (1 + .01427) + E_2$$

If the result obtained is not a multiple of 5, round it off to the nearest multiple of 5. If the result is halfway between two multiples of 5, round it off to the higher multiple.

#### IMPORTANT

If variable  $E_1$  corresponds to one of the first two amounts mentioned in the definition of the variable, multiply variable  $E_1$  by 1 rather than 1.01427. Variable  $E_1$  is to be indexed only if the variable corresponds to the third amount mentioned in the definition.

$E_1$  = One of the following amounts:

- amount from line 5 of form TP-1015.3-V, for individuals who completed the 2005-01 version of the form
- \$9,330 (the basic amount for 2005), for employees who took up employment duties in 2005 and did not complete form TP-1015.3-V, or for "new" beneficiaries who did not complete the form
- the indexed value of variable  $E_1$  for 2004, plus \$50 or \$100 (as applicable) in the other situations

#### NOTE

The indexed value of variable  $E_1$  for 2004 is equal to the value of variable  $E_1$  for 2003, multiplied by the indexation factor for 2004. The indexed value of variable  $E_1$  for 2004 may also be obtained by doing the following calculation: value of variable E for 2004, minus value of variable  $E_2$  for 2004.

$E_2$  = Amount from line 9 of form TP-1015.3-V

F = Total of the following amounts for the pay period:

- amounts withheld as contributions to an RPP (see section 5.4.1.1 on page 41)
- amounts withheld as contributions to an RRSP (see section 5.4.1.2 on page 42)
- amounts withheld as contributions paid under a retirement compensation arrangement
- the deduction respecting the CIP, that is, 125% of the amount withheld from the employee's remuneration for the purchase of preferred shares qualifying under the CIP (see section 5.4.1 on page 39)
- the travel deduction for residents of a designated remote area (see section 5.4.1.3 on page 42);
- the portion of the remuneration that gives entitlement to one of the following deductions:
  - the deduction for employment income situated on a reserve or premises (see section 11.9.1.1 on page 82 and section 11.9.2 on page 83),
  - the deduction respecting employment income earned on a vessel (see section 11.10 on page 84),

- the deduction for employees of an IFC (see section 11.11.1.1 on page 85),
- the deduction for foreign specialists (see section 11.12.1.1 on page 88),
- the deduction for foreign researchers (see section 11.12.1.1 on page 88),
- the deduction for foreign researchers on a post-doctoral internship (see section 11.12.1.1 on page 88),
- the deduction for foreign experts (see section 11.12.1.1 on page 88),
- the deduction for foreign professors (see section 11.12.1.1 on page 88),
- the deduction for foreign producers (see section 11.13 on page 91),
- the deduction for members of the Canadian Forces or a Canadian police force (see section 11.16 on page 94).

G = Gross remuneration (see section 1.4 on page 11 for information on the term “remuneration”) that is subject to source deductions of income tax for the pay period. Do not include bonuses, retroactive pay or similar lump-sum payments.

I = Annual taxable income  
 $= [P (G - F)] - J - J_1$

J = Deductions indicated on line 19 of form TP-1015.3-V. If the value of J is determined after the first pay period in the year, make an adjustment using the following formula:

$$\frac{P(J_3)}{Pr}$$

J<sub>1</sub> = Annual deductions authorized by Revenu Québec after the individual completed form TP-1016-V, *Application for a Reduction in Source Deductions of Income Tax*. If the value of J<sub>1</sub> is determined after the first pay period in the year, make an adjustment using the following formula:

$$\frac{P(J_2)}{Pr}$$

J<sub>2</sub> = Deductions authorized by Revenu Québec after the first pay period in the year

J<sub>3</sub> = Deductions indicated on line 19 of form TP-1015.3-V after the first pay period in the year

K = Constant applicable for the adjustment of the income tax rate (see the income tax table opposite)

K<sub>1</sub> = Non-refundable tax credits for the year authorized by Revenu Québec after the individual completed form TP-1016-V, *Application for a Reduction in Source Deductions of Income Tax* (for example, the tax credit for charitable donations). If the value of K<sub>1</sub> is determined after the first pay period in the year, make an adjustment using the following formula:

$$\frac{P(K_2)}{Pr}$$

K<sub>2</sub> = Non-refundable tax credits authorized by Revenu Québec after the first pay period in the year

L = Additional source deduction of income tax requested by the individual on form TP-1017-V, source deduction of income tax requested by a fisher on form TP-1015.N-V, or amount indicated on line 11 of form TP-1015.3-V for the pay period

P = Number of pay periods in the year

Pr = Number of pay periods remaining in the year

Q = Amount withheld for the pay period for the purchase of class A shares in the Fonds de solidarité des travailleurs du Québec (FTQ) or class A or class B shares in the Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi (called “Fondation”)

#### NOTE

The total of the amounts withheld for the year must not exceed \$5,000. For the pay period in which the annual maximum is reached, the value of variable Q must be zero.

T = Income tax rate applicable to the bracket of annual taxable income (variable I) (see the income tax table below)

Y = Income tax for the year  
 $= T (I) - K - K_1 - 0.20 (E) - 0.15 [P(Q)]$   
 If the result is negative, enter 0.

#### Income tax table

Annual taxable income (I)		T	K
Over	But not over		
\$0	\$28,030	16%	\$0
\$28,030	\$56,070	20%	\$1,121
\$56,070		24%	\$3,364

#### 12.3.1.2 Bonuses, retroactive pay or similar lump-sum payments

You may use either of the following methods to calculate the income tax to be withheld from bonuses, retroactive pay or similar lump-sum payments (for example, a payment covering accumulated overtime or unused vacation time). Please note that Method 1 is more precise than Method 2.

#### NOTE

If you estimate that the total of the employee's annual salary or wages and the bonus or retroactive pay will not exceed \$11,650, do not use these formulas. Simply withhold 8% income tax from the bonus or retroactive payment. Do not withhold income tax if the employee completed the 2005-01 version of form TP-1015.3 and entered “X” on line 20 of the form (see section 3.7.6 on page 26).

## Method 1

The variables that are not defined below have the same value as the variables already defined for regular payments.

$$A_1 = \text{Québec income tax to be withheld at source from a bonus, retroactive pay or similar lump-sum payment paid during the pay period}$$

$$= Y_2 - Y_1$$

$$B_1 = \text{Bonuses, retroactive pay or similar lump-sum payments paid since the beginning of the year (excluding variable } B_2 \text{) (see note 1 below)}$$

$$B_2 = \text{Bonuses, retroactive pay or similar lump-sum payments paid during the pay period (see note 1 below)}$$

$$F_1 = \text{Total of the amounts included in variable F, accrued to the date the bonus, retroactive pay or similar lump-sum payment was paid}$$

$$G_1 = \text{Gross salary or wages (see section 1.4 on page 11 for information on the term "salary or wages"), accrued to the date the bonus, retroactive pay or similar lump-sum payment was paid}$$

$$I_1 = \text{Annual taxable income to the date the bonus, retroactive pay or similar lump-sum payment was paid}$$

$$= (G_1 - F_1) + [\text{Pr} (G - F)] - J - J_1$$

$$\text{Pr} = \text{Number of pay periods remaining in the year}$$

$$Y_1 = [T (I_1 + B_1)] - K - K_1 - 0.20 (E) - 0.15 [P(Q)]$$

(see note 2 below)

$$Y_2 = [T (I_1 + B_1 + B_2)] - K - K_1 - 0.20 (E) - 0.15 [P(Q)]$$

(see note 2 below)

### NOTE 1

If you took into account an amount included in variable F in calculating the income tax to be withheld from bonuses, retroactive pay or similar lump-sum payments you have paid since the beginning of the year (variable  $B_1$ ), including during the pay period (variable  $B_2$ ), you must reduce variables  $B_1$  and  $B_2$  accordingly.

### NOTE 2

In calculating variable  $Y_1$ , determine the income tax rate (variable T) according to the result obtained when you add variables  $I_1$  and  $B_1$ . For example, if variable  $I_1$  equals \$25,000 and variable  $B_1$  equals \$5,000, the income tax rate will be the rate applicable to taxable income of \$30,000 (\$25,000 + \$5,000), that is, 20%.

In calculating variable  $Y_2$ , determine the income tax rate (variable T) according to the result obtained when you add variables  $I_1$ ,  $B_1$  and  $B_2$ .

## Method 2

- Determine the taxable income for the regular payments (variable I). Please note that when you determine variable I, you **must not include** in variable F the portion of the amounts (mentioned in variable F) that pertains to bonuses, retroactive pay or similar lump-sum payments that you have paid since the beginning of the year, including the bonuses or retroactive pay paid during the pay period.
- Determine the amount of the bonuses, retroactive pay or similar lump-sum payments you have paid since the beginning of the year (variable  $B_1$ ), without taking into account the amount paid during the pay period (variable  $B_2$ ).
- Determine the amount of the bonuses, retroactive pay or similar lump-sum payments paid during the pay period (variable  $B_2$ ).
- Add the amounts determined in (a) through (c) to obtain the taxable income.
- Determine the tax rate that applies to the annual taxable income calculated in (d) (see the income tax table on the previous page).
- Multiply variable  $B_2$  calculated in (c) by the tax rate determined in (e).

### Example

An employee whose gross salary is \$700 per week pays a contribution of \$25 per week to an RPP. The employee withholds \$73.21 income tax on the salary paid each pay period.

During a pay period, the employee receives retroactive pay of \$4,000 in addition to his regular salary. During the pay period, the employee's RPP contribution increased to \$165, of which \$140 pertains to the retroactive pay.

Variable I (\$700 - \$25) x 52 pay periods	\$35,100
Variable $B_1$	+ \$00
Variable $B_2$ (\$4,000 - \$140)	+ \$3,860
<b>Annual taxable income</b>	= \$38,960
The income tax rate applicable to this income is 20%.	
Retroactive pay	\$4,000
Contribution to an RPP	- \$140
Variable $B_2$	= \$3,860
	x 0.20
<b>Income tax withholding on retroactive pay</b>	= \$772.00
Income tax withholding on regular salary	+ \$73.21
<b>Total income tax withholding for pay period</b>	= \$845.21

## 12.3.2 Calculating income tax withholdings on a cumulative-averaging basis

You must use this formula to calculate source deductions of Québec income tax for employees whose remuneration varies (for example, employees who earn sales commissions).

Either of the following methods may be used to calculate income tax on bonuses, retroactive pay or similar lump-sum payments (for example, a payment covering accumulated overtime or unused vacation time).

Under Method 1, the Québec income tax to be deducted from these amounts is spread out over the pay periods remaining in the year. Under Method 2, the total amount of Québec income tax applicable to the bonus or retroactive pay is withheld for the pay period concerned.

### NOTE

If you estimate that the total of the employee's annual salary or wages and the bonus or retroactive pay will not exceed \$11,650, do not use these formulas. Simply withhold 8% income tax from the bonus or retroactive payment. Do not withhold income tax if the employee completed the 2005-01 version of form TP-1015.3-V and entered "X" on line 20 of the form (see section 3.7.6 on page 26).

### 12.3.2.1 Method 1

#### Definition of variables

A = Québec income tax to be withheld at source for the pay period

$$= \frac{(Y/S_1) - M}{5} + L$$

If the result is negative, enter 0.

B = Bonuses, retroactive pay or similar lump-sum payments paid during the pay period **plus** those paid since the beginning of the year

E = Indexed value of the personal tax credits indicated on form TP-1015.3-V

$$= E_1 \times (1 + .01427) + E_2$$

If the result obtained is not a multiple of 5, round it off to the nearest multiple of 5. If the result is halfway between two multiples of 5, round it off to the higher multiple.

### IMPORTANT

If variable  $E_1$  corresponds to one of the first two amounts mentioned in the definition of the variable, multiply variable  $E_1$  by 1 rather than the 1.01427. Variable  $E_1$  is to be multiplied by the indexation factor only if the variable corresponds to the third amount mentioned in the definition.

$E_1$  = One of the following amounts:

- amount from line 5 of form TP-1015.3-V, for employees who completed the 2005-01 version of the form
- \$9,330 (the basic amount for 2005), for employees who took up employment duties in 2005 and did not complete form TP-1015.3-V, or for "new" beneficiaries who did not complete the form
- the indexed value of variable  $E_1$  for 2004, plus \$50 or \$100 (as applicable) in all other situations

### NOTE

The indexed value of variable  $E_1$  for 2004 is equal to the value of variable  $E_1$  for 2003, multiplied by the indexation factor for 2004. The indexed value of variable  $E_1$  for 2004 may also be obtained by doing the following calculation: value of variable  $E$  for 2004, minus value of variable  $E_2$  for 2004.

$E_2$  = Amount from line 9 of form TP-1015.3-V

F = Total of the following amounts taken into account since the beginning of the year (including the pay period):

- amounts withheld as contributions to an RPP (see section 5.4.1.1 on page 41)
- amounts withheld as contributions to an RRSP (see section 5.4.1.2 on page 42)
- amounts withheld as contributions paid under a retirement compensation arrangement
- the deduction respecting the CIP, that is, 125% of the amount withheld from the employee's remuneration for the purchase of preferred shares qualifying under the CIP (see section 5.4.1 on page 39)
- the travel deduction for residents of a designated remote area (see section 5.4.1.3 on page 42);
- the portion of the remuneration that gives entitlement to one of the following deductions:
  - the deduction for employment income situated on a reserve or premises (see section 11.9.1.1 on page 82 and section 11.9.2 on page 83),
  - the deduction respecting employment income earned on a vessel (see section 11.10 on page 84),
  - the deduction for employees of an IFC (see section 11.11.1.1 on page 85),
  - the deduction for foreign specialists (see section 11.12.1.1 on page 88),
  - the deduction for foreign researchers (see section 11.12.1.1 on page 88),
  - the deduction for foreign researchers on a post-doctoral internship (see section 11.12.1.1 on page 88),
  - the deduction for foreign experts (see section 11.12.1.1 on page 88),
  - the deduction for foreign professors (see section 11.12.1.1 on page 88),
  - the deduction for foreign producers (see section 11.13 on page 91),
  - the deduction for members of the Canadian Forces or a Canadian police force (see section 11.16 on page 94).

G = Gross remuneration (see section 1.4 on page 11 for information on the term “remuneration”) that is subject to source deductions of income tax for the pay period, **plus** total remuneration since the beginning of the year (excluding variable B)

I = Estimated annual taxable income  
 $= S_1 (G - F) + B - J - J_1$   
 If the result is negative, enter 0.

J = Deductions indicated on line 19 of form TP-1015.3-V

$J_1$  = Annual deductions authorized by Revenu Québec after the employee completed form TP-1016-V, *Application for a Reduction in Source Deductions of Income Tax*

K = Constant applicable for the adjustment of the income tax rate (see the income tax table on page 97)

$K_1$  = Non-refundable tax credits for the year authorized by Revenu Québec after the employee completed form TP-1016-V, *Application for a Reduction in Source Deductions of Income Tax* (for example, the tax credit for charitable donations)

L = Additional source deduction of income tax requested by the employee on form TP-1017-V, source deduction of income tax requested by a fisher on form TP-1015.N-V, or amount indicated on line 11 of form TP-1015.3-V, for the pay period

M = Cumulative income tax withheld to the last pay period (do not take into account variable L)

P = Number of pay periods in the year

Q = Amount withheld for the pay period for the purchase of class A shares in the Fonds de solidarité des travailleurs du Québec (FTQ) or class A or class B shares in the Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l’emploi (called “Fondaction”), **plus** the amount withheld for this purpose since the beginning of the year

**NOTE**

The total of the amounts withheld for the year must not exceed \$5,000. For the pay period in which the annual maximum is reached, the value of variable Q must be zero.

$S_1$  = Annualization factor (that is, number of pay periods in the year, divided by the number corresponding to the current pay period)

**Examples of factor  $S_1$**

		52 pp	26 pp	24 pp
First pay period	$S_1$	52/1	26/1	24/1
Second pay period	$S_1$	52/2	26/2	24/2
Last pay period	$S_1$	52/52	26/26	24/24

T = Income tax rate applicable to the bracket of annual taxable income (variable I) (see the income tax table on page 97)

Y = Income tax for the year  
 $= T (I) - K - K_1 - 0.20 (E) - 0.15 [S_1(Q)]$

**12.3.2.2 Method 2**

Except for the variables defined below, the variables are the same as those used in Method 1.

If you use Method 2, you must first determine the Québec income tax to be withheld from a bonus, retroactive pay or similar lump-sum payment that you paid during the pay period (variable  $A_3$ ), and then determine the Québec income tax to be withheld from the other remuneration paid during the pay period (variable A). You proceed this way because the amount determined for variable  $A_3$  will affect the amount determined for variable A.

**Definition of variables**

A = Québec income tax to be withheld at source from remuneration for the pay period (other than remuneration referred to in variable  $A_3$ )

$$= \frac{(Y - M_1)}{S_1} - M + L$$

▼  
If the result is negative, enter 0.

$A_3$  = Québec income tax to be withheld at source from a bonus, retroactive pay or similar lump-sum payment paid during the pay period

$$= Y_3 - Y_4$$

$A_4$  = Québec income tax to be withheld at source for the pay period

$$= A + A_3$$

$B_3$  = Variable  $B_4$ , **plus** the bonuses, retroactive pay or similar lump-sum payments paid during the pay period

$B_4$  = Bonuses, retroactive pay or similar lump-sum payments paid since the beginning of the year (other than those paid during the pay period)

$$I_3 = S_1 (G - F) + B_3 - J - J_1$$

$$I_4 = S_1 (G - F) + B_4 - J - J_1$$

M = Cumulative income tax withheld to the last pay period (do not take into account variable L or  $M_1$ )

$M_1$  = Cumulative income tax withheld from bonuses, retroactive pay or similar lump-sum payments paid since the beginning of the year (including variable  $A_3$ )

$$Y_3 = \text{Income tax for the year on the remuneration in variable } B_3$$

$$= T (I_3) - K - K_1 - 0.20 (E) - 0.15 [S_1(Q)]$$



$$Y_4 = \text{Income tax for the year on the remuneration in variable } B_4 \\ = T(I_4) - K - K_1 - 0.20(E) - 0.15[S_1(Q)]$$

## 12.4 Source deductions of QPP contributions

The formula used to calculate the employee's contribution to the QPP is shown below. Your employer contribution is equal to the total contributions **withheld** from your employees' pensionable salary or wages.

$$C = 0.0495(S_3 - V/P) \text{ to a maximum of } M - A_5$$

If the result obtained is an amount containing a fraction of a cent, do not take into account a fraction of less than half a cent. A fraction of one-half cent or more is considered a cent. If variable C is greater than 0 but less than one cent, you must withhold one cent as a contribution even if the fraction is less than half a cent. For example, if variable C is equal to a tenth of a cent, you must withhold one cent.

If the result obtained in calculating the pay period exemption (V/P) contains three or more decimal places, keep only the first two decimal places and do not round off.

$$\text{Example: } V/P = \$3,500/52 = \$67.3077 = \$67.30$$

### Definition of variables

$A_5$  = QPP contributions withheld since the beginning of the year

C = Employee QPP contribution for the pay period

M = Maximum employee QPP contribution for the year (\$1,861.20)

P = Number of pay periods in the year

$S_3$  = Gross pensionable salary or wages under the QPP for the pay period

V = Basic exemption for the year under the QPP (\$3,500)

### NOTE

Where overtime pay, a bonus or retroactive pay is paid separately from the employee's basic salary or wages, and the pay period exemption (V/P) has already been taken into account, deduct 4.95% of the amount paid, to a maximum of  $M - A_5$ .

## 12.5 Contribution to the health services fund

$$D_2 = W(S_2)$$

### Definition of variables

$D_2$  = Contribution to the health services fund for the pay period

$S_2$  = Total salaries or wages paid for the pay period on which you are required to pay a contribution to the health services fund (see Chapter 7)

W = Contribution rate based on total payroll, to be determined using the following formula:

$$W(\%) = 2.31 + [0.39 \times S]$$

where

- S = 1, if the total payroll  $\leq$  \$1 million
- S = 5, if the total payroll  $\geq$  \$5 million
- S =  $\frac{\text{total payroll}}{\$1,000,000}$  [ If the total payroll is > \$1,000,000 but < \$5,000,000 ]

The contribution rate must be rounded off to the second decimal place. Where the third decimal place is equal to or greater than five, round off the second decimal place to the next highest number.

**If you are a new employer**, your total payroll for the first two consecutive calendar years corresponds to the salaries or wages you paid from the beginning of the calendar year to the end of the period covered by the remittance of the contribution to the health services fund. The rate must therefore be adjusted for each remittance period, on the basis of the cumulative total payroll for the preceding periods. For more information, see section 7.5.1.1 on page 68.

**If you are not a new employer**, your total payroll for the purposes of the calculation of the contribution to the health services fund is generally equal to your total payroll for the preceding year. For more information, see section 7.5.1.2 on page 68.

## 12.6 Example: Source deductions of income tax based on regular payments

### Basic data

Pierre earns a gross annual salary of \$52,000 and is paid weekly (\$1,000 per week). He contributes \$70 per week, or \$3,640 for the year, to an RPP. The amount indicated on line 10 of Pierre's TP-1015.3-V form (that is, the total of lines 5 and 9) is \$21,830. On January 3, Pierre purchases \$2,000 in shares of the Fonds de solidarité des travailleurs du Québec (FTQ), payable over the first 20 pay periods in the year.

For the first 20 pay periods of the year, calculate the source deduction of income tax as follows:

### Step 1

Determine variable I using the following formula:

$$I = [P(G - F)] - J - J_1 \\ = [52(\$1,000 - \$70)] - \$0.00 - \$0.00 \\ = [52(\$930)] - \$0.00 - \$0.00 \\ = \$48,360 - \$0.00 - \$0.00 \\ = \$48,360$$

## Step 2

Determine variable Y using the following formula:

$$\begin{aligned} Y &= \text{Québec income tax for the year} \\ &= T(I) - K - K_1 - 0.20 (E) - 0.15 [P(Q)] \\ &= 0.20 (\$48,360) - \$1,121 - \$0.00 - 0.20 (\$21,830) - 0.15 [52(100)] \\ &= \$9,672 - \$1,121 - \$0.00 - \$4,366 - 0.15 (\$5,200) \\ &= \$9,672 - \$1,121 - \$0.00 - \$4,366 - \$780 \\ &= \$8,551 - \$4,366 - \$780 \\ &= \$3,405 \end{aligned}$$

## Step 3

Determine variable A using the following formula:

$$\begin{aligned} A &= \text{Québec income tax to be withheld at source for the pay period} \\ &= \boxed{(Y/P)} + L \\ &\quad \downarrow \\ &\quad \text{If the result is negative, enter 0.} \\ &= (\$3,405 / 52) + \$0.00 \\ &= \$65.48 \end{aligned}$$

For the 32 pay periods remaining in the year, calculate the source deduction of income tax as follows:

## Step 1

Determine variable I using the following formula:

$$\begin{aligned} I &= [P(G - F)] - J - J_1 \\ &= [52 (\$1,000 - \$70)] - \$0.00 - \$0.00 \\ &= [52 (\$930)] - \$0.00 - \$0.00 \\ &= \$48,360 - \$0.00 - \$0.00 \\ &= \$48,360 \end{aligned}$$

## Step 2

Determine variable Y using the following formula:

$$\begin{aligned} Y &= \text{Québec income tax for the year} \\ &= T(I) - K - K_1 - 0.20 (E) - 0.15 [P(Q)] \\ &= 0.20 (\$48,360) - \$1,121 - \$0.00 - 0.20 (\$21,830) - 0.15 [52(\$0.00)] \\ &= \$9,672 - \$1,121 - \$0.00 - \$4,366 - \$0.00 \\ &= \$8,551 - \$4,366 \\ &= \$4,185 \end{aligned}$$

## Step 3

Determine variable A using the following formula:

$$\begin{aligned} A &= \text{Québec income tax to be withheld at source for the pay period} \\ &= \boxed{(Y/P)} + L \\ &\quad \downarrow \\ &\quad \text{If the result is negative, enter 0.} \\ &= (\$4,185 / 52) + \$0.00 \\ &= \$80.48 \end{aligned}$$

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