

Guide for Employers

Source Deductions
and Contributions

2006





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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

- 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 replacement benefits paid under a wage loss replacement 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

- the source deductions of Québec income tax that you must make respecting remuneration you pay as an employer and, where applicable, as a payer;
- the employee QPP contributions and Québec parental insurance plan premiums that you are required to withhold from remuneration you pay as an employer;
- the QPP contributions, Québec parental insurance plan premiums and contributions 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 11.2 and 11.3 regarding compensation tax also applies to a specified financial institution that is a corporation).

The guide explains your obligations regarding the types of remuneration listed in the table in section 4.2.1 on page 32. If the amount you pay is not listed in this table, contact Revenu Québec.

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
NEC	New economy centre (also known as a 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

The term “employee” is used to designate an individual who holds employment (which includes an office). See the definition of “employment” below.

Employment

The term “employment” is used to designate work carried out by an individual under a written or verbal contract of employment. Employment also 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 cash) worth \$200, the **salary paid** is \$600. In other words, the benefit **granted** is considered salary or wages **paid**.

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 (including taxable allowances);

- 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;
- certain amounts paid further to an industrial accident – CSST (see section 12.1 on page 89);
- 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 12.5.1 on page 92);
- amounts paid to an employee during a self-funded leave of absence (see section 12.5.2 on page 92);
- 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 12.2 on page 90);
- fees paid in the course of employment (for example, fees paid to council or committee members);
- earnings loss benefits, supplementary retirement benefits and permanent impairment allowances paid under the *Canadian Forces Members and Veterans Re-Establishment and Compensation Act* (Statutes of Canada).

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 replacement benefits paid under a wage loss replacement 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 the latest version of interpretation bulletin IMP. 22-3 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 chapter outlines the principal changes made to the *Guide for Employers* (TP-1015.G-V) for 2006. Some of the changes came into effect in 2005, further to tax measures announced by the Ministère des Finances, after publication of the TP-1015.G-V guide for 2005.

2.1 Source Deductions Return (form TP-1015.3-V)

Changes have been made on form TP-1015.3-V with respect to the following amounts:

- amount for a dependant with a physical or mental infirmity;
- amount respecting dependent children engaged in full-time studies;
- amount for a severe and prolonged impairment in mental or physical functions (formerly the amount respecting a severe and prolonged mental or physical impairment).

2.1.1 Amount for a dependant with a physical or mental infirmity

A new refundable tax credit for caregivers of adults comes into effect in 2006. The new credit replaces, among other things, the amount of \$3,780 that was granted respecting a dependant of full age with a physical or mental infirmity. Consequently, the amount for a dependant with a physical or mental infirmity does not appear on version 2006-01 of form TP-1015.3-V because this amount is no longer taken into account in determining an individual's deduction code.

If you pay remuneration as an employer or a payer, it is important to notify all your employees and beneficiaries of these changes. They can then complete version 2006-01 of form TP-1015.3-V **if they claimed an amount for a dependant with a physical or mental infirmity on the last TP-1015.3-V form they completed for you.**

2.1.2 Amount respecting dependent children engaged in full-time studies

The tax system provides a non-refundable tax credit for individuals with one or more dependent children engaged in vocational training at the secondary level or studies at the post-secondary level. An amount of \$1,780 is granted to the individual for each term completed by the child, subject to a maximum of two terms per year.

The individual may claim the amount if the child pursues studies on a full-time basis, that is, if the child devotes at least nine hours a week to courses or work required by his or her educational program. Please note, however, that this measure has been relaxed for 2005 and subsequent years regarding a child with a major functional deficiency within the meaning of the *Regulation respecting financial assistance for educational expenses*.

The child is considered to be engaged in full-time studies if

- he or she is pursuing studies on a part-time basis because of the deficiency (that is, the child would be engaged in full-time studies were it not for the deficiency); and
- he or she receives at least 20 hours of instruction per month in his or her educational program.

If these conditions are met, the individual may enter an amount on form TP-1015.3-V respecting dependent children engaged in full-time studies.

Individuals who wish to take advantage of these new measures are required to complete version 2006-01 of form TP-1015.3-V. Consequently, it is important to notify all your employees and beneficiaries of these measures. The individuals concerned can then complete version 2006-01 of form TP-1015.3-V to claim the amount respecting dependent children engaged in full-time studies.

2.1.3 Amount for a severe and prolonged impairment in mental or physical functions (formerly the amount respecting a severe and prolonged mental or physical impairment)

The amount for a severe and prolonged impairment in mental or physical functions has been increased from \$2,200 to \$2,250 for 2006. Individuals who entered an amount on the last TP-1015.3-V form they completed for you can claim the increase if you follow the instructions in section 2.1.3.1 or 2.1.3.2, as applicable.

2.1.3.1 You can identify the individuals concerned

If you can identify the individuals concerned, it is not necessary for them to complete version 2006-01 of form TP-1015.3-V to claim the \$50 increase. Simply make the following adjustments when using the mathematical formulas or table TP-1015.TI-V.

If you use the mathematical formulas, you must add \$50 to variable E_2 to calculate the individual's income tax withholdings.

If you use table TP-1015.TI-V, you have no adjustment to make if the last TP-1015.3-V form that the individual completed for you was for 2003 or a subsequent year. If this is the case, the amount for a severe and prolonged impairment in mental or physical functions (and the \$50 increase) is taken into account in the amounts used to determine the deduction codes. However, if the last TP-1015.3-V form that the individual completed for you dates from before 2003, the amount for a severe and prolonged impairment in mental or physical functions reduces the remuneration subject to income tax; in this case, you must use \$2,250 for your calculation rather than \$2,200.

2.1.3.2 You cannot identify the individuals concerned

If you cannot identify the individuals concerned, notify all your employees and beneficiaries of these changes. Individuals who wish to claim the increase can then complete version 2006-01 of form TP-1015.3-V. You will not have to make the adjustments described in section 2.1.3.1.

2.1.4 Indexation of the amounts shown on form TP-1015.3-V

The new amounts used to determine deduction codes for 2006 are shown in the table below. The figures for 2005 are provided for information purposes.

	2006	2005
Basic amount	\$9,555	\$9,330
Amount transferred from one spouse to the other	\$9,555	\$9,330
Amount for children of full age engaged in full-time studies	\$2,650	\$2,585
Additional amount for a child of full age engaged in full-time studies and designated as the first dependent child (provided the individual does not have a minor child)	\$225	\$220
Basic amount for other dependants who are of full age	\$2,650	\$2,585
Amount for a dependant of full age with a physical or mental infirmity	N/A (see section 2.1.1)	\$3,780
Amount for a child who is a minor or who is of full age and engaged in full-time vocational training or post-secondary studies	\$1,825	\$1,780
Amount for a single-parent family	\$1,435	\$1,400
Amount for a person living alone	\$1,155	\$1,130
Reduction threshold used to calculate the net family income (this income is used to calculate the amount with respect to age, for a person living alone and for retirement income)	\$28,710	\$28,030
Indexation factor for 2006: 2.427%		

2.2 Indexation of thresholds for the three income tax brackets

For 2006, 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 \$28,710 (the threshold was previously \$28,030).
- The 20% rate applies to taxable income over \$28,710 but not over \$57,430 (the threshold was previously \$56,070).
- The 24% rate applies to taxable income over \$57,430.

2.3 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 2006, the threshold that determines the method to be used to calculate the income tax withholding has been raised from \$11,650 to \$11,950.

2.4 RRSPs and RRIFs

Since 2005, the following single payments have been 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.

2.5 New indemnities paid to Canadian Forces members and veterans

The *Canadian Forces Members and Veterans Re-Establishment and Compensation Act* (Statutes of Canada) provides for the payment of various indemnities to Canadian Forces members, veterans and their families. Certain of these indemnities are to be treated as employment income:

- earnings loss benefits;
- supplementary retirement benefits;
- permanent impairment allowances.

Please note that these indemnities are not subject to

- employee and employer QPP contributions;
- employee and employer Québec parental insurance premiums.

2.6 New 6% deduction for employment income (maximum \$500)

Effective 2006, an employee can claim a new deduction equal to the lower of the following amounts:

- 6% of the employee's employment income for the year;
- \$500.

2.6.1 Using table TP-1015.TI-V

If you use table TP-1015.TI-V, you do not have to take the new deduction into account in calculating remuneration subject to source deductions of income tax; it is already included in the table.

However, if you are paying remuneration as a payer, the beneficiary of the remuneration is not entitled to the 6% deduction for employment income. To ensure that the beneficiary's source deductions are not too low, add the additional income tax provided for in the adjustment column (column Y) of table TP-1015.TI-V to the income tax that you must withhold based on the beneficiary's deduction code.

2.6.2 Using the mathematical formulas

Changes have been made to the mathematical formulas to take into account the new 6% deduction for employment income. See section 13.2.3.

2.7 Basic salary or wages used for calculating employer contributions and compensation tax

In the Budget Speech of April 21, 2005, the Minister of Finance announced the introduction into legislation of the concept "basic salary paid in regard to an individual." This amount serves as a starting point for calculating your employer contributions and compensation tax. Consequently, as of 2006, the following amounts will be subject to the contribution to the financing of the CNT:

- an amount paid to a trustee of an employee trust;
- an amount paid to a custodian of an employee benefit plan;
- an amount paid to a trustee of a profit-sharing plan.

NOTE

You will not find the term "basic salary paid in regard to an individual" elsewhere in this guide because it corresponds to our term "salary or wages," together with the amount paid to a trustee of an employee trust, the amount paid to a custodian of an employee benefit plan and the amount paid to a trustee of a profit-sharing plan.

2.8 Maximum pensionable earnings (QPP)

Maximum pensionable earnings for the purposes of the Québec Pension Plan (QPP) have been increased from \$41,100 to \$42,100 for 2006. The maximum annual contribution has therefore been increased from \$1,861.20 to \$1,910.70.

2.9 Québec parental insurance plan premiums

On March 1, 2005, the Québec government and the federal government signed a final agreement with respect to the Québec parental insurance plan. The plan, which comes into effect on January 1, 2006, will be administered by the Ministère de l'Emploi et de la Solidarité sociale. Revenu Québec is responsible for collecting Québec parental insurance plan premiums.

NOTE

Under this agreement, the federal government must reduce the amount of employment insurance premiums paid by Québec employers and workers so that the Québec government can collect premiums under the new Québec parental insurance plan.

2.9.1 Overview of the plan

Québec parental insurance plan premiums are payable both by the employer and the employee. The plan provides for the payment of benefits to an employee who takes a maternity, paternity, adoption or parental leave during which he or she sustains an interruption of earnings.

You and the employee are required to pay premiums until the insurable salary or wages paid to the employee during the year reaches the maximum insurable earnings for the year, that is, \$57,000 in 2006.

You must withhold employee premiums on the insurable salary or wages that you pay for each pay period using

- the *Table for Québec Parental Insurance Plan Premiums* (TP-1015.TA-V); or
- the mathematical formula in section 13.5.1.

You can determine your employer premium for each pay period using

- the *Table for Québec Parental Insurance Plan Premiums* (TP-1015.TA-V); or
- the mathematical formula in section 13.5.2.

You must remit employee and employer premiums to the Québec parental insurance plan along with your income tax withholdings, QPP contributions and contribution to the health services fund, using the remittance form for your source deductions and employer contributions.

Consult Chapter 7 of the guide for information on how to correctly meet your tax obligations with respect to Québec parental insurance plan premiums.

2.9.2 Employee premiums and remuneration subject to source deductions of income tax

Québec parental insurance plan premiums, QPP contributions, employment insurance premiums and union dues are not to be subtracted from an employee's gross remuneration when calculating his or her remuneration subject to source deductions of income tax.

2.10 Contribution to the health services fund – Revocation of a certificate for a temporary exemption

To claim an exemption from the contribution to the health services fund, a corporation must obtain a certificate from a designated organization. This requirement also applies for the purposes of certain tax credits for businesses and other tax benefits.

If a certificate is revoked, Revenu Québec can in some cases levy a special tax in order to recover the amount unduly received by the business.

Since April 22, 2005, a special tax has applied in all cases in which a certificate is revoked on or after that date by a designated organization. Consequently, Revenu Québec can at any time and under any circumstances recover the income tax or contribution to the health services fund payable.

NOTE

This measure also applies to foreign employees who are entitled to a five-year tax exemption. These employees must pay a special tax if the certificate granting the exemption is revoked. Revenu Québec can then recover, at any time, the income tax that was to have been paid by the employees.

2.11 Maximum remuneration subject to the contribution to the financing of the CNT

In 2005, the portion of the remuneration that exceeded \$56,000 was not subject to the payment of a contribution to the financing of the CNT. This amount is increased to \$57,000 for 2006.

2.12 Mathematical formulas

The new mathematical formulas for calculating Québec parental insurance plan premiums are provided in Chapter 13. Changes to the other mathematical formulas are also included in Chapter 13.

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 2006 as an employer and as a payer;
- withhold QPP contributions and Québec parental insurance plan premiums from the salaries or wages (see section 1.4 on page 13 for information on the term “salary or wages”) that you pay to your employees in 2006;
- remit to Revenu Québec the amounts withheld, as well as
 - your employer QPP contributions,
 - your employer Québec parental insurance plan premiums,
 - 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, 2007:
 - an RL-1 slip for each employee to whom in 2006 you pay 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 2006 remuneration for which you should file a slip (for example, wage loss replacement 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 2006,
 - an RLE-6 slip for each beneficiary to whom a payment is made in 2006 under the Québec parental insurance plan (the RLE-6 slip is issued by the Ministère de l'Emploi et de la Solidarité sociale);
 - an RL-25 slip for each beneficiary to whom a payment is made in 2006 under a profit-sharing plan;
- file the *Summary of Source Deductions and Employer Contributions* (form RLZ-1.S-V) for 2006 generally by February 28, 2007, if in 2006 you are required to
 - file an RL-1 slip,
 - file an RLE-6 slip,
 - file an RL-2 or RL-25 slip with regard to remuneration respecting which you made source deductions of income tax,
 - withhold Québec income tax, QPP contributions or Québec parental insurance plan premiums,
 - pay employer QPP contributions, employer Québec parental insurance plan premiums or the employer contribution to 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 2006 by February 28, 2007:
 - the RL-2 summary (RL-2.S-V), if you are required to file RL-2 slips for 2006,
 - the RL-25 summary (RL-25.S-V), if you are required to file RL-25 slips for 2006.

If you do not prepare and file your own RL-1, RL-2, RLE-6 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 other 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 respecting 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 and Québec parental insurance plan premiums

If a corporation fails to withhold or remit employee and employer QPP contributions and Québec parental insurance plan premiums, 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 employer 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, QPP contributions and Québec parental insurance plan premiums).

3.3 Remitting source deductions, employer contributions and compensation tax

3.3.1 General information

Source deductions of Québec income tax, QPP contributions and Québec parental insurance plan premiums must be remitted to Revenu Québec periodically, along with your employer QPP contributions, Québec parental insurance plan premiums and contribution to the health services fund. 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. You will be notified if your frequency will not be the same as for the current year.

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

Table

Source deductions, employer contributions and compensation tax for 2006	Due date
<ul style="list-style-type: none">• Source deductions• Employee and employer QPP contributions• Employee and employer Québec parental insurance plan premiums• Contribution to the health services fund¹• Compensation tax payable by a specified financial institution other than a corporation²	According to the frequency of your remittances for 2006 (see section 3.3.5)
<ul style="list-style-type: none">• Contribution to the financing of the CNT• Contribution to the FNFMO	February 28, 2007

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, 2007.

2. Financial institutions that are corporations must remit their compensation tax monthly using form COZ-1027.R-V, *Monthly Remittance of Income Tax, Tax on Capital or Compensation Tax by a Corporation*.

IMPORTANT

If you stop making remittances of source deductions, employer contributions and compensation tax in 2006 because you stop operating your business or no longer have employees, see section 3.5 on page 25.

3.3.2 Frequency of your remittances

Revenu Québec may authorize you to remit income tax withholdings, QPP contributions, Québec parental insurance plan premiums, the contribution to the health services fund and compensation tax (compensation tax that must be paid by a specified financial institution other than a corporation) for 2006

- annually, if the total of your source deductions and employer contributions for 2005 is \$1,200 or less, or the total will be \$1,200 or less for 2006;
- quarterly, if your average monthly remittance for 2004 or 2005 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 2006

- monthly, if your **average monthly remittance** for 2004 is less than \$15,000;
- twice-monthly, if your **average monthly remittance** for 2004 is at least \$15,000 but less than \$50,000;
- weekly, if your **average monthly remittance** for 2004 is \$50,000 or more.

You may be able to change the frequency of your remittances for 2006, 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 (respecting remuneration paid as an employer and, where applicable, as a payer¹), QPP contributions, Québec parental insurance plan premiums and the contribution to the health services fund **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, where it is determined on the basis of the 2004 taxation year;
- equal to the total of your **average monthly remittance**, where it is determined on the basis of the 2005 taxation year.

1. Income tax withheld on an income-averaging annuity for artists is not included in the calculation of the **average monthly remittance**.

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. Revenu Québec may choose a remittance frequency that is more advantageous for you (see sections 3.3.3 and 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;
- 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 2006, you may elect to make remittances

- monthly, in all cases;
- twice-monthly, if your **average monthly remittance** for 2004 is at least \$15,000 but less than \$50,000;
- weekly, if your **average monthly remittance** for 2004 is \$50,000 or more.

Even if Revenu Québec authorizes you to make annual remittances in 2006, you may elect to make quarterly remittances instead if your **average monthly remittance** for 2004 or 2005 is \$1,000 or less, and you have fulfilled all your fiscal obligations in the last 12 months.

If you wish to change the frequency of your remittances, contact 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 2006, 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 2005, if this is to your advantage.

If your average monthly remittance for 2005 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 last 12 months. Otherwise, you may elect to make your remittances monthly.

If your average monthly remittance for 2005 is more than \$1,000 but less than \$15,000, you may elect to make your remittances monthly.

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

If you wish to change the frequency of your remittances, contact 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, QPP contributions, Québec parental insurance plan premiums, contribution to 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 2006	Date by which your remittance must be made ¹		Form to be used ²	Notes
Annual ³	The 15th day of the month following the last month of the year in which remuneration was paid (January 15, 2007, in most cases)		TPZ-1015.R.14.1-V	N/A
Quarterly ³	Payment of remuneration	Due date	TPZ-1015.R.14.4-V	
	January, February and March 2006	April 15, 2006		
	April, May and June 2006	July 15, 2006		
	July, August and September 2006	October 15, 2006		
	October, November and December 2006	January 15, 2007		
Monthly ³	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, along with a statement of the amounts remitted to date. In January, for example, you will receive your forms for January, February and March.
Twice-monthly ³	Payment of remuneration	Due date	TPZ-1015.R.14.2-V	Each month, Revenu Québec will send you two copies of form TPZ-1015.R.14.2-V, along with 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		

Remittance frequency in 2006	Date by which your remittance must be made ¹		Form to be used ²	Notes
Weekly ⁴	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, along with a statement of the amounts remitted to date. ⁵
	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 are not required to remit employer contributions 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 by 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, 2006. The company must make remittances of source deductions and employer contributions by January 11, January 25, February 10 and February 24, 2006, 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 18, February 3, February 17 and March 3, 2006, 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 income tax withholdings, QPP contributions, Québec parental insurance plan premiums, 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 by 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. Contact your institution to find out if it offers this service.

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 online 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, employer contributions and, where applicable, compensation tax return by 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.

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 our Web site at www.revenu.gouv.qc.ca.

3.3.5.4 Balance payable for 2006

You must pay the **full amount** of your source deductions, your employer QPP contributions, Québec parental insurance plan premiums and contribution to 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 pages 21 and 22).

If you have a balance owing for 2006 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, your employer QPP contributions and Québec parental insurance plan premiums, 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 contribution to the health services fund for 2006, you must use an estimated contribution rate, **which must be determined according to the rules given in section 8.5 on page 80**. 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 as late as 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 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 Remittance 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, your employer QPP contributions, Québec parental insurance plan premiums and contribution to 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 2006, 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 2007. Revenu Québec bases these dates on the dates you provided for 2006. If the payroll dates determined by Revenu Québec for 2007 are not accurate, you must advise us by returning a corrected copy of form LMU-5.3-V to one of the offices 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).

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 are not registered for Clic Revenu, contact the office of Revenu Québec that handles your account.

3.4 Starting a new business

3.4.1 First remittance

If you are a new employer, you must make your remittances monthly. 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 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 income tax withholdings, QPP contributions, Québec parental insurance plan premiums, 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 (customer services) 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. However, 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 regarding new businesses, consult the Revenu Québec Web site at 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 a 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 2006, 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 *Summary of Source Deductions and Employer Contributions* (form RLZ-1.S-V or RLZ-1.ST-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);
- RLE-6 slips (if you pay parental insurance benefits);
- RL-25 slips and the RL-25 summary (if you pay an amount under a profit-sharing plan).

See the table on the next page to find out when each form is to be submitted to Revenu Québec.

Forms to be transmitted	Situation in 2006		
	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 your remittance)	Same time limit as would apply if you continued to make remittances ¹	The 20th day of the month after the month of your last remittance of source deductions, employer contributions and compensation tax ²	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 ³	The 30th day after the day on which you stop operating your business ⁴
	February 28, 2007		
RL-2 slips and the RL-2 summary	February 28, 2007	The 20th day of the month after the month of your last remittance ⁵	The 30th day after the day on which you stop operating your business ⁵
RLE-6 slips	February 28, 2007	The 20th day of the month after the month of your last remittance ⁵	The 30th day after the day on which you stop operating your business ⁵
RL-25 slips and the RL-25 summary	February 28, 2007	The 20th day of the month after the month of your last remittance ⁵	The 30th day after the day on which you stop operating your business ⁵

1. To find out the time limit, see the table in section 3.3.4 on pages 21 and 22.

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.

2. The compensation tax referred to here is that payable by a specified financial institution **other than a corporation**).

3. 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 2006-10 is available) to make your payment, **unless you are making remittances by 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, 2007. 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.

4. 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 (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, 2006, 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, 2006, you must recalculate your total payroll** and take into account the salaries or wages paid by employers associated with you on December 31, 2006. 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 2006-10 is available) to calculate your contribution for 2006.

If the contribution rate is different, you must file, by February 28, 2007, 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.

5. 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 2006, you may prepare the RL-1 slip at that time and give the employee copies 2 and 3. If the 2006 version of the RL-1 slip is not available, use the 2005 version; simply cross out "2005" and indicate "2006." Submit copy 1 of the RL-1 slip, along with the RL-1 slips of your other employees, when you file your *Summary of Source Deductions and Employer Contributions* (form RLZ-1.S-V) for 2006.

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.

IMPORTANT

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

3.7.1 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 2006, certain individuals should complete the most recent version of the form (see section 2.1 on page 14).

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 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 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 \$9,555 (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 new amounts used to determine deduction codes are shown in section 2.1.4 on page 15.

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; the indexation will not affect his or her deduction code.

3.7.4 Deduction code "0"

An individual who has already asked another employer or payer to take into account the basic amount of \$9,555 may complete form TP-1015.3-V to request that you use code "0." This will ensure that the basic amount of \$9,555 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 42).

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

Do not withhold Québec income tax from an employee's **employment income** for 2006 if the employee has entered "X" on line 20 of the 2006-01 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.

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?

You must take form TP-1015.3-V into account when you pay remuneration referred to in section 5.2.1 (remuneration for which source deductions must be made using table TP-1015.TI-V or the mathematical formulas).

However, if you pay remuneration referred to in section 5.2.2 (remuneration respecting which source deductions must be made using a fixed rate), you must withhold income tax directly from 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 \$9,555).

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 from 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 2006, or if he or she becomes resident in Canada during the year (see section 12.14.4 on page 104).

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)

- contributions to the individual's RRSP or a spousal RRSP (unless, under an agreement with the individual, you deduct the 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;
- legal fees 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
Minus: Contribution to an RPP		–	\$60
Remuneration subject to source deductions of income tax (before reduction)		=	\$940
Minus: 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

Example 2			
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
Minus: 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, as applicable.

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 respecting 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, RLE-6 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, RLE-6 slips, RL-25 slips and the RL-25 summary for 2006 by February 28, 2007.

However, you may be required to submit the forms before February 28, 2007, if you cease 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 2006 because you stop operating your business or no longer have employees. See section 3.5 on page 25 if you are in this 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, RLE-6 slips to report parental insurance benefits 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, RLE-6 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 other 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 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 may 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 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 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 parental insurance*, 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, RLE-6 slips 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 paycheques" (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).	<p>The amount is paid to an employee who reports for work at one of your establishments¹ located in Québec.</p> <p>OR</p> <p>The amount is paid to an employee or beneficiary who is not required to report for work at any of your establishments¹ (in Québec or elsewhere), but is paid from one of your establishments¹ located in Québec.</p>
QPP (employee and employer contributions)	The amount paid is subject to QPP contributions (see section 4.2).	
Québec parental insurance plan (employee and employer premiums)	The amount paid is subject to Québec parental insurance plan premiums (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 in the *Taxation Act*.

In accordance with these basic conditions, you are not required to make source deductions or pay employer contributions and compensation tax respecting 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 38).

In addition, special rules may apply

- if you pay remuneration to a person who is not resident in Québec (see section 12.14 on page 103);
- if you pay remuneration to an employee who is resident in Québec but who works outside Canada (see section 12.15.2 on page 105).

Furthermore, even if the conditions given in column B of table 4.1.1 above are not met, you may have to pay certain contributions respecting the following types of remuneration:

- remuneration paid to an employee who reports for work **only** at one of your establishments located outside Canada (see section 4.4. on page 38);
- remuneration paid to an employee who is not required to report for work at one of your establishments (located in Québec or elsewhere) and is not paid from any of your establishments located in Québec (see section 4.5 on page 39);
- 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 4.6 on page 39).

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

4.2.1 Table

Check the table below to determine whether the various amounts you pay are subject to source deductions of income tax, employee and employer Québec parental insurance plan premiums and QPP contributions, the 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 respecting these amounts **if one of the conditions given in column B of the table in section 4.1.1 is met** (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 one of the conditions given in column B of the table in section 4.1.1 is met** (also check whether the special rules mentioned in section 4.1.2 apply).

IMPORTANT

If the table directs you to a section of the guide, it is important to read that section for specific information. For example, according to the table, a taxable benefit granted in kind is not subject to Québec parental insurance plan premiums. However, as the table indicates, an exception to this rule is explained in section 4.2.2.2.

Table

	Income tax	QPP	Québec parental insurance plan	Health services fund	CNT	FNFMO	CT
Benefits paid under a supplementary unemployment benefit plan	Yes	No	No	No	No	No	No
Benefits paid under the <i>Labour Adjustment Benefits Act</i> (Statutes of Canada);	Yes	No	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	No
Bonuses and retroactive pay	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Commissions	Yes	Yes	Yes	Yes	Yes	Yes	Yes
CSST (see section 12.1, on page 89)							
Amount paid on the day of the accident	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Deemed indemnity (amount paid to the employee after the day of the accident but before the CSST has decided whether to recognize the employee's entitlement to an indemnity)	No	No	No	No	No	No	No
Indemnities recognized by the CSST (income replacement indemnities)	No	No	No	No	No	No	No
Indemnities not recognized by the CSST (salary or wages)	No	Yes	Yes	Yes	Yes	Yes	Yes
Death benefits received from an employer ³	Yes	No	No	No	No	No	No
Death benefits from the Régie des rentes du Québec	No	No	No	No	No	No	No
Directors' fees							
Directors' fees paid to a director who does not receive a salary	Yes	Yes	Yes	Yes	No	Yes	Yes
Directors' fees paid to a director who also receives a regular salary	Yes	Yes	Yes	Yes	No	Yes	Yes
DPSP							
Annuities from a DPSP	Yes	No	No	No	No	No	No
Single payments (see section 5.13.3 on page 54)	Yes	No	No	No	No	No	No

	Income tax	QPP	Québec parental insurance plan	Health services fund	CNT	FNFMFO	CT
Employee benefit plan							
Amounts paid by an employer to a custodian of an employee benefit plan	No	Yes	No	Yes	Yes	Yes	Yes
Amounts paid by a custodian of an employee benefit plan	Yes	No	No	No	No	No	No
Refunds of contributions made by an employee to an employee benefit plan	No	No	No	No	No	No	No
Employee trust							
Amounts paid by the employer to the trustee of an employee trust	No	Yes	No	Yes	Yes	Yes	Yes
Amounts paid by the trustee of an employee trust	No	No	No	No	No	No	No
Employment insurance benefits (see section 4.2.2.4 on page 37)	Yes	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 35)	Yes	No	No	No	No	No	No
Income assistance payments for older workers under the <i>Department of Labour Act</i> (Statutes of Canada)	Yes	No	No	No	No	No	No
Income-averaging annuity							
Amounts paid as consideration for the surrender, cancellation or redemption of an income-averaging annuity contract	Yes	No	No	No	No	No	No
Income supplements (see section 5.15 on page 55)	Yes	No	No	No	No	No	No
Indemnities paid upon termination of a contract of employment							
Indemnity in lieu of notice (see section 4.2.2.3 on page 37)	Yes	No	Yes	No	Yes	No	No
Other indemnities paid as damages upon cancellation of a contract of employment	Yes	No	No	No	Yes	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	Yes
Non-taxable benefit	No	No	No	No	No	No	No
Parental insurance benefits	Yes	No	No	No	No	No	No
Patronage dividends	No	No	No	No	No	No	No
Prizes awarded for a remarkable achievement	No	No	No	No	No	No	No
Profit-sharing plan							
Amounts paid by the employer to the trustee of a profit-sharing plan	No	Yes	No	Yes	Yes	Yes	Yes
Amounts paid by the trustee of a profit-sharing plan that can be reasonably attributed to an amount paid to the trustee after May 12, 1994	No	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 to the trustee before May 13, 1994	No	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 taxable for the employee	Yes	No	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	No
Research grants	No	No	No	No	No	No	No

	Income tax	QPP	Québec parental insurance plan	Health services fund	CNT	FNFMO	CT
RESP							
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 54)	Yes	No	No	No	No	No	No
Education assistance payments (see section 4.2.2.6 on page 37)	No	No	No	No	No	No	No
Refunds of RESP contributions	No	No	No	No	No	No	No
Retirement compensation arrangement							
Contributions paid to a retirement compensation arrangement	No	No	No	No	No	No	No
Amounts paid under a retirement compensation arrangement or resulting from the making of such an arrangement	Yes	No	No	No	No	No	No
Retiring allowance (see the definition of this term on page 54) other than indemnities paid upon the termination of a contract of employment	Yes	No	No	No	No	No	No
RPP or other pension plan							
Pension benefits: periodic payments	Yes	No	No	No	No	No	No
Single payments (see section 5.13.3 on page 54)	Yes	No	No	No	No	No	No
RRIF (see section 5.14.2 on page 55)							
Portion of the payment from a RRIF that represents the minimum amount	No	No	No	No	No	No	No
Portion of the payment from a RRIF that exceeds the minimum amount	Yes	No	No	No	No	No	No
RRSP							
Periodic payments	No	No	No	No	No	No	No
Single payments (see section 5.14.1 on page 54)	Yes	No	No	No	No	No	No
Salaries or wages ⁴ (see section 4.2.2.7 on page 38)	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Salary deferral arrangements (see section 12.5.1 on page 92)							
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	Yes
Payment of the deferred portion of salary or wages under a salary deferral arrangement	No	No	No	No	No	No	No
Scholarships, bursaries or fellowships paid to a person who is not an employee ¹	No	No	No	No	No	No	No
Self-funded leaves of absence (excluding salary deferral arrangements) (see section 12.5.2 on page 92)							
Portion of the salary or wages that is not paid in the year but is deferred to another year	No	No	Yes	No	No	No	No
Payment of the deferred portion of salary or wages when the employee takes a leave of absence	Yes	Yes	No	Yes	Yes	Yes	Yes
Taxable benefits in cash (see section 4.2.2.2 on page 35)	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Taxable benefits in kind (see section 4.2.2.2 on page 35)	Yes	Yes	No	Yes	Yes	Yes	Yes
Tips (including allocated tips)	Yes	Yes	Yes/No ²	Yes	Yes	Yes	Yes
Vacation pay	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Wage loss replacement benefits paid under a wage loss replacement plan to which the employer contributed (see section 4.2.2.5 on page 37)	Yes	No	No	No	No	No	No

1. If the scholarship, bursary or fellowship is paid to an employee, it is considered a benefit and may be taxable. Consult the brochure *Taxable Benefits* (IN-253-V).
2. Allocated tips are not subject to Québec parental insurance plan premiums.
3. See the definition of this term in section 5.13.2 on page 54. Do not confuse death benefits paid by an employer with the amounts described in section 12.2, which are paid following the death of an employee. As well, you must not confuse the death benefits paid by an employer with the death benefits received from the Régie des rentes du Québec.
4. The term “salary or wages” covers the payments listed in section 1.4. Some of these payments (for example, taxable benefits) are also indicated elsewhere in this table. Consult the appropriate sections of the table for more specific information.

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 other organization, as applicable, and the Canada Employment Insurance Commission.

The portion of such assistance 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 that you grant to an employee **in cash** are considered salary or wages. If you grant a taxable cash benefit to an employee during a pay period, you must add the value of the benefit to the employee’s regular remuneration when calculating remuneration subject to source deductions of income tax, pensionable salary or wages for the purposes of the QPP, insurable salary or wages for the purposes of the Québec parental insurance plan and remuneration subject to employer contributions and compensation tax.

Taxable benefits that you grant to an employee **in kind** (that is, other than in cash) are also considered salary or wages. However, such benefits are, with one exception (see the note opposite), not subject to employee and employer Québec parental insurance plan premiums even if they are considered to be salary or wages. Therefore, if you grant a taxable benefit in kind to an employee during a pay period, **do not add the value of the benefit in the employee’s regular remuneration** in order to calculate Québec

parental insurance plan premiums. However, **you must add the value of the benefit** to the employee’s regular remuneration when calculating

- the employee’s remuneration subject to source deductions of income tax;
- the employee’s pensionable salary or wages for the purposes of the QPP;
- the remuneration subject to employer contributions to the QPP, the health services fund and the FNFMO;
- the remuneration subject to the contribution to the financing of the CNT;
- the remuneration subject to compensation tax.

NOTE

Contrary to other taxable benefits granted in kind, a taxable benefit for board and lodging granted to the employee for a pay period in which the employee receives cash remuneration is subject to Québec parental insurance plan premiums. You must therefore add the value of the benefit to the employee’s regular remuneration when calculating his or her remuneration subject to source deductions of income tax, QPP contributions, Québec parental insurance plan premiums, your 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 or to other taxable benefits in cash.

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

Specific information

See the information on the next page if you granted an individual one or more of the following taxable 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 cash).

Stand-by charge and operating costs for an automobile

The value of a taxable 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. Please note that contributions paid to a multi-employer insurance plan are not subject to Québec parental insurance plan premiums.

Exercising a security option

Benefits resulting from the exercise of a security option are subject to source deductions of income tax, employee and employer contributions to the QPP, employer contributions to the health services fund and the FNFMO, the contribution to the CNT 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 rate of contribution to the health services fund and your contribution to the FNFMO.

NOTE

Benefits resulting from the exercise of a security option are benefits granted in kind and are not subject to Québec parental insurance plan premiums.

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 and Québec parental insurance plan premiums), 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. In the latter case, the benefit must be treated as a taxable benefit. It is therefore subject to

- source deductions of income tax;
- employee and employer contributions to the QPP;
- employee and employer Québec parental insurance plan premiums (unless the benefit is granted in kind). See note 2 below;
- employer contributions to the health services fund and the FNFMO;
- the contribution to the financing of the CNT;
- compensation tax.

NOTE 1

You will note that, according to the definitions of "employment" and "employee" in section 1.4 on page 13, 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), you must treat the benefit as if it were granted to an employee.

If the benefit is granted in kind and the director does not receive 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 employer QPP contributions and Québec parental insurance plan premiums.

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.

NOTE 2

A benefit granted in kind is not subject to employee and employer Québec parental insurance plan premiums unless it is a taxable benefit for board and lodging granted to the employee for a pay period in which the employee receives cash remuneration.

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 and Québec parental insurance plan premiums), employer contributions or compensation tax.

Benefits granted in kind

Even if a taxable benefit granted in kind (that is, other than in cash) is subject to source deductions of income tax and QPP contributions, you are not required to make source deductions or pay your employer QPP contribution respecting 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.

With respect to Québec parental insurance plan premiums, a benefit granted in kind is not subject to employee and employer Québec parental insurance plan premiums unless it is a taxable benefit for board and lodging granted to the employee for a pay period in which the employee receives cash remuneration.

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.

As well, a taxable benefit is not subject to employee and employer Québec parental insurance plan premiums if it is granted to an employee for employment that is excepted for the purposes of the Québec parental insurance plan.

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, employee and employer Québec parental insurance plan premiums and the contribution to the financing of the CNT.

The indemnity is subject to source deductions of income tax because, for the purposes of the *Taxation Act*, it is considered a retiring allowance. It is subject to Québec parental insurance plan

premiums because it is subject to employment insurance premiums and all remuneration subject to these premiums is also subject to Québec parental insurance plan premiums. Finally, under the *Act respecting labour standards*, the indemnity is subject to the contribution to the financing of the CNT.

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 the *Act respecting labour standards*, or where the employer has not given the notice provided for 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 replacement benefits

The wage loss replacement benefits referred to in this guide are benefits paid in the following circumstances:

- They are paid by an insurer, to compensate for the loss of all or part of a beneficiary's employment income.
- The beneficiary is an employee of the employer that contributed to the insurance plan.
- The employer does not control the plan.
- The employer does not determine eligibility for the benefits.

A special rule applies to employee QPP contributions (see section 6.4.2 on page 58).

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 replacement 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 an 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 the RESP and the Canada Education Savings Grant (including income accumulated on the 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. These include

- salaries or wages paid to employees of employment agencies (see section 12.4 on page 92);
- salaries or wages paid to Indian employees (see section 12.9 on page 95);
- salaries or wages paid to Québec sailors (see section 12.10 on page 96);
- salaries or wages paid to employees of an IFC (see section 12.11 on page 97);
- 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 12.12 on page 100);
- salaries or wages paid to foreign producers (see section 12.13 on page 103);
- salaries or wages paid to employees who are not resident in Canada (see section 12.14.1 on page 103);
- salaries or wages paid to employees who work outside Canada (see section 12.15.2 on page 105);
- salaries or wages paid to employees that are engaged in excepted employment, that is, employment not subject to QPP contributions and Québec parental insurance plan premiums (see section 6.4.1 on page 57 and section 7.4.1 on page 69);
- salaries or wages paid to domestics (see section 9.3 on page 83);
- salaries or wages paid to employees under the *Act respecting labour relations, vocational training and manpower management in the construction industry* (see section 9.3 on page 83);
- 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 9.3 on page 83);
- salaries or wages paid to employees posted to a country that has a social security agreement with Québec (see section 6.17 on page 65 and section 8.8 on page 82).

You should therefore consult Chapters 5 to 12 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 employee and employer Québec parental insurance plan premiums, 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, and any other remuneration not related to a regular pay period are subject to employee and employer Québec parental insurance plan premiums, 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, the contribution to the financing of the CNT and compensation tax only if the employee **ordinarily** reports to one of your establishments located in Québec.

4.4 Employees who report for work at one of your establishments located outside Canada

You must withhold and pay Québec parental insurance plan premiums respecting the insurable salary or wages that you pay to an employee for a pay period during which the employee reports **only** to one of your establishments located **outside Canada** if the following conditions are met for the pay period in question:

- You have an establishment in Québec.
- The employee is not subject to a premium under a prescribed plan.
- The employee's remuneration is not subject to employment insurance premiums.

Specific rules may apply concerning employees who work outside Canada (see section 12.15.2 on page 105).

4.5 Employees who receive their remuneration from an establishment located outside Québec

You may be required to pay Québec parental insurance plan premiums, contributions to the health services fund and the FNFMO, as well as the contribution to the financing of the CNT, respecting 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.

Even if the above-mentioned criteria do not apply, you may nevertheless have to withhold and pay Québec parental insurance plan premiums respecting salary or wages you paid to the employee. This is the case if the following conditions are met for the pay period in which the salary or wages are paid:

- You have an establishment in Québec.
- The employee is paid from one of your establishments located outside Canada.
- The employee is not subject to a premium under a prescribed plan.
- The employee's remuneration is not subject to employment insurance premiums.

4.6 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 employee and employer Québec parental insurance plan premiums, 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 QPP contributions and compensation tax. Furthermore, the salary or wages are not subject to source deductions of income tax.

Exception

The above-mentioned rule does not apply to you if you can show that you did not use the services of the employee of an employer that does not carry on business in Québec in order to reduce your contributions to the health services fund, to the FNFMO, and to the financing of the CNT, as well as your employer Québec parental insurance plan premiums.

5 Source deductions of Québec income tax

5.1 General information

Chapter 5 provides explanations on the source deductions of income tax you must make respecting the remuneration you pay to employees and beneficiaries. 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 13.

A computer application (“WinRAS”), based on the mathematical formulas, is also available on the Revenu Québec Web site at 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.

Remittances of source deductions

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 pages 21 and 22).

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 from remuneration subject to source deductions **if one of the conditions given in column B of the table in section 4.1.1 on page 31 is met** (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 the mathematical formulas

Use table TP-1015.TI-V (or the method described in section 5.4.4 if the amount of the remuneration or the number of pay periods is not covered by the tables) or the mathematical formulas to calculate source deductions respecting the following types of remuneration:

- salary or wages (see the information given on this term in section 1.4 on page 13), **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 5.7.2 on page 50),
 - 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 50),
 - 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 \$11,950 (see section 5.8 on page 50),
 - 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 51),
 - directors’ fees paid to a director who does not receive salary or wages (see section 5.11 on page 52),
 - commissions paid to an employee who does not have to pay expenses or did not complete form TP-1015.R.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 53),
 - 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 53),
 - salary or wages referred to in section 5.3;
- wage loss replacement benefits paid under a wage loss replacement plan to which the employer contributed (see section 4.2.2.5 on page 37);
- 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 55);
- 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;
- parental insurance benefits;

- financial assistance referred to in section 4.2.2.1;
- payments received under a supplementary unemployment benefit plan;
- income assistance payments made to older workers under the *Department of Labour Act* (Statutes of Canada);
- benefits paid under the *Labour Adjustment Benefits Act* (Statutes of Canada);
- benefits paid under a program established under an agreement reached pursuant to 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 12.6 on page 93).

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

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

- bonuses or retroactive pay, where the total amount of an employee's estimated annual remuneration plus the bonus or retroactive pay does not exceed \$11,950 (see section 5.8 on page 50);
- single payments referred to in section 5.13, on page 53 (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, with some exceptions (see section 5.14 on page 54);
- income supplements paid under a government work-incentive project, other than the Return to Work Supplement sponsored by Emploi-Québec (see section 5.15. on page 55);
- 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 12.14.3 on page 104);
- 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 29).

If you pay an income-averaging annuity for artists, you must withhold a special tax (see section 12.7 on page 93).

5.3 Remuneration not subject to source deductions of income tax

Remuneration that is not listed in section 5.2 is generally not 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 35;

- 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 53);
- amounts paid by the trustee of an employee trust;
- certain amounts paid further to an industrial accident – CSST (see section 12.1 on page 89);
- 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 2006-01 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 from all or part of the remuneration (see Chapter 12 for information on special cases).

The table in section 4.2.1 on page 32 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 respecting 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).

The amount of income tax that you must withhold as the employer or payer 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 46);
- 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 48.

NOTE

Revenu Québec includes the sections "27 pay periods" and "53 pay periods" in the TP-1015.TI-V table only when many employers have that number of pay periods in the year. As this is not the case for 2006, you must follow the instructions in section 5.4.4 if you have 27 or 53 pay periods.

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
◆ Gross remuneration (except commissions)	See sections 5.6 to 5.11 and Chapter 12, where applicable, for information on certain types of remuneration that you might pay during a pay period.
plus	
◆ commissions	See section 5.12 on page 52.
minus the total of the following amounts:	
◆ contributions to an RPP	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"> • a defined contribution RPP; or • a defined benefit RPP. If, in 2006, 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 45).
◆ contributions to an RRSP	See section 5.4.1.2 on page 45.
◆ contributions to a retirement compensation arrangement	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.
◆ 75% 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")	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"> • The employee has authorized you to withhold the amount. • 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"). • The employee is the first purchaser of the shares. The maximum amount that you may subtract from the gross remuneration is \$3,750 per year.

Remuneration subject to source deductions of income tax

Calculation for a pay period	Remarks
<p>◆ 125% of the amount withheld from the employee's remuneration for the purchase of preferred shares qualifying under the CIP</p>	<p>The amount to be subtracted for each pay period must not exceed 30% of the result of the following calculation:</p> <ul style="list-style-type: none"> • the employee's gross salary or wages for the pay period; <p>minus</p> <ul style="list-style-type: none"> • the contributions that the employee paid to an RPP for the pay period; • 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. <p>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)).</p> <p>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.</p>
<p>◆ travel deduction for residents of a designated remote area</p>	<p>See section 5.4.1.3 on page 45.</p>
<p>◆ amount entered on line 19 of form TP-1015.3-V, <i>Source Deductions Return</i></p>	<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 salary or wages for the pay period.</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"> • the housing deduction for residents of a designated remote area; • the amount for support payments.
<p>◆ amount for a severe and prolonged impairment in mental or physical functions</p>	<p>You must take this amount into account if the individual indicated it on the most recent TP-1015.3-V form he or she completed and the form dates from a year prior to 2003.</p> <p>If this is the case, proceed as follows 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"> • Add \$50 to the amount the individual entered on the form; in 2006 the amount was increased by \$50 (see section 2.1.3 on page 14). <p>NOTE</p> <p>If the individual entered an amount on line 8 that exceeds \$2,200, add \$50 for each multiple of \$2,200. For example, if the individual entered \$4,400, add \$100 to \$4,400.</p> <ul style="list-style-type: none"> • Divide the result of this addition by the number of pay periods in the year.
<p>◆ amount of deductions authorized by Revenu Québec, if the individual completed form TP-1016-V for 2006</p>	<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>Do not take into account the tax credits authorized by Revenu Québec, since they are used to reduce the income tax payable that is determined using table TP-1015.TI-V.</p>
<p>◆ 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</p>	<p>See section 12.9 on page 95.</p>
<p>◆ portion of the remuneration that gives entitlement to the deduction respecting employment income earned on a vessel</p>	<p>See section 12.10 on page 96.</p>
<p>◆ portion of the remuneration that gives entitlement to the deduction for employees of an IFC</p>	<p>See section 12.11 on page 97.</p>
<p>◆ portion of the remuneration (paid to a foreign employee) that gives entitlement to the five-year tax exemption</p>	<p>See section 12.12 on page 100.</p>

Remuneration subject to source deductions of income tax

Calculation for a pay period	Remarks
◆ portion of the remuneration that gives entitlement to the Canadian Forces personnel and police deduction	See section 12.16 on page 106.

IMPORTANT

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

Example 1

Martha receives a weekly salary of \$1,000 (52 pay periods per year), as well as \$100 per week in taxable benefits. She contributes \$50 per week to an RPP. As a resident of a designated remote area, Martha 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

Minus

Contribution to an RPP withheld on the salary of \$1,000	\$50	
Deduction for residents of designated remote areas	+ \$48	
	= \$98	- \$98

Remuneration subject to source deductions of income tax	= \$1,002
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Once you have calculated the remuneration subject to source deductions of income tax, follow the instructions in section 5.4.3.

Example 2

Tony receives monthly pension benefits of \$2,000 (12 pay periods per year), and \$15 per month in taxable benefits (for the health coverage he continues to receive under his former employer's private health services plan). Tony completes form TP-1016-V and Revenu Québec authorizes the payer to reduce Tony's remuneration subject to source deductions of income tax by \$80 per period. The remuneration subject to source deductions of income tax is determined as follows:

Monthly pension benefits (12 pay periods)	\$2,000
Taxable benefits	+ \$15
	= \$2,015

Minus: amount authorized by Revenu Québec after Tony completed form TP-1016-V	- \$80
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Remuneration subject to source deductions of income tax	= \$1,935
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Once you have calculated the remuneration subject to source deductions of income tax, follow the instructions in section 5.4.3.

5.4.1.1 Contributions to an RPP for service before 1990

There is a limit on the amount that an employee may deduct with respect to contributions made in 2006, 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 service before 1990		Employee who contributed to an RPP
Situation in the year the service was rendered		
The employee did not contribute to any RPP.	The employee contributed to another RPP and the contributions for service before 1990 are paid under an agreement signed before March 28, 1988.	N/A
As a rule, the amount that the employee may deduct is equal to the lowest of the following amounts:		As a rule, the amount that the employee may deduct is equal to the lower of the following amounts:
<ul style="list-style-type: none"> (a) the total amount of the contributions (other than optional contributions to a defined contribution RPP) made by the employee after 1945, minus the total of the amounts he or she deducted with respect to these contributions for any year prior to 2006; (b) \$5,500; (c) \$5,500 multiplied by the number of years of service prior to 1990 for which the employee made the contributions referred to in (a) above, minus the total of the amounts he or she deducted with respect to these contributions for any year prior to 2006 and with respect to optional contributions for any year prior to 1987. 		<ul style="list-style-type: none"> (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, minus the total of the amounts he or she deducted with respect to these contributions for any year prior to 2006; (b) \$5,500 minus the total of the amounts deducted in 2006 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.

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 "Fondaction").

If an employee purchases preferred shares qualifying under the CIP 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 from the employee's gross

remuneration in order to calculate 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?

An employee may claim a travel deduction respecting a taxable benefit included in his or her gross remuneration, if the following conditions are 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).
- Neither the employee nor any member of the employee's household will 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 2005-10 of the guide TP-350.1.G-V, *Deduction for Residents of Designated Remote Areas*);
- 100%, if the remote area is located in a northern zone (see version 2005-10 of the guide TP-350.1.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-350.1.G-V);
 - the employee's maximum allowable deduction for the trip (see "Column E: Additional limit" on page 9 of guide TP-350.1.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, do not subtract an amount with respect to this trip in the calculation of remuneration subject to income tax withholdings.

For further information, see guide TP-350.1.G-V, *Deduction for Residents of Designated Remote Areas*.

5.4.2 Deduction codes and adjustment columns

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

5.4.2.1 Deduction codes

Amount (\$)	Code
Nil	O
1 – 9,555	A
9,556 – 11,000	B
11,001 – 13,000	C
13,001 – 15,500	D
15,501 – 16,500	E
16,501 – 17,000	F
17,001 – 19,000	G
19,001 – 20,000	H
20,001 – 22,000	I
22,001 – 24,000	J
24,001 – 25,000	K
25,001 – 27,000	L
27,001 – 28,000	M
28,001 – 29,500	N
29,501 or over	N – column Z (see section 5.4.2.2)
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.

5.4.2.2 Adjustment columns (columns Y and Z)

Column Y

If you are paying remuneration as a payer, the beneficiary is not entitled to the new 6% deduction for employment income included in table TP-1015.TI-V. To ensure that the beneficiary's source deductions are not too low, add the amount of income tax in column Y to the income tax that you must withhold according to the beneficiary's deduction code.

NOTE

If, according to the beneficiary's deduction code, you are not required to withhold income tax from the remuneration you pay, disregard the income tax provided for in column Y. The amount in column Y is to be taken into account only if you are required to withhold income tax.

Column Z

If the amount used to determine the deduction code exceeds \$29,500, 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 for the pay period.
- 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 to determine the amount of income tax to withhold. If no amount is indicated, do not withhold income tax at this stage.
- Where applicable, make the adjustments described in section 5.4.2.2.
- 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.

NOTE

The **deductions** authorized by Revenu Québec after the individual has completed form TP-1016-V are taken into account in the calculation of remuneration subject to source deductions of income tax. For that reason, step (f) refers only to **tax credits** authorized by Revenu Québec.

Example 1

Weekly salary or wages (52 pay periods)	\$700
Value (GST and QST included) of meals and accommodation provided free of charge	+ \$100
	= \$800
Minus: Contributions to an RPP and deductions from line 19 of form TP-1015.3-V (calculated for the period in question)	- \$80
Remuneration subject to source deductions of income tax	= \$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 \$73.71.

Example 2

Monthly pension benefits (12 pay periods)	\$4,000
Remuneration subject to source deductions of income tax	\$4,000
Deduction code indicated by the retiree 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 "12 pay periods per year."
- In the left-hand column, "Remuneration subject to source deductions," locate the bracket that includes \$4,000 (i.e., \$3,970 – \$4,009.99).
- Follow the line across to the right until you reach column E.

The amount of income tax to withhold is \$428.23.

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:

- 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.
- Subtract, from the individual's estimated annual remuneration, the amounts that you must take into account in order to determine the remuneration subject to source deductions of income tax (see section 5.4.1 on page 42).
- 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 2006-01) or 20% of the basic amount of \$9,555, if the individual has not completed form TP-1015.3-V.
 - Where applicable, the total **tax credits** (for charitable donations, medical expenses, etc.) authorized by Revenu Québec if the individual completed form TP-1016-V, *Application for a Reduction in Source Deductions of Income Tax*.

Result obtained in (b) above		Taxation rate
Over	But not over	
0	\$28,710	16%
\$28,710	\$57,430	\$4,593.60 on the first \$28,710 + 20% on the remainder
\$57,430		\$10,337.60 on the first \$57,430 + 24% on the remainder

- To determine the deduction rate, divide the amount obtained in (c) by the estimated annual remuneration (calculated in (a)).
- 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 (d)).

Example 1

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

Jay, who completed the 2006-01 version of form TP-1015.3-V, entered \$21,495 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
Estimated annual salary	= \$218,400.00
(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
Annual remuneration subject to source deductions of income tax	= \$215,000.00
(c) Calculation of estimated income tax for the year	
Income tax on the first \$57,430	\$10,337.60
Plus 24% on the remainder (\$215,000 - \$57,430) x 24%	+ \$37,816.80
	= \$48,154.40
Multiply the amount indicated on line 10 of form TP-1015.3-V by 20% (\$21,495 x 20%)	- \$4,299.00
Estimated income tax for the year	= \$43,855.40

(d) Divide the estimated income tax for the year by the estimated annual salary: $\$43,855.40 \div \$218,400 = 0.2008$.

(e) Multiply the gross salary for the period by the rate obtained in (d): $(\$4,000 + \$200) = \$4,200 \times 0.2008 = \843.36 .

The result is the income tax to withhold for the pay period.

If the amount of salary or wages paid to the employee is the same for each pay period, withhold \$843.36 per pay period. Otherwise, multiply any amount of gross remuneration not covered in table TP-1015.TI-V by the rate of 0.2008.

Example 2

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

In 2004, Tyrone completed the 2004-01 version of form TP-1015.3-V, and entered \$9,150 on line 10; this 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
Estimated annual salary	= \$80,000.00
(b) Contributions to an RPP \$100 x 26 pay periods	- \$2,600.00
Annual salary subject to source deductions of income tax	= \$77,400.00
(c) Calculation of estimated income tax for the year	
Income tax on the first \$57,430	\$10,337.60
Plus 24% on the remainder (\$77,400 - \$57,430) x 24%	+ \$4,792.80
	= \$15,130.40
Amount indicated on line 10 of form TP-1015.3-V (\$9,555 ¹ x 20%)	- \$1,911.00
Estimated income tax for the year	= \$13,219.40
(d) Divide the estimated income tax for the year by the estimated annual salary: \$13,219.40 ÷ \$80,000 = 0.1652	
(e) Multiply the gross salary and the commissions for the pay period by the rate obtained in (d): \$8,200 x 0.1652 = \$1,354.64	
The result is the income tax to withhold for the pay period.	
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 0.1652.	
1. As the version of form TP-1015.3-V completed is not the 2006-01 version, you must index the amount entered on line 10 of the form. In other words, you must use the amount that would have been written on line 10 of version 2006-01 of the form. In our example, this amount would be \$9,555.	

5.5 Using the mathematical formulas to calculate income tax withholdings

Chapter 13 contains the mathematical formulas that you may use to calculate source deductions of income tax.

In sections 5.6 through 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 (that is, other than in cash) 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 or to other taxable benefits in cash.

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 35 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 cash).

5.7 Vacation pay

5.7.1 Employees who take vacations

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.

5.7.2 Employees who do not take vacations

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 opposite. If you are using the mathematical formulas, see section 13.3.1.2 on page 110 or section 13.3.2 on page 112, as applicable.

5.7.3 Payments made to a trust as credits for vacation time accumulated

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 remuneration plus the bonus or retroactive pay does not exceed \$11,950, 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 remuneration plus the bonus or retroactive pay does not exceed \$11,950, do not use these formulas. Simply withhold 8% income tax from the bonus or retroactive pay.

Do not withhold income tax if the employee completed version 2006-01 of form TP-1015.3-V 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	\$35.65
Amount withheld from \$540	– \$27.80
Additional source deduction	= \$7.85

(d) To determine the amount to withhold from the bonus of \$2,500, multiply the additional source deduction of \$7.85 by 52 (that is, the number of pay periods in the year): $\$7.85 \times 52 = \408.20

(e) The amount to be withheld from John's remuneration for the pay period is therefore \$436 (i.e., $\$27.80 + \408.20).

Example 2

Other bonuses paid in the year

Laura, whose remuneration subject to source deductions of income tax 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 ($\$560 + \48.08)	\$35.67
Amount withheld from \$588.08 ($\$540 + \48.08)	– \$31.67
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 ($\25×10) 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	\$10.11
Amount withheld from \$275 a week	– \$6.11
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 \$50.11 (i.e., $\$10.11 + \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 as soon as it is earned, that is, if you pay the amount at the same time as the employee's regular salary or wages for the period, simply add the amount of the 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 13.3.1.2 on page 110).

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 13.3.1.1 on page 109.

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_3 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_3).

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 cash) are insufficient, deduct amounts in the following order: employment insurance premiums, federal income tax, QPP contributions, Québec parental insurance plan premiums, 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, add the value of the fees to the salary 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 \$9,555 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:

- 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, 2006.

- 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, 2006. The result is the amount of income tax to withhold from the directors' fees.

You cannot use the mathematical formulas given in Chapter 13 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 2006, the employee must submit form TP-1015.R.13.1-V to you by the latest of the following dates:

- January 31, 2006;
- 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 47). 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 50). 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 amount of 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 section 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 to be withheld (see section 5.14 below).

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% (see section 5.13) only if the benefit is paid in the year of death or the following year.

For other amounts paid after the employee's death, see section 12.2 on page 90.

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
Total income tax withholding	= \$5,600

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

You must also withhold 16% income tax from a single payment made 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 the table does not cover the amount of the payment and the number of your pay periods, follow the instructions given in section 5.4.4 on page 48, or
- use the mathematical formulas.

In the case of a **single payment**, you must make a tax withholding of 16% on the portion of the payment that exceeds the minimum amount.

Exception

The portion of the payment from a RRIF that represents the minimum amount is not subject to income tax withholdings. This is true regardless of whether you make a periodic payment or a single payment.

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

5.15 Income supplements

You must withhold 16% of the amount of an income supplement paid under a government work-incentive project 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

If you have an employee who is 18 years or over, you and the employee must contribute to the Québec Pension Plan (QPP). The 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. You and the employee must pay contributions to the QPP until the pensionable salary or wages paid to the employee for the year reach the maximum pensionable salary or wages for the year. 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 the Record of Contributors.

IMPORTANT

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.

The social insurance number is indicated on the social insurance card. 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 with Revenu Québec, 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.

Chapter 6 contains the information you need to correctly meet your tax obligations with respect to QPP contributions. To determine the amount of the contributions you must withhold from the remuneration you pay your employees, 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 13.4.

A computer application ("WinRAS"), based on the mathematical formulas, is also available on the Revenu Québec Web site at www.revenu.gouv.qc.ca. You can use the application to calculate (among other things) the employee QPP contribution for each pay period.

Payment of the contributions

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 pages 21 and 22.

6.2 Maximum pensionable salary or wages and contribution rate

The QPP data for 2006 are given below. The 2005 data are provided for information purposes.

	2006	2005
Employee's maximum pensionable earnings ¹	\$42,100	\$41,100
Basic exemption	\$3,500	\$3,500
Employee's maximum contributory earnings	\$38,600	\$37,600
Contribution rate	4.95%	4.95%
Employee's maximum contribution	\$1,910.70	\$1,861.20
Employer's maximum contribution (per employee) ²	\$1,910.70	\$1,861.20

1. The term "pensionable earnings" is replaced by "pensionable salary or wages" in the texts in this guide.
2. Your employer QPP contribution with respect to an employee is equal to the QPP contribution you must withhold from the employee's pensionable salary or wages.

Once the employee's maximum annual contribution has been reached, you must stop withholding and paying QPP contributions with respect to the remuneration paid to the employee.

6.3 Remuneration subject to QPP contributions (pensionable salary or wages)

Refer to the table in section 4.2.1 on page 32 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 13, 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 35);
- salaries or wages deemed paid to an employee who has a phased retirement arrangement (see section 6.15 on page 64);
- 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 12.6 on page 93).

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 31 is met.** If this is the case, you must withhold and pay QPP contributions with respect to 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 65.

6.4 Remuneration not subject to QPP contributions

You are not to withhold or pay QPP contributions with respect to the following types of remuneration:

- the salary or wages paid to an employee
 - for excepted employment (see section 6.4.1),
 - 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,
 - after the employee’s maximum annual contribution has been reached (see section 6.6.3);

- certain taxable benefits referred to in section 4.2.2.2 on page 35;
- 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 65);
- earnings loss benefits, supplementary retirement benefits and permanent impairment allowances paid under the *Canadian Forces Members and Veterans Re-Establishment and Compensation Act* (Statutes of Canada).

Similarly, you are not to withhold or pay QPP contributions with respect to the following types of remuneration (which are not subject to QPP contributions because they are not considered to be employment income):

- certain amounts paid further to an industrial accident – CSST (see section 12.1 on page 89);
- retiring allowances (see the definition in section 5.13.1 on page 54);
- death benefits (see the definition in section 5.13.2 on page 54);
- retirement benefits;
- an amount paid under a retirement compensation arrangement or resulting from the making of such an arrangement;
- patronage dividends.

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

- wage loss replacement benefits paid under a wage loss replacement plan to which the employer contributed (see section 6.4.2);
- 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 entitlement 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 65);
- 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 12.9 on page 95);
- 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 replacement benefits

The wage loss replacement benefits referred to in this guide are benefits paid in the following circumstances:

- The benefits are paid by an insurer, to compensate for the loss of all or part of a beneficiary's employment income.
- The beneficiary is an employee of the employer that contributed to the insurance plan.
- The employer does not control the plan in question.
- The employer does not determine the beneficiary's eligibility.

NOTE

If you are not an insurer and you pay amounts 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 replacement benefits. For more information, contact Revenu Québec.

Wage loss replacement 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 2006 (generally \$1,910.70) may make optional QPP contributions on the benefits when filing his or her income tax return (line 445).

6.5 Basic exemption

For 2006, 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 (and take the exemption into account) for **only one** such payment. For subsequent payments of pensionable salary or wages in the pay period, simply withhold the lower of the following amounts:

- 4.95% of the pensionable salaries or wages (**without taking the exemption into account**);
- the employee's maximum annual contribution (see section 6.6.3) minus the contributions already withheld.

NOTE

The example in section 6.6.2 illustrates the above-mentioned rule.

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 13. 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 employee's pensionable salary or wages (see section 6.3) for the pay period calculated before the following withholdings (union dues, contributions to an RPP, etc.) are taken into account.

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 \$810 per week. In accordance with Table A of document TP-1015.TR-V, his employer must withhold a QPP contribution of \$37.01 in each of the first 51 pay periods in the year. The amount to be withheld in the 52nd pay period will be \$23.19, that is, \$1,910.70 (maximum contribution) minus \$1,887.51 (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 the lower of the following amounts:

- 4.95% of the gross amount of overtime pay (without taking the exemption into account);
- the employee's maximum annual contribution (see section 6.6.3) minus the contributions already withheld.

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.

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, 2006, 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.¹ 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.

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).

1. The balance to be withheld for the rest of the year is \$1,410.70, that is, the employee's maximum annual QPP contribution (\$1,910.70) minus the QPP contributions already withheld for the year (\$500). Therefore, the amount withheld for the pay period must not exceed \$1,410.70.

6.6.3 Maximum annual contribution

The total QPP contributions you withhold for an employee in 2006 must not exceed **\$1,910.70**. Once this limit is reached, do not withhold any more contributions. See the QPP data in section 6.2 on page 56 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 2006, multiply \$1,910.70 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 below).
- If an employee dies in 2006, multiply \$1,910.70 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 on the next page).
- If a QPP or CPP disability pension becomes payable to an employee in 2006, multiply \$1,910.70 by the 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, and divide the result by 12.
- If a QPP or CPP disability pension ceases to be payable to the employee in 2006, multiply \$1,910.70 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, 2006. She receives a salary of \$3,800 per month (\$45,600 per year), which exceeds the maximum pensionable salary or wages (\$42,100).

From January to August 2006, Lisa has no QPP contribution payable.

From September to December 2006,

- 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 2006:

$\$1,910.70 \times 4 \div 12 = \636.90

Lisa's QPP contributions for 2006 must not exceed \$636.90.

Example 2

At the time of his death, on March 15, 2006, Benjamin was receiving a weekly salary of \$900. His pensionable salary for 2006 was \$9,000.

From January to March 2006, 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 2006:

$\$1,910.70 \times 3 \div 12 = \477.68

Benjamin's QPP contributions for 2006 must not exceed \$477.68.

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:

- 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 below).
- Multiply the contributory earnings, as determined in (a), by 4.95% (see note 1 below);
- The amount to be withheld corresponds to the lower of the following amounts:
 - the amount obtained in (b),
 - the employee's maximum annual contribution minus the contributions already withheld.

Once the maximum annual contribution (\$1,910.70) 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 1

If the result obtained in (b) 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 result in (b) 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 (b) is equal to a tenth of a cent, you must withhold one cent.

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

Nathalie 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 pensionable salary is not covered in the tables. Subtract the pay period exemption (\$67.30) from the pensionable salary (\$9,000) to obtain Nathalie'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, 2006, 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, $\$3,500 \times 19/365$. (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, $4.95\% \times (\$900 - \$182.19)$.

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, $4.95\% \text{ of } \$80.84 (\$110 - \$29.16 = \$80.84)$. 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 58) 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 ¹	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 59) 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 section 13.4 only for an employee whose employment is **continuous** (see the definition of this term in section 6.5.1 on page 58) 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 58) 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 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 for the year 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. You must remit your contribution to Revenu Québec at the same time as you remit the contributions of your employees (see “Payment of the contributions” in section 6.1).

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. Then add your contributions to those of your employees and enter the result in the appropriate box on remittance slip TPZ-1015.R.14.1-V.

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 and paid respecting 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 correct QPP contribution 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 articles 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*, or
- 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 predecessor 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 predecessor 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 for the pay period 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 cash) are insufficient, deduct amounts in the following order: employment insurance premiums, federal income tax, QPP contributions, Québec parental insurance plan premiums, 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 Directors who are resident in Canada

If you pay directors' fees to a director who is resident in Canada and **who also receives a regular salary**, add the amount of the fees to the salary 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 Directors who are not resident in Canada

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

6.12 Employees who reach 18 in 2006 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 2006 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 annual contribution 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 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. Dave, who earns \$830 a week, is occasionally transferred from one establishment to the other. The amount to be withheld from Dave's remuneration is calculated as follows:

During the first 20 weeks of the year, Dave works at the establishment in Québec.	
Source deductions for the QPP: \$38 x 20 weeks	\$760.00
At the beginning of the 21st week, Dave is transferred to the establishment in Ontario, where he works until the middle of the 30th week.	
Source deductions for the CPP: \$38 x 9 weeks	+ \$342.00
During the 30th week, Dave is recalled to the establishment in Québec, where he works until the end of the year.	
Source deductions for the QPP: \$38 x 21 weeks	+ \$798.00
Deduction for the 51st week	+ \$10.70
Deduction for the 52nd week	+ 0
Total	= \$1,910.70

6.17 Social security agreements

Under the social security agreements reached between Québec and various countries, 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	• St. Lucia
• Cyprus	• Italy	• Slovenia
• the Czech Republic	• Jamaica	• Sweden
• Denmark	• Luxembourg	• Switzerland
• Dominica	• Malta	• the United States
• Finland	• the Netherlands	• Uruguay

New agreements could take effect in 2006.

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

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 or pay QPP contributions with respect to 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 Was the correct amount of contributions withheld during the year?

You may use the table on the next page to verify whether the total amount of QPP contributions you withheld in 2006 for an employee who held continuous employment was correct.

Table

Continuous employment		
Employee's situation in 2006	Total employee QPP contributions for 2006 (choose the amount in column A or B, whichever is lower)	
	A	B
The employee was 18 or over throughout the year and did not receive a disability pension under the QPP or the CPP.	\$1,910.70	4.95% x [pensionable salary or wages for 2006 – (pay period exemption x number of pay periods for which you paid a pensionable salary or wages – amount by which the pay period exemption ¹ exceeds the pensionable salary or wages for a pay period)]
The employee turned 18.	$\$1,910.70 \times (\text{number of months after the month of the employee's 18th birthday}) \div 12$	
The employee began to receive a disability pension under the QPP or the CPP.	$\$1,910.70 \times (\text{number of months up to and including the month that includes the date (set by the Régie des rentes du Québec) on which the employee becomes disabled}) \div 12$	
The employee stopped receiving a disability pension under the QPP or the CPP.	$\$1,910.70 \times (\text{number of months after the month in which the employee stopped receiving the disability pension}) \div 12$	
The employee died.	$\$1,910.70 \times (\text{number of months in the year up to and including the month of the employee's death}) \div 12$	
The employee was 17 or under throughout the year .	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.

6.18.1 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* or section 44 of the *Act respecting parental insurance* concerning 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 overpayment 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.

IMPORTANT

The decision rendered by Revenu Québec applies as well for the purposes of the Québec parental insurance plan. Accordingly, a worker who is considered an employee for the purposes of the QPP will be considered an employee for the purposes of the Québec parental insurance plan, and a person considered to be self-employed for the purposes of the QPP will be considered a self-employed person for the purposes of the Québec parental insurance plan.

As well, a decision to determine the status of a worker for the purposes of the Québec parental insurance plan is also valid for the purposes of the QPP (see section 7.13 on page 74).

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 drawings. 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 Québec parental insurance plan premiums

7.1 General information

The Québec parental insurance plan provides for the payment of benefits to an employee who takes a maternity, paternity, adoption or parental leave during which he or she sustains an interruption of earnings.

Québec parental insurance plan premiums are payable both by the employer and the employee (regardless of his or her age). You and the employee must pay premiums until the insurable salary or wages paid to the employee for the year reach the maximum insurable earnings for the year. As the employer, you are responsible for calculating the employee's Québec parental insurance plan premiums and deducting them from the employee's salary or wages. You must remit the employee's premiums to Revenu Québec at the same time as you remit your employer Québec parental insurance plan premiums.

Revenu Québec remits the employee and employer Québec parental insurance plan premiums to the parental insurance fund. The Ministère de l'Emploi et de la Solidarité sociale pays benefits to the employee from this fund and issues an RLE-6 slip to each beneficiary.

Chapter 7 provides information on how to correctly meet your tax obligations with respect to Québec parental insurance plan premiums. To calculate employee and employer Québec parental insurance plan premiums, you may use

- the *Table for Québec Parental Insurance Plan Premiums* (TP-1015.TA-V); or
- the mathematical formula in section 13.5.1 (to calculate the employee's premium) or section 13.5.2 (to calculate the employer's premium).

A computer application ("WinRAS"), based on the mathematical formulas, is also available on the Revenu Québec Web site at www.revenu.gouv.qc.ca. You can use the application to calculate (among other things) Québec parental insurance plan premiums for each pay period.

Payment of the premiums

Employee and employer Québec parental insurance plan premiums 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 pages 21 and 22.

7.2 Maximum insurable earnings and contribution rate

Québec parental insurance plan data for 2006 are given below.

	2006
Maximum insurable earnings	\$57,000
Employee's premium rate	0.416%
Employee's maximum premium (\$57,000 x 0.00416)	\$237.12
Employer's premium rate	0.583%
Employer's maximum premium (per employee) (\$57,000 x 0.00583)	\$332.31
Qualifying threshold ¹	\$2,000

1. If an employee's earned income (which includes insurable salary or wages) for the year is less than \$2,000, the employee is not required to pay Québec parental insurance plan premiums. However, **regardless of the \$2,000 threshold, you must start withholding and paying Québec parental insurance plan premiums as soon as you pay the employee one dollar of insurable salary or wages** (see section 7.10 on page 74).

Once the employee's maximum annual premium has been reached (\$237.12), you must stop withholding Québec parental insurance plan premiums from the employee's remuneration. You must also stop paying your employer premium because once the employee's maximum annual premium is reached, the employer's maximum annual premium (\$332.31) is also reached.

7.3 Remuneration subject to Québec parental insurance plan premiums

Refer to the table in section 4.2.1 on page 32 to determine whether the remuneration you pay is subject to Québec parental insurance plan premiums. As a rule, remuneration subject to employment insurance premiums is also subject to Québec parental insurance plan premiums.

However, you may be required to withhold and pay Québec parental insurance plan premiums respecting remuneration that is not subject to employment insurance premiums. Employment that is not insurable under the *Employment Insurance Act* (Statutes of Canada) is not necessarily excepted employment under the *Act respecting parental insurance*. If this is the case, the amount of remuneration subject to Québec parental insurance plan premiums is equal to the remuneration from which you would have withheld employment insurance premiums if the employment was insurable under the *Employment Insurance Act*.

You must withhold Québec parental insurance plan premiums from remuneration subject to the premiums (hereinafter referred to as “insurable salary or wages”) **if one of the conditions given in column B of the table in section 4.1.1 on page 31 is met.** (You should also check whether the special rules mentioned in section 4.1.2 apply.)

7.4 Remuneration not subject to Québec parental insurance plan premiums

You are not to withhold or pay Québec parental insurance plan premiums with respect to the following types of salary or wages:

- salary or wages paid
 - to an employee for excepted employment (see section 7.4.1),
 - to an employee after his or her maximum annual premium has been reached,
 - to a person mentioned in section 7.4.3;
- taxable benefits **in kind** (that is, other than in cash), other than a taxable benefit for board and lodging granted to the employee for a pay period in which the employee receives cash remuneration;
- certain other taxable benefits referred to in section 4.2.2.2 on page 35;
- allocated tips (see section 7.8 on page 72);
- the amounts paid during a self-funded leave of absence. These amounts are subject to Québec parental insurance plan premiums in the year in which they are earned (see section 12.5.2 on page 92);
- earnings loss benefits, supplementary retirement benefits and permanent impairment allowances paid under the *Canadian Forces Members and Veterans Re-Establishment and Compensation Act* (Statutes of Canada).

Similarly, you are not to withhold or pay Québec parental insurance plan premiums respecting the following types of remuneration (which are not considered employment income):

- certain amounts paid further to an industrial accident – CSST (see section 12.1 on page 89);
- retiring allowances (see the definition on page 54), **other than an indemnity in lieu of notice** (see the definition on page 37);
- death benefits (see the definition on page 54);
- retirement benefits;
- patronage dividends.

Finally, you are not to withhold or pay Québec parental insurance plan premiums respecting the following types of remuneration:

- wage loss replacement benefits paid under a wage loss replacement plan to which the employer contributed (see section 7.4.2);
- the deferred portion of salary or wages paid under a salary deferral arrangement. This amount is subject to Québec parental insurance plan premiums in the year in which it is earned (see section 12.5.1 on page 92);
- amounts that you pay to a trustee under a profit-sharing plan or an employee trust, or to a custodian under an employee benefit plan (see section 12.6.1 on page 93);
- 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.

7.4.1 Excepted employment

IMPORTANT

The categories of employment listed below are from the draft regulation published on September 7, 2005, in the *Gazette officielle du Québec*. As the final list was not available at the time this guide was written, the list may not be accurate. A list of the categories of excepted employment will be posted on the Revenu Québec Web site at www.revenu.gouv.qc.ca.

The following categories of employment are excepted employment and are not subject to Québec parental insurance plan premiums:

- 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 seven 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;
- 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 government or on behalf of 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;

- 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 that constitutes an exchange of work or services;
- employment under an exchange program, if the salary or wages are paid by an employer who resides outside Canada.

7.4.2 Wage loss replacement benefits

The wage loss replacement benefits referred to in this guide are benefits paid in the following circumstances:

- The benefits are paid by an insurer, to compensate for the loss of all or part of a beneficiary's employment income.
- The beneficiary is an employee of the employer that contributed to the insurance plan.
- The employer does not control the plan in question.
- The employer does not determine the beneficiary's eligibility.

NOTE

If you are not an insurer and you pay amounts 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 replacement benefits. For more information, contact Revenu Québec.

7.4.3 Persons not subject to Québec parental insurance plan premiums

You are not required to withhold or pay Québec parental insurance plan premiums respecting amounts that you paid to the following persons:

- foreign officers and members of their family or their personnel, if they are exempt from income tax under sections 982 and 983 of the *Taxation Act* or under section 96 of the *Act respecting the Ministère du Revenu*;
- officers and employees of prescribed international organizations and the members of their families, provided the person in question (officer, employee or member of the officer's or employee's family) is exempt from income tax under section 96 of the *Act respecting the Ministère du Revenu*;
- representatives of member States of international organizations and members of their families and their personnel, provided the person in question (representative, member of the representative's family or personnel) is exempt from income tax under section 96 of the *Act respecting the Ministère du Revenu*.

7.5 Using table TP-1015.TA-V to calculate employee and employer premiums

For each pay period, you must withhold the Québec parental insurance plan premium from the employee's gross insurable salary or wages, that is, from the employee's insurable salary or wages (see section 7.3) for the pay period calculated before the following withholdings (union dues, contributions to an RPP, etc.) are taken into account.

Once the employee's maximum annual premium has been reached (\$237.12), you must stop withholding Québec parental insurance plan premiums from the employee's remuneration. You must also stop paying your employer premium because once the employee's maximum annual premium is reached, the employer's maximum premium (\$332.31) is also reached.

7.5.1 How to use table TP-1015.TA-V

Table TP-1015.TA-V is used to calculate employee and employer premiums for a pay period.

The table contains

- a column for the employee premium;
- a column for the employer premium.

Be careful not to confuse the employee's premium with your own.

To determine the amount to withhold or pay for a pay period, locate in the "Insurable salary or wages" column of the table the bracket that includes the employee's gross insurable salary or wages for the pay period. Follow the line across to the "Employee premium" column (immediately to the right) and then to the "Employer premium" column (far right).

NOTE

Unlike tables TP-1015.TI-V, TP-1015.TR-V and TP-1015.TR.12-V, table TP-1015.TA-V is not divided into sections corresponding to 52, 26, 24 or 12 pay periods. If you pay an employee \$1,000 in insurable salary or wages for a pay period, you must withhold \$4.16, regardless of the number of pay periods.

Example 1

Charles earns an insurable salary of \$1,650 per week. For each of Charles' first 34 pay periods, his employer is required to withhold an employee premium of \$6.86 (based on table TP-1015.TA-V) and pay an employer premium of \$9.62 (based on table TP-1015.TA-V). For the 35th pay period

- the employer withholds an employee premium of \$3.88, that is, \$237.12 (maximum premium) minus \$233.24 (amount already withheld);
- the employer pays an employer premium of \$5.23, that is, \$332.31 (maximum premium) minus \$327.08 (amount already paid).

As of the 36th pay period, the employer must stop withholding and paying Québec parental insurance plan premiums for the year.

Example 2

Nadia is paid an insurable salary of \$1,650 every two weeks. For each of Nadia's 26 pay periods, her employer is required to withhold an employee premium of \$6.86 (based on table TP-1015.TA-V) and pay an employer premium of \$9.62 (based on table TP-1015.TA-V).

7.5.2 Remuneration not covered in table TP-1015.TA-V

7.5.2.1 Employee premium

If an employee's gross insurable salary or wages for a pay period is not included in the *Table for Québec Parental Insurance Plan Premiums* (TP-1015.TA-V), you must calculate the employee premium in the following manner:

- Calculate the employee's insurable salary or wages for the pay period.
- Multiply the insurable salary or wages, as determined in (a), by 0.416% (see note 1 below).
- Withhold the lower of the following amounts:
 - the result obtained in (b);
 - the employee's maximum annual premium (\$237.12), minus the premiums already withheld.

Once the maximum annual premium (\$237.12) is reached, do not withhold further premiums.

NOTE 1

If the result obtained in (b) 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 (b) is greater than 0 but less than one cent, you must withhold one cent as a premium even if the fraction is less than half a cent. For example, if (b) is equal to a tenth of a cent, you must withhold one cent.

NOTE 2

If an employee begins or stops working during a normal pay period, calculate the premium as if the employee had worked for the entire pay period.

7.5.2.2 Employer premium

If an employee's gross insurable salary or wages for a pay period is not included in the *Table for Québec Parental Insurance Plan Premiums* (TP-1015.TA-V), you must calculate your employer premium in the following manner:

- Calculate the employee's insurable salary or wages for the pay period.
- Multiply the insurable salary or wages, as determined in (a), by 0.583% (see note 1 below).
- Pay the lower of the following amounts:
 - the result obtained in (b);
 - your maximum annual premium (\$332.31), minus the premiums already calculated with respect to this employee for the previous pay periods.

Once the maximum annual premium (\$332.31) is reached, do not pay further premiums.

NOTE 1

If the result obtained in (b) 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.

NOTE 2

If an employee begins or stops working during a normal pay period, calculate your premium as if the employee had worked for the entire pay period.

7.6 Using the mathematical formulas to calculate employee and employer premiums

If you do not use table TP-1015.TA-V to calculate the employee Québec parental insurance plan premium, use the mathematical formula given in section 13.5.1. Revenu Québec also provides a mathematical formula to calculate your Québec parental insurance plan premium (see section 13.5.2). The formula calculates your employer premium **with respect to each employee** for each pay period.

In these formulas, variable S_4 represents the employee's gross insurable salary or wages for the pay period. To correctly determine the value of variable S_4 , see section 7.3.

7.7 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 insurable salaries or wages paid to the employees from the beginning of the year.

If either you or the previous employer failed to correctly withhold an employee's Québec parental insurance plan premiums, both you and the other employer are obliged to remit the portion that was not withheld. Each of you must also remit the corresponding employer premium.

Corporate amalgamation

The amalgamation of two or more corporations does not affect their obligations with respect to the Québec parental insurance plan.

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 articles 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 Québec parental insurance plan 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 premiums already withheld, and the employer premiums already paid, by each of the predecessor corporations from the beginning of the year to the time of amalgamation.

The new corporation must not withhold Québec parental insurance plan premiums from the salaries or wages paid to employees who, prior to the amalgamation, had already paid the maximum annual premium.

The new corporation must file a single set of RL-1 slips respecting Québec parental insurance plan premiums remitted by the new corporation and by the predecessor 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.

7.8 Tips

In calculating an employee's insurable salary or wages for the purposes of the Québec parental insurance plan, you must add 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 for a pay period and do not have to be reported on the *Register and Statement of Tips* or an equivalent document.

NOTE

You are not required to take into account 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). These tips are not subject to the Québec parental insurance plan.

If you are using the mathematical formula, include the tips (other than allocated tips) in variable S_4 .

IMPORTANT

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

7.9 Directors' fees

7.9.1 Directors who are resident in Canada

If you pay directors' fees to a director who is resident in Canada and **who also receives a regular salary** or if you pay **only** directors' fees to a director, **you must withhold and pay Québec parental insurance plan premiums, provided the conditions given in table 4.1.1 are met.**

7.9.2 Directors who are not resident in Canada

If you pay directors' fees to a director who is not resident in Canada and **who also receives a regular salary** or if you pay **only** directors' fees to a director, **you also must withhold and pay Québec parental insurance plan premiums, provided the conditions given in table 4.1.1 are met.**

7.10 Employees with an earned income of less than \$2,000

As was previously stated in note 1 of the table in section 7.2, an employee is not required to pay Québec parental insurance plan premiums for the year if his or her earned income (that is, insurable salary or wages and business income) for the year is less than \$2,000. **You must, however, start withholding and paying Québec parental insurance plan premiums as soon as you pay the employee one dollar of insurable salary or wages.**

Therefore, the \$2,000 threshold is not taken into account

- in the employee premiums you withhold;
- in your employer premiums.

If, however, the employee's earned income for the year is less than \$2,000, the employee may claim a refund of the premiums in his or her income tax return.

Employer premiums are not reimbursed because the \$2,000 threshold does not apply to employer premiums.

7.11 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 7.7. An employee whose premiums exceed the maximum annual premium for the year may claim a refund of the excess premiums in his or her income tax return.

7.12 Total premiums paid during the year

7.12.1 Excess premiums

7.12.1.1 Excess employee premiums

If the employee premiums you withheld from an employee's insurable salary or wages for a year are too high, the employee may claim a refund of the excess premiums in his or her income tax return for the year.

7.12.1.2 Excess employer premiums

You may have made an overpayment of Québec parental insurance plan premiums for a year. Regardless of the reason for the overpayment, the amount 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* or section 44 of the *Act respecting parental insurance* concerning 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.

7.12.2 Insufficient premiums

If the amount you withheld for the Québec parental insurance plan premium is insufficient, you must remit the amount you should have withheld to Revenu Québec, along with your employer premium. However, you may recover the employee premium that you paid out of your own funds by deducting the amount from any insurable salary or wages you pay the employee in the 12 months following the date on which the premium should have been withheld. From each payment of insurable salary or wages, you may withhold only one of the premiums that you previously failed to withhold.

7.12.3 Time limit in which Revenu Québec may make an assessment

Revenu Québec may recalculate the amount of Québec parental insurance plan premiums 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 *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.

7.13 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.

IMPORTANT

The decision rendered by Revenu Québec applies as well for the purposes of the QPP. Accordingly, a worker who is considered an employee for the purposes of the Québec parental insurance plan will be considered an employee for the purposes of the QPP, and a person considered to be self-employed for the purposes of the Québec parental insurance plan will be considered self-employed for the purposes of the QPP.

As well, a decision to determine the status of a worker for the purposes of the QPP is also valid for the purposes of the Québec parental insurance plan (see section 6.19 on page 67).

Self-employed persons

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

For further information on certain payments and benefits subject to the Québec parental insurance plan, consult the *Notice to employers* (PZ-856-V).

8 Contribution to the health services fund

8.1 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%, depending on 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 12.8.2 on page 94).

To calculate the contribution, you may use the mathematical formula given in section 13.6. A computer application (“WinRAS”), based on this mathematical formula, is also available on the Revenu Québec Web site at 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.

Payment of your contribution

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).

You will find in section 8.5 the information you need in order to make periodic remittances of the contribution.

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.

8.2 Remuneration subject to the contribution

Refer to the table in section 4.2.1 on page 32 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 13, 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 12.11.2 on page 99).
 - 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 8.8.2 on page 82).
- 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 35);

- 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 12.6 on page 93);
- 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 8.8.1 on page 82).

You must pay a contribution to the health services fund **if one of the conditions given in column B of the table in section 4.1.1 on page 31 is met** (also check whether the special rules mentioned in section 4.1.2 apply).

You are not required to pay the contribution respecting certain remuneration subject to the contribution if you are an employer that is eligible for the temporary exemption (see section 8.3).

Information concerning certain taxable benefits

Consult section 4.2.2.2 on page 35 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 cash).

8.3 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 1

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.

NOTE 2

In section 8.3, the term “salary or wages” refers to the remuneration subject to the contribution described in section 8.2.

8.3.1 Five-year exemption for new corporations

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, provided the corporation's paid-up capital does 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 respecting the salaries or wages paid from February 1, 2004, to January 31, 2009.

For salaries or wages paid after June 12, 2003, the exemption applies to 75% of the **first** \$700,000 of salaries or wages paid for the taxation year (see example 1 in section 8.5.1.2 on page 81).

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 ($\$700,000 \times 200/365$). 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 the corporation operates a manufacturing or processing business in a remote resource region referred to in section 8.3.2.1, see section 8.3.2.

8.3.2 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 8.3.1), 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 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.

8.3.2.1 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.

8.3.2.2 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 the corporation's 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 2006
\$20 million or less	75% of salaries or wages paid
More than \$20 million but less than \$30 million	75% of qualified salaries or wages ¹
\$30 million or more	No exemption ²

1. Use the following formula to calculate qualified salaries or wages:

$$\text{Salaries or wages paid} \times \frac{[\$30 \text{ million} - \text{paid-up capital (calculated on a consolidated basis) for the preceding taxation year}]}{\$10 \text{ million}}$$

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.

Example	
Basic data	
Taxation year of the corporation June 1, 2005, to May 31, 2006	
Paid-up capital (calculated on a consolidated basis) for the taxation year ending on May 31, 2005.....	\$24,000,000
Salaries or wages paid from June 1, 2005, to May 31, 2006	\$260,000
Qualified salaries or wages for the taxation year¹	
\$260,000 x $\frac{\$30,000,000 - \$24,000,000}{\$10,000,000}$ =	\$156,000
Salaries or wages exempted for the taxation year	
75% x \$156,000 = \$117,000	
1. The paid-up capital for the preceding taxation year is between \$20 million and \$30 million. Calculate the qualified salaries or wages, that is, the salaries or wages on which the exemption rate of 75% applies.	

8.3.2.3 Paid-up capital calculated on a consolidated basis

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

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.

8.3.3 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.

8.3.3.1 Conditions that must be met

The corporation is not required to pay the contribution to the health services fund respecting 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.

8.3.3.2 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 respecting 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 2006, it may claim an exemption with regard to \$75,000 of the salaries or wages. It must therefore pay the contribution respecting \$25,000. If the corporation's contribution rate is 4%, the contribution for 2006 will be \$1,000 (\$25,000 x 4%).

NOTE

Where another corporation acquires control of a corporation that is entitled to the exemption for a corporation carrying out an innovative project in a BDC, see section 8.3.8.

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

8.3.4 ITDCs and NECs

The five-year exemption for a corporation that carries out an innovative project in an ITDC or a NEC 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 respecting 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 a NEC.
- 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 another corporation acquires control of a corporation that is entitled to the exemption for a corporation that carries out an innovative project in an ITDC or a NEC, see section 8.3.8.

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

8.3.5 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).

8.3.6 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):

- corporations or partnerships that held a qualification certificate on June 12, 2003;
- corporations or partnerships that obtained a qualification certificate after June 11, 2003, because they were in a special situation (for example, further to a corporate reorganization);
- corporations or partnerships 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 another corporation acquires 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, see section 8.3.8.

8.3.7 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:

- corporations or partnerships 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;
- corporations or partnerships 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.

8.3.8 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 a NEC; or
- a corporation (or partnership) that operates a business within the Montréal international trade zone at Mirabel.

8.3.9 Corporations that cease to be exempt during the year

A corporation may in certain cases continue to 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 new corporation that is entitled to the five-year exemption for new corporations;
- 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 a NEC.

However, a special tax applies if the qualification certificate has been revoked. The special tax enables Revenu Québec to recover at any time the contribution to the health services fund that the corporation should have paid.

For more information, contact Revenu Québec

8.4 Calculating the contribution

Your contribution to the health services fund for 2006 is the result obtained when you subtract the exempted remuneration (section 8.3) from the total remuneration subject to the contribution (section 8.2) you paid in 2006, and multiply that amount by a rate based on your total payroll for 2006. The rate varies from 2.7% to 4.26%.

The contribution is based on gross remuneration (before source deductions).

8.4.1 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 8.2), including remuneration that gives entitlement to a temporary exemption (section 8.3);
- the portion of the salaries or wages paid to the employees of an IFC that is not subject to the contribution (see section 12.11.2 on page 99). 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 respecting these salaries or wages (see section 8.8.2 on page 82).

Associated employers

Associated employers must be taken into account on a **worldwide basis** (that is, **regardless of where 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 remuneration 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* respecting associated corporations must be applied to determine whether two or more employers are considered to be associated.

8.4.2 Public-sector employers

The following public-sector employers are required to pay a contribution to the health services fund equal to 4.26% of their 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 State).

8.5 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 pages 21 and 22.

At the time you make your remittances in 2006, 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, in order to calculate your remittances for 2006, you must use an estimated contribution rate. If you are a new employer, you must use a special method to calculate the rate.

NOTE

If you are an employer referred to in section 8.4.2, you must calculate your periodic remittances using the 4.26% rate.

8.5.1 Estimated contribution rate

8.5.1.1 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 remittance)				
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 8.5.1.2.

8.5.1.2 You are not a new employer

In this case, your contribution rate is the rate that would apply if your **total payroll** for 2006 were the same as your total payroll for 2005.

This means that your estimated contribution rate for 2006 will be equal to your actual contribution rate for 2005. For example, if your **total payroll** for 2005 did not exceed \$1 million and your actual contribution rate for 2005 was therefore 2.7%, your periodic remittances of the contribution for 2006 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, 2005, to February 28, 2006
Remittance frequency for 2006	Monthly
Total payroll for the 2005 calendar year	\$800,000
Actual contribution rate for the 2005 calendar year	2.7%
Salaries or wages paid during the month of January 2006	\$15,000
Salaries or wages paid from March 1, 2005, to December 31, 2005	\$690,000

Salaries or wages exempted for the month of January 2006

The lower of the following amounts, multiplied by 75%:

- \$10,000 (\$700,000 – \$690,000);
- \$15,000.

$$\$10,000 \times 75\% = \mathbf{\$7,500}$$

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, 2006

$$2.7\% \times (\$15,000 - \$7,500) = \mathbf{\$202.50}$$

Example 2

Basic data for a manufacturing business in a remote resource region

Taxation year of the corporation	January 1 to December 31, 2006
Paid-up capital (calculated on a consolidated basis) for the taxation year ending on December 31, 2005	\$5,000,000
Remittance frequency for 2006	Monthly
Total payroll for the 2005 calendar year	\$950,000
Actual contribution rate for the 2005 calendar year	2.7%
Salaries or wages paid during the month of January 2006	\$35,000

Salaries or wages exempted for the month of January 2006

$$\$35,000 \times 75\% = \mathbf{\$26,250}$$

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, 2006

$$2.7\% \times (\$35,000 - \$26,250) = \mathbf{\$236.25}$$

8.5.2 Can you use a rate that is lower than the estimated contribution rate?

If you expect that your **total payroll** for 2006 will be lower than your **total payroll** for 2005 and that, as a result, your actual contribution rate for 2006 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.

8.5.3 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.

8.6 Determining the actual contribution rate

You will determine your actual contribution rate for 2006 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 2006, as indicated below:

- If your **total payroll** for 2006 is \$1 million or less, your contribution rate will be 2.7%.
- If your **total payroll** for 2006 is more than \$1 million but less than \$5 million, your contribution rate will be determined according to the formula given in section 8.5.1.1, 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 2006 is \$5 million or more, your contribution rate will be 4.26%.

8.7 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 8.5.2.

8.8 Social security agreements

8.8.1 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 respecting 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 2006.		

If you did not pay the employee's salary or wages for the period in which the employee was posted outside Canada in 2006, **the following rules apply:**

- The employee must inform you in writing, by March 1, 2007, 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, 2007. You must therefore include the amount concerned, in your salaries or wages subject to the contribution to the health services fund and in your total payroll for 2007.

8.8.2 Foreign employee temporarily posted to Québec

You are not required to pay the contribution respecting 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.

9 Contribution to the financing of the CNT

9.1 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 2006 contribution by February 28, 2007 (see section 9.5).

9.1.1 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 transit 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.

9.1.2 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.

9.2 Maximum remuneration subject to the contribution and contribution rate

You will find below data respecting the contribution to the financing of the CNT for 2006. Data for 2005 are provided for information purposes.

	2006	2005
Maximum remuneration subject to the contribution	\$57,000	\$56,000
Contribution rate	0.08%	0.08%

9.3 Remuneration subject to the contribution

Refer to the table in section 4.2.1 on page 32 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 13, for information on the term “salary or wages”), except those described in section 9.4;
- 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 35);
- 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 12.6 on page 93).

The contribution to the financing of the CNT must also be paid respecting the following types of remuneration:

- an indemnity in lieu of notice (see the definition on page 37);
- amounts paid as damages upon cancellation of an employment contract.

You must pay a contribution to the financing of the CNT **if one of the conditions given in column B of the table in section 4.1.1 on page 31 is met** (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 35 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 cash).

9.4 Remuneration not subject to the contribution

You are not required to pay a contribution to the financing of the CNT respecting 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;
- the amount by which 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 **exceeds** \$57,000;
- the amount by which the remuneration subject to the contribution paid for the year to an employee (other than an employee referred to in the previous point) exceeds \$57,000;
- remuneration paid to a domestic (see the definition opposite);
- remuneration paid to an employee who is excluded from the application of the *Act respecting labour standards*, under section 3 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, du Loisir et du Sport;
- 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 elderly 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 replacement benefits paid under a wage loss replacement plan to which the employer contributed (see section 4.2.2.5 on page 37);
- certain taxable benefits described in section 4.2.2.2 on page 35;
- certain amounts paid further to an industrial accident – CSST (see section 12.1 on page 89);
- retiring allowances (see the definition on page 54), other than an indemnity in lieu of notice (see the definition on page 37) and an amount paid as damages upon cancellation of an employment contract (these two amounts are subject to the contribution to the financing of the CNT);
- death benefits (see the definition on page 54);
- retirement benefits;
- 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;
- an amount paid under a retirement compensation arrangement or resulting from the making of such an arrangement;
- patronage dividends.

Domestic

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.

9.5 Payment of the contribution

Your contribution to the financing of the CNT for 2006 must be received at an office of Revenu Québec or at a financial institution by February 28, 2007. 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 by 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 2006 because you stop operating your business or no longer have employees, see section 3.5 on page 25.

10 Contribution to the FNFMO

10.1 General information

If your total payroll for 2006 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 2006 by February 28, 2007 (see section 10.4).

10.1.1 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 et de la Solidarité sociale.
- You have a comprehensive training plan covering all categories of personnel, and an agreement regarding the plan has been reached with representatives of your personnel.
- You sign a memorandum of agreement concerning certain requirements.

For more information, contact Revenu Québec or Emploi-Québec.

10.1.2 Indian employer

Special rules apply to an employer that is an Indian, an Indian band or a band council (see section 12.8.4 on page 94).

10.2 Total payroll

Refer to the table in section 4.2.1 on page 32 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 13, 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 35).

- 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 12.6 on page 93).

You must include the remuneration in the calculation of your total payroll **if one of the conditions given in column B of the table in section 4.1.1 on page 31 is met** (also check whether the special rules mentioned in section 4.1.2 apply).

10.2.1 Information concerning certain taxable benefits

Consult section 4.2.2.2 on page 35 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 cash).

10.2.2 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).

10.3 Eligible training expenditures

If, in 2006, you are required to participate in the development of worker training, but you were not required to do so in 2005, you may carry forward to 2006 the training expenditures made in 2005 that would have been considered eligible expenditures had you been required to participate. These expenditures become eligible training expenditures for 2006.

Similarly, if your total eligible training expenditures for 2006 exceeds 1% of your total payroll for the year, you may carry over the excess amount to 2007. The excess amount becomes an eligible training expenditure for 2007.

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.

10.4 Payment of the contribution

Your contribution to the FNFMO for 2006 must be received at an office of Revenu Québec or at a financial institution by February 28, 2007. 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 your remittance by 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 2006 because you stop operating your business or no longer have employees, see section 3.5 on page 25.

11 Compensation tax

11.1 Does this section apply to you?

Chapter 11 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 11.2 and 11.3. Note as well that sections 11.4 and 11.5 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 12.8.4 on page 94).

11.2 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.

11.3 Remuneration subject to compensation tax

Refer to the table in section 4.2.1 on page 32 to determine whether 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 13, 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 compensation tax in the year of acquisition, not in the year of disposition (for further information, refer to section 4.2.2.2 on page 35);
- amounts that 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 12.6 on page 93).

You must pay compensation tax **if one of the conditions given in column B of the table in section 4.1.1 on page 31 is met** (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 12.11.3 on page 100).

Information concerning certain taxable benefits

Consult section 4.2.2.2 on page 35 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 cash).

11.4 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*.

11.5 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 by multiplying the remuneration subject to compensation tax (section 11.3) paid during the period by 1%, and enter the amount in the appropriate space 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*.

12 Special cases

12.1 Workers' compensation from the CSST

Section 12.1 provides an explanation concerning the amounts you pay to an employee who is absent from work following an industrial 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*.

12.1.1 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 income tax withholdings, QPP contributions, Québec parental insurance plan premiums, the contribution to 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.

12.1.2 Amounts paid in the days following the accident

Section 12.1.2 deals with amounts you paid to the employee during his or her absence.

12.1.2.1 Are amounts paid to the employee during his or her absence deemed to be 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** for the first 14 days following the date on which the employee became unable to work. The CSST will reimburse you this amount once it receives your claim.

If the employee's absence lasts longer than 14 days (or longer than 15 days, including the date of the accident), and you continue to pay the employee an amount that does not exceed 90% of his or her **net salary or wages**, the CSST may reimburse you this amount if it recognizes that the employee is entitled to an indemnity.

You must wait to be notified of the CSST's decision regarding the employee's entitlement to an indemnity to find out what tax treatment to accord to the amounts referred to in the previous two paragraphs. If the CSST decides that the employee is entitled to an indemnity, the amounts paid are deemed to be income replacement indemnities, and are therefore not subject to source deductions, employer contributions or compensation tax. If, on the other hand, the employee is not entitled to an indemnity, the amounts 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 **deemed indemnities** until you are informed of the CSST's decision.

If you pay more than the amounts referred to in the first two paragraphs of this section (12.1.2.1), the excess amount is deemed to be 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 with respect to \$100 (\$600 – \$500).

12.1.2.2 What happens when the CSST makes its decision?

Decision to recognize the employee's entitlement to an indemnity

If the CSST recognizes the employee's entitlement to an indemnity, the amounts that you paid to the employee and that are reimbursed by the CSST are deemed to be income replacement indemnities and are not subject to source deductions, employer contributions or compensation tax. If, while waiting for the CSST's decision, you followed the instructions given in section 12.1.2.1 and treated the amounts paid as deemed 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.

Decision not to recognize the employee's entitlement to an indemnity (or to recognize the entitlement only in part)

If the CSST refuses to recognize the employee's entitlement to an indemnity (or recognizes it only in part), the amount that is not recognized as an indemnity constitutes salary or wages, and is subject to source deductions, employer contributions and compensation tax. However, even if the amount constitutes salary or wages, you will not be required to make source deductions of income tax.

12.1.2.3 What if the decision pertains to an amount paid in a previous year?

If the amount that the CSST refuses to recognize (and is therefore considered 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 recognized 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).

12.1.3 Amounts paid for the employee's care or rehabilitation

In addition to the amounts referred to in sections 12.1.1 and 12.1.2, certain other amounts paid further to an industrial accident are 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** (see "Employee absent in order to undergo a medical test at your request," below);
- 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 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**.

Employee absent in order to undergo a medical test at your request

If your employee is obliged to miss work for a day or part of a day to undergo a medical test at your request, you must, under the *Act respecting industrial accidents and occupational diseases*, pay 100% of his or her **net salary or wages**. This amount will not be reimbursed by the CSST. As the amount paid constitutes salary or wages, it is subject to source deductions, employer contributions and compensation tax.

12.1.4 Self-insurer

The rules given in sections 12.1.1 through 12.1.3 also apply to amounts paid by a self-insurer. However, given that a self-insurer does not contribute to the CSST, the CSST does not reimburse the self-insurer. It simply recognizes or refuses to recognize the employee's entitlement to an indemnity.

Self-insurer

An employer that does not contribute to the CSST but is required to pay employees the indemnities recognized by the CSST in the event of an industrial accident.

12.2 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;
- employee and employer QPP contributions;
- employee and employer Québec parental insurance plan premiums;
- 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 54).

12.3 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 12.3.1 and 12.3.2 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.

NOTE

If the benefit for board and lodging (section 12.3.1) is taxable and granted in kind, it is subject to the Québec parental insurance plan only if you pay cash remuneration for the pay period in which you grant the benefit to the employee. If the benefit for transportation (section 12.3.2) is taxable and granted in kind, it is not subject to the Québec parental insurance plan, regardless of whether you pay cash remuneration for the pay period in which you grant the benefit to the employee.

IMPORTANT

If you pay an allowance for board and lodging or transportation to an employee who works outside Canada, refer to section 12.15 on page 105 (and, specifically, section 12.15.3 on page 106).

12.3.1 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 opposite).
- **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 employee's duties are considered to be of a temporary nature where it is expected that they will not provide continuous employment, for the employee or another person, for more than two years.

Dwelling

A house, an apartment or a similar place of residence in which a person ordinarily eats and sleeps and which is equipped with a kitchen and bathroom facilities.

NOTE

A dormitory, bunkhouse, hotel room or room in a boarding house is not a dwelling.

12.3.2 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.

12.4 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 Québec parental insurance plan premiums, your contributions to the health services fund and to the financing of the CNT, and the 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 4.6 on page 39.

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 the most recent version of interpretation bulletin RRO. 1-1 and the brochure *Are You Self-Employed?* (IN-300-V).

12.5 Salary deferral arrangements and self-funded leaves of absence

12.5.1 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 2006 is to be paid in another year, the amounts of income tax, QPP contributions and Québec parental insurance plan premiums 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 2006 that will be paid in a subsequent year is subject, in 2006 (not in the year of payment), to

- employer QPP contributions;
- employer Québec parental insurance plan premiums;
- the employer contribution to the health services fund;
- the contribution to the financing of the CNT;
- compensation tax.

You must also include the portion of the salary or wages deferred to another year in your total payroll used to calculate your rate of contribution to the health services fund and your contribution to the FNFMO for 2006.

When you pay the deferred portion of the salary or wages to the employee, do not withhold income tax, QPP contributions and Québec parental insurance plan premiums 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 rate of contribution to the health services fund or your contribution to the FNFMO.

12.5.2 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.

However, these amounts are subject to employee and employer Québec parental insurance plan premiums in the year in which they are earned and not in the year in which they are paid. Therefore, you must calculate the Québec parental insurance plan premiums in the year in which the amounts were earned, as if the total amount of the employee's salary or wages had been paid in the year.

12.6 Profit-sharing plans, employee trusts and employee benefit plans

12.6.1 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 employee and employer Québec parental insurance plan premiums. However, it is subject, at the time it is paid, to

- employee and employer QPP contributions;
- the employer contribution to the health services fund;
- the contribution to the financing of the CNT; 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 38.

12.6.2 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 QPP contributions only if the amount can reasonably be attributed to an amount paid to the trustee before May 13, 1994.

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.

12.7 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.

12.8 Indian employer

12.8.1 Source deductions of income tax, QPP contributions and Québec parental insurance plan premiums

12.8.1.1 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 12.9.1.1 and 12.9.2 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 respecting 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 who live on a reserve.

12.8.1.2 Québec parental insurance plan premiums

As in the case of employment insurance premiums, Indian employers, band councils and Indian organizations are subject to Québec parental insurance plan premiums just like any other employer.

12.8.2 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 respecting 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 fall within the

jurisdiction of one or more bands or of 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.

12.8.3 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.

12.8.4 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 2006, even if the employer is an Indian, an Indian band or a band council.

12.8.5 Do you have Indian employees?

If you have employees who are Indians, see section 12.9 on the next page.

12.8.6 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 12.9.3 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 "Indian band" and "band council," contact Revenu Québec.

12.9 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.

12.9.1 Salary or wages derived from employment duties performed partly or entirely on a reserve or premises

12.9.1.1 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 pay QPP contributions with respect to the employment income 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"> The Indian (or person of Indian ancestry) lives on a reserve. OR <ul style="list-style-type: none"> The employer manages and administers the business on a reserve or premises.
More than 50% of the employment duties are performed outside a reserve or premises.	<ul style="list-style-type: none"> The Indian (or person of Indian ancestry) lives on a reserve. AND <ul style="list-style-type: none"> The employer manages and administers the business on a reserve or premises.
See section 12.8.1 (2nd and 3rd paragraphs) if the employer is an Indian band, a band council or an Indian organization that pays 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 who live on a reserve.	

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 only from the portion of the income attributable to the duties performed outside the reserve, that is, \$300 (60% of \$500).

If the same employee had lived on a reserve, the employer would not have been required to deduct income tax at source, because the conditions would have been met and the full amount of the income (\$500) would have given entitlement to the deduction.

12.9.1.2 Québec parental insurance plan premiums

All of the salaries and wages paid to an Indian or a person of Indian ancestry are subject to employee and employer Québec parental insurance plan premiums, even if the salaries and wages are employment income that gives entitlement to the deduction for employment income situated on a reserve or premises.

This is the case for all employers, regardless of whether they are Indians.

12.9.1.3 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 12.8.

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 your total payroll used to calculate your rate of contribution to the health services fund and your contribution to the FNFMO.

12.9.2 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*, the *Employment Insurance Act* (Statutes of Canada) or the *Act respecting parental insurance*;
- 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 replacement 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 12.9.1.1), 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 from the portion of the amount that gives entitlement to the deduction.

12.9.3 Definitions

Dwelling

A house, an apartment or a similar place of residence in which a person ordinarily eats and sleeps and which is equipped with a kitchen and bathroom facilities.

NOTE

A dormitory, bunkhouse, hotel room or room in a boarding house is not 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 on a reserve, 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.

12.10 Sailors

If you are an eligible shipowner and you employ a sailor who is **resident in Québec in 2006**, and 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 2006 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;
- employee and employer Québec parental insurance plan premiums;
- the employer contribution to the health services fund;
- the contribution to the financing of the CNT;
- compensation tax.

Similarly, the remuneration is included in 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).

12.11 IFC employees

12.11.1 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.

12.11.1.1 Calculation of the remuneration subject to source deductions of income tax

If the conditions in Table 1 on the next page 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 Table 1 are not met, calculate the income tax withholding respecting the employee's remuneration in the usual way.

12.11.1.2 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 employment 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 2 on the next page).

Table 1

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"> You obtained a certificate or a qualification certificate with regard to the employee from the Ministère des Finances for the preceding taxation year. The remuneration is paid during the employee's exemption period.¹ The employee was not resident in Canada immediately before taking up, for the first 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.² 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. 	<ul style="list-style-type: none"> You obtained a qualification certificate with regard to the employee from the Ministère des Finances for the preceding taxation year. The remuneration is paid during the employee's exemption period, that is, during the period covered by the qualification certificate. 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.
<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 one 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 continuous for employees who enter into an employment contract after March 30, 2004.</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 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.</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>	

Table 2

Foreign specialists	
Contract entered into before March 31, 2004 ¹	Contract entered into after March 30, 2004 ¹
<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"> 100%, if the employee is in the first two years of his or her five-year exemption period; 75%, if the employee is in the third year of his or her five-year exemption period; 50%, if the employee is in the fourth year of his or her five-year exemption period; 37.5%, if the employee is in the fifth year of his or her five-year exemption period.
<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.

12.11.1.3 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.

As a rule, an application for a certificate for 2006 must be submitted to the Ministère des Finances by February 28, 2007.

12.11.1.4 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 2006 income tax return. If the employee is not a foreign specialist, you must remit a letter to the employee 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.

12.11.1.5 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.

12.11.1.6 Use of the mathematical formulas

If you use the mathematical formulas to calculate source deductions of income tax, include in variable F the portion of the remuneration giving entitlement to the deduction for employees of an IFC or to the deduction for foreign specialists.

12.11.2 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 respecting 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 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, 2006. 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, 2006	\$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 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 qualification 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.

12.11.3 QPP contributions, Québec parental insurance plan premiums, 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, Québec parental insurance plan premiums, the contribution to the financing of the CNT and compensation tax.

Similarly, all of the salaries and wages are included in your total payroll used to calculate your rate of contribution to the health services fund and your contribution to the FNFMO.

12.12 Foreign employees entitled to a five-year tax exemption

12.12.1 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 (hereinafter 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 12.12.1.2). 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.

12.12.1.1 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 (if the employee spent more than 182 days in Québec before taking up his or her employment duties (see section 12.12.1.5).
- 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 exemption in question, even if the employee receives the benefit for a period in which he or she is no longer entitled to the exemption. As a rule, this applies if the stock option was exercised during a period in which the employee was entitled to the exemption. For more information, contact Revenu Québec.

Consult Table 1 below 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 the next page 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
	NEC (innovative project)	The employee took up employment duties after March 9, 1999, under a contract entered into after that date.	Investissement Québec
	NEC (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 ¹	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 ¹	The employee took up employment duties after April 26, 2000, under a contract entered into after that date.	Ministère des Finances	

Job title	Location or sector in which the employee works	Requirements	Issuer of the certificate or the qualification certificate
Researcher on a post-doctoral internship	Eligible university entity or public research centre	<ul style="list-style-type: none"> The employee took up employment duties after March 31, 1998, under a contract entered into after that date. The employee's duties are almost exclusively related to R&D. 	Ministère de l'Éducation, du Loisir et du Sport
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"> Researchers: The employee's duties are almost exclusively related to R&D. Experts: <ul style="list-style-type: none"> The employee took up employment duties after March 9, 1999, under a contract entered into after that date. The employee's duties are carried out almost exclusively under an R&D project. 	Ministère du Développement économique, de l'Innovation et de l'Exportation
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, du Loisir et du Sport

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 ¹	Contract entered into after March 30, 2004 ¹
<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 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"> 100%, if the employee is in the first two years of his or her five-year exemption period; 75%, if the employee is in the third year of his or her five-year exemption period; 50%, if the employee is in the fourth year of his or her five-year exemption period; 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%.
<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>	

12.12.1.2 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 2006 must be submitted by February 28, 2007.

12.12.1.3 Documents to be remitted 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 2006 income tax return. You must also indicate on the employee's RL-1 slip for 2006

- the portion of remuneration giving entitlement to the exemption;
- the exemption rate.

12.12.1.4 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.

12.12.1.5 Employee who spends more than 182 days in Québec before taking up his or her employment duties

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, 2006 (a period of more than 182 days), and started to work on October 1, 2006, the employee is not deemed to have been resident in Québec since January 1, 2006. Consequently, the employee was not resident in Canada before taking up employment duties on October 1, 2006.

12.12.1.6 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.

12.12.2 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 a NEC;
- 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 8.3.

12.12.3 QPP contributions, Québec parental insurance plan premiums, 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, Québec parental insurance plan premiums, the contribution to the financing of the CNT and compensation tax.

Similarly, all of the salaries and wages are included in your total payroll used to calculate your rate of contribution to the health services fund and your contribution to the FNFMO.

12.13 Foreign producers

If you employ a foreign producer who holds an eligibility certificate issued by SODEC with respect to 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 12.14.3.

12.14 Amount paid to a person not resident in Québec

12.14.1 Salary or wages

You must make source deductions and pay employer contributions and compensation tax with respect to the salary or wages paid to an employee who is not resident in Québec **if one of the conditions given in column B of the table in section 4.1.1 on page 31 is met** (also check whether the special rules 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 12.14.3.

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

12.14.1.1 Special rules concerning source deductions

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 on the next page);
- the employee is a foreign specialist who works in an IFC (see section 12.11);

- the employee is covered by the measures described in section 12.12 or 12.13; 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.

12.14.1.2 Special rules concerning QPP contributions and the contribution to the health services fund

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 6.17.2 on page 65);
- the employer contribution to the health services fund (see section 8.8.2 on page 82).

12.14.1.3 Special rules concerning Québec parental insurance plan premiums

An employee who is not resident in Québec is not required to pay Québec parental insurance plan premiums for the period of the year in which he or she does not reside in Québec. Nevertheless, if you pay insurable salary or wages under the Québec parental insurance plan, you must withhold and pay Québec parental insurance plan premiums respecting the salary or wages.

Under the *Taxation Act*, an individual who is not resident in Québec but who spends more than 182 days in Québec in a year is deemed to be resident in Québec for the entire year. However, this rule does not apply for the purposes of the *Act respecting parental insurance*. Therefore, since the individual is not resident in Québec, he or she is not required to pay Québec parental insurance plan

premiums. Nevertheless, if you pay the employee insurable salary or wages, you must withhold and pay Québec parental insurance plan premiums.

The employee must file an income tax return to claim a refund of the Québec parental insurance plan premiums you withheld from his or her insurable salary or wages. You cannot claim a refund of the premiums you paid as an employer with respect to the employee's insurable salary or wages.

12.14.2 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**.

12.14.3 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. This applies, for example, if you pay **only** directors' fees to a director who is not resident in Canada.

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 and Québec parental insurance plan premiums. It may also be subject to the employer contribution to the health services fund.

12.14.4 Source Deductions Return (form TP-1015.3-V)

If an individual is not resident in Canada in 2006 or becomes a resident in 2006, the deductions and personal tax credits that the individual may enter on form TP-1015.3-V may be limited.

12.14.4.1 Individual who spends fewer than 183 days in Québec

An individual who spends fewer than 183 days in Québec in 2006 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 2006-01), 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.

12.14.4.2 Individual who spends more than 182 days in Québec

An individual who spends more than 182 days in Québec in 2006 is deemed to be resident in Québec for the entire year, and may enter on form TP-1015.3-V (version 2006-01) the total of the amounts used to calculate the tax credits and deductions to which he or she is entitled.

12.14.4.3 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 2006.

12.15 Employees who work outside Québec

12.15.1 General information

As indicated in section 4.1.1, you are not required to make source deductions or pay employer contributions and compensation tax respecting 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, QPP contributions and Québec parental insurance plan premiums respecting 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 is **paid from one of your establishments located outside Québec**, see section 4.5 on page 39.

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 38.

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 65.

IMPORTANT

If the employee works outside Canada, see sections 12.15.2 and 12.15.3 below.

12.15.2 Special rules concerning an employee who works outside Canada

If an employee works outside Canada, special rules may apply with respect to QPP contributions, Québec parental insurance plan premiums and the employer contribution to the health services fund.

12.15.2.1 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 6.17.1 on page 65).

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.

12.15.2.2 Québec parental insurance plan premiums

You may be required to withhold and pay Québec parental insurance plan premiums respecting an employee's insurable salary or wages if, for a pay period,

- the employee reports **only** to one of your establishments located **outside Canada**;
- the employee is not required to report for work at any of your establishments and is paid from one of your establishments located outside Canada.

You must withhold and pay Québec parental insurance plan premiums respecting the employee's insurable salary or wages if, for the pay period in question,

- you have an establishment in Québec;
- the employee is not subject to a premium under a prescribed plan;
- the employee's remuneration is not subject to employment insurance premiums.

12.15.2.3 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 providing for reciprocal coverage of health insurance plans, you must pay the employer contribution to the health services fund respecting the salary or wages even if they are paid from your establishment located outside Canada or are paid by a person other than yourself (see section 8.8.1 on page 82).

12.15.3 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 on 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).

12.16 Canadian Forces personnel or police

Canadian Forces personnel or police assigned to a recognized special mission may claim a deduction, in the calculation of their taxable income, with respect to the net employment income from the mission.

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**. This is the result of the following calculation: the employee's gross salary or wages attributable to the mission for the pay period **minus** the contributions (pertaining to the remuneration) that the employee paid to an RPP for the pay period. For example, if you pay the employee \$500 in salary or wages for a pay period (all of which relates to a recognized special mission) and you withhold \$50 as contributions to an RPP, **the portion of the remuneration that gives entitlement to the deduction is \$450 (\$500 - \$50)**.

However, the **deduction is limited** to the maximum remuneration a non-commissioned member of the Canadian Forces can receive during the mission. 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 portion of the remuneration giving entitlement to the deduction.

13 Mathematical formulas to calculate Québec income tax withholdings, QPP contributions, Québec parental insurance plan premiums and the contribution to the health services fund

13.1 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. You will also find formulas for calculating

- employee QPP contributions;
- employee and employer Québec parental insurance plan premiums; and
- the employer contribution to the health services fund.

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 53);
- income supplements (see section 5.15 on page 55).

13.2 Principal changes

13.2.1 Variable E – Total personal tax credits

For 2006, the indexation factor used to calculate the value of personal tax credits is 2.427%. Thus, for 2006, variable E corresponds to the total of

- variable E_1
 - multiplied by $[1 + 0.02427$ (indexation factor for 2006)], for individuals who did not complete the 2006-01 version of form TP-1015.3-V, unless the individual is an employee who took up employment duties in 2006 or is a “new” beneficiary, or
 - multiplied by 1, for employees who took up employment duties in 2006, “new” beneficiaries, and individuals who completed the 2006-01 version of form TP-1015.3-V;

plus

- variable E_2 (see section 13.2.2).

13.2.2 Variable E_2 – Personal tax credits not subject to indexation

If the employee or beneficiary completed a TP-1015.3-V form before 2006 and entered an amount on line 8 of the form to claim the amount for a severe and prolonged impairment in mental or physical functions, you must add \$50 to variable E_2 because the amount was increased by \$50 for 2006 (see section 2.1.3).

If you cannot identify the individuals concerned, notify all of your employees and beneficiaries of these changes. Individuals who wish to claim the increase can then complete version 2006-01 of form TP-1015.3-V. Consequently, you will not have to add \$50 to variable E_2 .

NOTE

If the individual entered an amount on line 8 that exceeds \$2,200, add \$50 for each multiple of \$2,200. For example, if the individual entered \$4,400, add \$100 to variable E_2 .

13.2.3 Variables for the new 6% deduction for employment income

A new deduction will be granted to all employees for 2006 and subsequent years. The deduction is equal to the lower of the following amounts:

- 6% of the employment income received by the employee during the year;
- \$500.

For the purposes of this deduction, the following changes have been made to the mathematical formulas.

	New variables	Changes made to existing variables
Formula for section 13.3.1.1	<p>D = Gross salary or wages subject to source deductions of income tax for the pay period (other than bonuses, retroactive pay or similar lump-sum payments)</p> <p>H = Deduction for employment income = 0.06 (D), maximum of 500/P</p>	$I = [P (G - F - H)] - J - J_1$
Formula for section 13.3.1.2	<p>$D_1 = B_1 + B_2 + G_1 + D$</p> <p>$H_1$ = Total of the amounts included in variable H, accrued to the date the bonus, retroactive pay or similar lump-sum payment was paid</p> <p>$H_2 = 0.06 (D_1)$, maximum of $(500 - H_1)/P$</p>	$I_1 = (G_1 - F_1 - H_1) + [Pr (G - F - H_2)] - J - J_1$
Formula for section 13.3.2.1	<p>D = Gross salary or wages subject to source deductions of income tax for the pay period, plus the total gross salary or wages since the beginning of the year (including variable B)</p> <p>H = Deduction for employment income = 0.06 (D), maximum of \$500</p>	$I = S_1 (G - F - H) + B - J - J_1$
Formula for section 13.3.2.2	<p>D_1 = Total gross salary or wages since the beginning of the year, excluding variables B_3 and B_4</p> <p>$H_1 = 0.06 (D_1 + B_3)$, maximum of \$500</p> <p>$H_2 = 0.06 (D_1 + B_4)$, maximum of \$500</p>	<p>$I_3 = S_1 (G - F - H_1) + B_3 - J - J_1$</p> <p>$I_4 = S_1 (G - F - H_2) + B_4 - J - J_1$</p>

13.2.4 Variable K – Adjustment of the income tax rates

For 2006, 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 \$28,710 (the threshold was previously \$28,030).
- The 20% rate applies to taxable income over \$28,710 but not over \$57,430 (the threshold was previously \$56,070).
- The 24% rate applies to taxable income over \$57,430.

The values of variable K have therefore been increased from \$1,121 to \$1,148 and from \$3,364 to \$3,445.

13.2.5 Variable M – QPP

The maximum pensionable earnings under the QPP have been raised from \$41,100 to \$42,100. As a result, variable M , which was equal to \$1,861.20, is now equal to \$1,910.70.

13.2.6 New formulas for calculating Québec parental insurance plan premiums

You can use the mathematical formulas in section 13.5 to calculate employee (13.5.1) and employer (13.5.2) Québec parental insurance plan premiums for each pay period and **for each employee (rather than for all employees)**. You must apply both of the formulas to each employee for each pay period.

13.3 Source deductions of Québec income tax

13.3.1 Calculating income tax withholdings with respect to regular payments

You must use the formula in section 13.3.1.1 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), use one of the methods described in section 13.3.1.2 on the next page.

NOTE

If the remuneration you pay varies in amount from one pay period to another (this may be the case if, for example, you pay commissions to an employee), use instead one of the methods described in section 13.3.2 on page 112.

13.3.1.1 Regular payments

Definition of variables

A = Québec income tax to be withheld at source for the pay period

$$= \boxed{\frac{Y}{P}} + L$$

▼
If the result is negative, enter 0.

D = Gross salary or wages (see section 1.4 on page 13 for information on the term "salary or wages") subject to source deductions of income tax for the pay period. **Do not include** bonuses, retroactive pay or similar lump-sum payments.

E = Indexed value of the personal tax credits indicated on form TP-1015.3-V

$$= \boxed{E_1 \times (1 + 0.02427)} + E_2$$

▼
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 by 1.02427. Variable E_1 is to be indexed only if it 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 2006-01 version of the form;

- \$9,555 (the basic amount for 2006), for employees who took up employment duties in 2006 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 2005.

NOTE

The indexed value of variable E_1 for 2005 is equal to the value of variable E_1 for 2004, multiplied by the indexation factor for 2005. The indexed value of variable E_1 for 2005 may also be obtained by doing the following calculation: value of variable E for 2005, minus value of variable E_2 for 2005.

E_2 = One of the following amounts:

- amount from line 9 of form TP-1015.3-V, for individuals who completed the 2006-01 version of the form;
- the indexed value of variable E_2 for 2005, plus \$50 for individuals who did not complete the 2006-01 version of form TP-1015.3-V **and** who claimed an amount for a severe and prolonged impairment in mental or physical functions on the last TP-1015.3-V form they completed for you (line 8 of the form).

NOTE

If the individual entered an amount on line 8 that exceeds \$2,200, add \$50 for each multiple of \$2,200. For example, if the individual entered \$4,400, add \$100 to variable E_2 .

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 45);
- amounts withheld as contributions to an RRSP (see section 5.4.1.2 on page 45);
- 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 42);
- the travel deduction for residents of a designated remote area (see section 5.4.1.3 on page 45);
- 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 12.9.1.1 on page 95 and section 12.9.2 on page 96),
 - the deduction respecting employment income earned on a vessel (see section 12.10 on page 96),
 - the deduction for employees of an IFC (see section 12.11.1 on page 97),
 - the deduction for foreign specialists (see section 12.12.1.1 on page 100),

- the deduction for foreign researchers (see section 12.12.1.1 on page 100),
- the deduction for foreign researchers on a post-doctoral internship (see section 12.12.1.1 on page 100),
- the deduction for foreign experts (see section 12.12.1.1 on page 100),
- the deduction for foreign professors (see section 12.12.1.1 on page 100),
- the deduction for foreign producers (see section 12.13 on page 103),
- the Canadian Forces personnel and police deduction (see section 12.16 on page 106).

G = Gross remuneration (see section 1.4 on page 13 for information on the term “remuneration”) subject to source deductions of income tax for the pay period. **Do not include** bonuses, retroactive pay or similar lump-sum payments.

H = Deduction for employment income
= 0.06 (D), maximum of 500/P

I = Annual taxable income
= [P (G – F – H)] – J – J₁

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, it is instead equal to the result of the following calculation:

$$\frac{P(J_3)}{Pr}$$

J₁ = 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 J₁ is determined after the first pay period in the year, it is instead equal to the result of the following calculation:

$$\frac{P(J_2)}{Pr}$$

J₂ = Deductions authorized by Revenu Québec after the first pay period in the year

J₃ = 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)

K₁ = 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 K₁ is determined after the first pay period in the year, it is instead equal to the result of the following calculation:

$$\frac{P(K_2)}{Pr}$$

K₂ = 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 “Fondaction”)

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 = Québec income tax for the year
= T (I) – K – K₁ – 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	\$28,710	16%	\$0
\$28,710	\$57,430	20%	\$1,148
\$57,430		24%	\$3,445

13.3.1.2 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 amount of the lump-sum payment will not exceed \$11,950, do not use these formulas. Simply withhold 8% income tax from the lump-sum payment. Do not withhold income tax if the employee completed the 2006-01 version of form TP-1015.3-V and entered "X" on line 20 of the form (see section 3.7.6 on page 28).

Method 1

Certain variables are not defined below because they have the same value as the variables already defined for regular payments in section 13.3.1.1.

A_1 = 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 = Bonuses, retroactive pay or similar lump-sum payments paid since the beginning of the year (excluding variable B_2) (see note 1 opposite)

B_2 = Bonuses, retroactive pay or similar lump-sum payments paid during the pay period (see note 1 opposite)

D_1 = $B_1 + B_2 + G_1 + D$

F_1 = 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 = Gross salary or wages (see section 1.4 on page 13 for information on the term "salary or wages"), accrued to the date the bonus, retroactive pay or similar lump-sum payment was paid

H_1 = Total of the amounts included in variable H, accrued to the date the bonus, retroactive pay or similar lump-sum payment was paid

H_2 = $0.06 (D_1)$, maximum of $(500 - H_1)/P$

I_1 = Annual taxable income to the date the bonus, retroactive pay or similar lump-sum payment was paid
 $= (G_1 - F_1 - H_1) + [Pr (G - F - H_2)] - J - J_1$

Pr = 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 opposite)

Y_2 = $[T (I_1 + B_1 + B_2)] - K - K_1 - 0.20 (E) - 0.15 [P(Q)]$
(see note 2 opposite)

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 (variable T) 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 those 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.
- 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

Tom, whose gross salary is \$700 per week, contributes \$25 per week to an RPP. His employer withholds \$73.21 in income tax from the salary paid each pay period.

During one pay period, Tom receives retroactive pay of \$4,000 in addition to his regular salary. During that pay period, Tom's RPP contribution is 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
Annual taxable income	= \$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
Income tax withholding from retroactive pay	= \$772.00
Income tax withholding from regular salary	+ \$73.21
Total income tax withholding for pay period	= \$845.21

13.3.2 Calculating income tax withholdings on a cumulative-averaging basis

You must use one of the following methods to calculate source deductions of Québec income tax for employees whose remuneration varies (for example, employees who earn 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 \$11,950, do not use these formulas. Simply withhold 8% income tax from the lump-sum payment. Do not withhold income tax if the employee completed the 2006-01 version of form TP-1015.3-V and entered "X" on line 20 of the form (see section 3.7.6 on page 28).

13.3.2.1 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

D = Gross salary or wages (see section 1.4 on page 13 for information on the term "salary or wages") subject to source deductions of income tax for the pay period, **plus** the total gross salary or wages since the beginning of the year (including variable B)

E = Indexed value of the personal tax credits indicated on form TP-1015.3-V

$$= E_1 \times (1 + 0.02427) + E_2$$

▼

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 E₁ corresponds to one of the first two amounts mentioned in the definition of the variable, multiply variable E₁ by 1 rather than by 1.02427. Variable E₁ is to be indexed only if it corresponds to the third amount mentioned in the definition.

E₁ = One of the following amounts:

- amount from line 5 of form TP-1015.3-V, for employees who completed the 2006-01 version of the form;
- \$9,555 (the basic amount for 2006), for employees who took up employment duties in 2006 and did not complete form TP-1015.3-V;
- the indexed value of variable E₁ for 2005.

NOTE

The indexed value of variable E₁ for 2005 is equal to the value of variable E₁ for 2004, multiplied by the indexation factor for 2005. The indexed value of variable E₁ for 2005 may also be obtained by doing the following calculation: value of variable E for 2005, minus value of variable E₂ for 2005.

E_2 = One of the following amounts:

- amount from line 9 of form TP-1015.3-V, for individuals who completed the 2006-01 version of the form;
- the indexed value of variable E_2 for 2005, plus \$50 for individuals who did not complete the 2006-01 version of form TP-1015.3-V **and** who claimed an amount for a severe and prolonged impairment in mental or physical functions on the last TP-1015.3-V form they completed for you (line 8 of the form).

NOTE

If the individual entered an amount on line 8 that exceeds \$2,200, add \$50 for each multiple of \$2,200. For example, if the individual entered \$4,400, add \$100 to variable E_2 .

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 45);
- amounts withheld as contributions to an RRSP (see section 5.4.1.2 on page 45);
- 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 42);
- the travel deduction for residents of a designated remote area (see section 5.4.1.3 on page 45);
- 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 12.9.1.1 on page 95 and section 12.9.2 on page 96),
 - the deduction respecting employment income earned on a vessel (see section 12.10 on page 96),
 - the deduction for employees of an IFC (see section 12.11.1 on page 97),
 - the deduction for foreign specialists (see section 12.12.1.1 on page 100),
 - the deduction for foreign researchers (see section 12.12.1.1 on page 100),
 - the deduction for foreign researchers on a post-doctoral internship (see section 12.12.1.1 on page 100),
 - the deduction for foreign experts (see section 12.12.1.1 on page 100),
 - the deduction for foreign professors (see section 12.12.1.1 on page 100),
 - the deduction for foreign producers (see section 12.13 on page 103),
 - the Canadian Forces personnel and police deduction (see section 12.16 on page 106).

G = Gross remuneration (see section 1.4 on page 13 for information on the term "remuneration") subject to source deductions of income tax for the pay period, **plus** the total gross remuneration since the beginning of the year (**excluding variable B**)

H = Deduction for employment income
= $0.06 (D)$, maximum of \$500

I = Estimated annual taxable income
= $S_1 (G - F - H) + B - J - J_1$
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 110)

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 variable L into account)

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 110)

Y = Québec income tax for the year
 $= T(I) - K - K_1 - 0.20(E) - 0.15[S_1(Q)]$

13.3.2.2 Method 2


Certain variables used in Method 2 are not defined below because they 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)

D_1 = Total gross salary or wages (see section 1.4 on page 13 for information on the term "salary or wages") since the beginning of the year, excluding variables B_3 and B_4

$$H_1 = 0.06(D_1 + B_3), \text{ maximum of } \$500$$

$$H_2 = 0.06(D_1 + B_4), \text{ maximum of } \$500$$

$$I_3 = S_1(G - F - H_1) + B_3 - J - J_1$$

$$I_4 = S_1(G - F - H_2) + B_4 - J - J_1$$

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 = Québec income tax for the year respecting the remuneration in variable B_3
 $= T(I_3) - K - K_1 - 0.20(E) - 0.15[S_1(Q)]$

Y_4 = Québec income tax for the year respecting the remuneration in variable B_4
 $= T(I_4) - K - K_1 - 0.20(E) - 0.15[S_1(Q)]$

13.4 QPP contributions

13.4.1 Calculating the employee contribution

The formula used to calculate the employee's contribution to the QPP is shown below.

$$C = 0.0495(S_3 - V/P), \text{ to a maximum of } M - A_5$$

If variable C 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 (\$1,910.70)
 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 $M - A_5$.

13.4.2 Calculating the employer contribution

There is no mathematical formula to be used to calculate your employer contribution. You simply pay a contribution that is equal to the total amount of the contributions you **withheld** from your employees' pensionable salary or wages (as calculated using the formula in section 13.4.1).

13.5 Québec parental insurance plan premiums

The following two formulas are used to calculate the premiums for each pay period and for **each employee** (rather than for all employees). Therefore, you must apply both of the formulas to each employee for each pay period.

13.5.1 Calculating the employee premium

$$A_p = 0.00416 (S_4), \text{ to a maximum of } N - A_6$$

If variable A_p 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 A_p is greater than 0 but less than one cent, you must withhold one cent as a premium even if the fraction is less than half a cent. For example, if variable A_p is equal to a tenth of a cent, you must withhold one cent.

Definition of variables

- A_p = Employee Québec parental insurance plan premium for the pay period
 A_6 = Employee Québec parental insurance plan premiums withheld since the beginning of the year
 N = Maximum employee Québec parental insurance plan premiums for the year (\$237.12)
 S_4 = Employee's gross insurable salary or wages under the Québec parental insurance plan for the pay period

13.5.2 Calculating the employer premium (with respect to an employee)

$$A_{p_1} = 0.00583 (S_4), \text{ to a maximum of } N_1 - A_7$$

If variable A_{p_1} 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.

Definition of variables

- A_{p_1} = Employer Québec parental insurance plan premium for the pay period with respect to the employee
 A_7 = Employer Québec parental insurance plan premiums calculated for previous pay periods with respect to the employee
 N_1 = Maximum employer Québec parental insurance plan premiums for the year with respect to each employee (\$332.31)
 S_4 = Employee's gross insurable salary or wages under the Québec parental insurance plan for the pay period

13.6 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 respecting which you are required to pay a contribution to the health services fund (see Chapter 8)
 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 over \$1 million but under \$5 million

The contribution rate must be rounded off to the second decimal place. Where the number in the third decimal place is 5 or more, round off the number in 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 8.5.1.1 on page 80.

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 8.5.1.2 on page 87.

13.7 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:

$$\begin{aligned} I &= [P(G - F - H)] - J - J_1 \\ &= [52 (\$1,000 - \$70) - \$9.62] - \$0.00 - \$0.00 \\ &= [52 (\$920.38)] - \$0.00 - \$0.00 \\ &= \$47,859.76 - \$0.00 - \$0.00 \\ &= \$47,859.76 \end{aligned}$$

Step 2

Determine variable Y using the following formula:

$$\begin{aligned} Y &= \text{Québec income tax for the year} \\ &= T(I) - K - K_1 - 0.20 (E) - 0.15 [P(Q)] \\ &= 0.20 (\$47,859.76) - \$1,148 - \$0.00 - 0.20 (\$21,830) \\ &\quad - 0.15 [52(\$100)] \\ &= \$9,571.95 - \$1,148 - \$0.00 - \$4,366 - 0.15 (\$5,200) \\ &= \$9,571.95 - \$1,148 - \$0.00 - \$4,366 - \$780 \\ &= \$8,423.95 - \$4,366 - \$780 \\ &= \$3,277.95 \end{aligned}$$

Step 3

Determine variable A using the following formula:

$$\begin{aligned} A &= \text{Québec income tax to be withheld at source for the pay period} \\ &= \frac{(Y/P)}{\downarrow} + L \\ &\quad \text{If the result is negative, enter 0.} \\ &= (\$3,277.95 / 52) + \$0.00 \\ &= \$63.04 \end{aligned}$$

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:

$$\begin{aligned} I &= [P(G - F - H)] - J - J_1 \\ &= [52 (\$1,000 - \$70 - \$9.62)] - \$0.00 - \$0.00 \\ &= [52 (\$920.38)] - \$0.00 - \$0.00 \\ &= \$47,859.76 - \$0.00 - \$0.00 \\ &= \$47,859.76 \end{aligned}$$

Step 2

Determine variable Y using the following formula:

$$\begin{aligned} Y &= \text{Québec income tax for the year} \\ &= T(I) - K - K_1 - 0.20 (E) - 0.15 [P(Q)] \\ &= 0.20 (\$47,859.76) - \$1,148 - \$0.00 - 0.20 (\$21,830) \\ &\quad - 0.15 [52(\$100)] \\ &= \$9,571.95 - \$1,148 - \$0.00 - \$4,366 - \$0.00 \\ &= \$8,423.95 - \$4,366 \\ &= \$4,057.95 \end{aligned}$$

Step 3

Determine variable A using the following formula:

$$\begin{aligned} A &= \text{Québec income tax to be withheld at source for the pay period} \\ &= \frac{(Y/P)}{\downarrow} + L \\ &\quad \text{If the result is negative, enter 0.} \\ &= (\$4,057.95 / 52) + \$0.00 \\ &= \$78.04 \end{aligned}$$

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2005-11

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