Canadian Payroll Administration (2025)

Release Fall 2025

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Jul 18, 2025

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Alexander Bobkov (Alex) is the author of this comprehensive and practical study guide for Payroll Administration, drawing on nearly two decades of hands-on experience in the accounting field. From 2005 to 2022, Alexander successfully operated his own accounting firm, offering bookkeeping, accounting, and payroll services to a diverse clientele in the National Capital Regions. With a rich educational background that spans from a college diploma to a Master's degree in Business, he brings both academic insight and practical expertise to his work. For the past five years, Alexander has focused specifically on the payroll sector. This study guide reflects his long-standing goal: to help professional bookkeepers and business managers to build a solid foundation in payroll administration while easing the anxiety often associated with its complexity. Designed to be clear, practical, and empowering, the guide equips readers with the skills needed to confidently perform essential payroll functions encountered in day-to-day operations.

CHAPTER

ONE

PREFACE

Through this material, students will gain a comprehensive understanding of core payroll principles and practices. They will explore legislative compliance requirements and the role of key regulatory bodies that govern payroll operations in Canada.

Students will learn how to:

- Accurately calculate net pay for salaried, hourly, commissioned, and contract employees.
- Identify and meet payroll-related obligations for businesses.
- Navigate the administrative aspects of human resource management that intersect with payroll responsibilities.
- Apply payroll procedures using computerized payroll software through practical, hands-on exercises.
- Payroll's responsibilities from hiring through to termination.
- Payroll compliance legislation in practical scenarios.
- Individual pay calculation process.

1.1 Learning Outcomes

The material of this study guide aim to make students to be be able to:

- Calculate regular individual pay
- Calculate non-regular individual pay
- Calculate termination payments
- Complete a Record of Employment (ROE)
- Apply federal and provincial legislation to payroll, including: - The Canada Pension Plan Act - The Employment Insurance Act - The Income Tax Act - Employment Standards legislation - Workers' Compensation Acts - Québec-specific legislation

1.2 Recommended Course Material

1.3 Material Structure Overview

1. Introduction to Canadian Payroll
2. Labour and Employment Standards
3. Accounting for Payroll
4. Calculating Gross Pay

5. Pensionable, Insurable, and Taxable Earnings
6. Calculating Net Pay
7. Calculating Employer's Source Deduction Remittances
8. Termination of Employment:
    - Record of Employment (ROE)
    - Termination Payments
    - Retirement Pay

In other words, the material covers the foundational knowledge and technical skills needed to confidently perform payroll tasks in a variety of employment settings.

CHAPTER TWO

INTRODUCTION

2.1 Outcomes

Applying federal and provincial payroll legislation, regulations, and policies to ensure compliance with the legal framework governing payroll in Canada.

- CPP/QPP
- EI
- Income Tax (Federal, ON and QC)

Calculating regular individual pay

Calculating non-regular individual pay

Calculating termination pay

Completing a Record of Employment (ROE)

2.1.1 Payroll Legal Framework

The Canadian Payroll Administration system is designed to ensure compliance with the legal framework governing payroll in Canada. This includes adherence to federal and provincial regulations regarding employee compensation, deductions, and reporting requirements. The system is built to handle various payroll scenarios, including different employment types, tax calculations, and benefit deductions, while ensuring that all transactions are accurately recorded and reported in accordance with the law.

CHAPTER

THREE

TERMINOLOGY

3.1 Pensionable Earnings

3.2 Insurable Earnings

CHAPTER

FOUR

PAYROLL COMPLIANCE AND REGULATIONS

LEARNING OBJECTIVES

This chapter provides a comprehensive introduction to the fundamentals of payroll compliance and regulations in Canada. It outlines the key stakeholders involved, the core objectives of payroll, and the legal frameworks that shape payroll operations. The differences between federal and provincial/territorial jurisdictions are clearly explained, with emphasis on how each level of government influences payroll administration. The chapter also examines the Canada Revenue Agency's criteria for determining whether an individual is considered an employee or self-employed, providing essential context for accurate classification and compliance.

Topics covered in this chapter are:

1. Identify four uses of the term payroll
2. Describe payroll's objectives
3. Describe who payroll's stakeholders are
4. Differentiate between federal and provincial/territorial jurisdictions
5. Explain how each stakeholder affects payroll processes and procedures
6. Apply the Canada Revenue Agency's factors for determining whether an individual is an employee or self-employed

4.1 Introduction

Payroll is an essential operational function in any organization that employs staff, ensuring individuals are compensated appropriately for their work. The payroll process is subject to a robust framework of legislation. Both federal and provincial/territorial governments enact regulations that oversee various elements of payroll administration, including compensation practices, taxation of employee benefits, and the protection of worker rights. These legal obligations help establish consistency, accountability, and fairness in how employee remuneration is managed across sectors.

For the purposes of this course, payroll refers specifically to the process of compensating employees for work performed within the framework of an employer-employee relationship. Individuals who are self-employed or work as contractors submit invoices for their services and are paid through accounts payable, not through the payroll system — and therefore are not considered employees. This chapter explains how to assess whether a true employee-employer relationship exists. Once that relationship is confirmed, the appropriate method of payment can be accurately identified and applied.

Various levels of the governments offer specific criteria that help determine whether an employee-employer relationship is in place. Understanding the nature of this relationship is essential when evaluating a worker's status within an organization. Once the relationship is clearly identified, it becomes possible to ensure that payments made to the individual are handled in full compliance with applicable legislation. This distinction plays a vital role in payroll administration and helps prevent legal or financial errors tied to misclassification.

4.2 Payroll Objectives

The payroll function plays a vital role in every organization, with its primary objective being to ensure employees are compensated accurately and on time, in accordance with legislative requirements throughout the full annual payroll cycle.

Employees expect to receive their pay as scheduled and in the method agreed upon with their employer, whether by cheque or direct deposit. Beyond ensuring timely payment, payroll practitioners are also responsible for effectively communicating payroll-related information to all relevant stakeholders, supporting transparency, compliance, and organizational accountability.

Payroll is the process of paying employees in exchange for the work they perform. The term payroll can refer to:

- the department that administers the payroll
- the total number of people employed by an organization
- the wages and salaries paid out in a year
- a list of employees to be paid and the amount due to each

Legislation refers to laws enacted by a legislative body. In Canada there are many legislative sources that payroll practitioners must comply with at two separate levels – the federal and the provincial/territorial governments. Later in the chapter we will explore the compliance requirements for the various pieces of legislation from these sources.

Compliance is the observance of official requirements. For payroll, this means performing payroll functions according to federal and provincial/territorial legislative and non-governmental stakeholder requirements.

The legislative requirements are termed **statutory**. This means they are enacted, created, or regulated by statute, a law enacted by the legislative branch of a government. Fines and penalties can be imposed if an organization is not in compliance with the legislative requirements in each jurisdiction.

When working with federal and provincial or territorial government agencies, payroll professionals must be well-versed in the various laws and regulations that govern payroll operations, as well as the compliance requirements specific to each. It is their responsibility to ensure the organization adheres to all applicable legislation, thereby minimizing the risk of fines or legal penalties.

In addition to government regulations, payroll practitioners must also comply with obligations set forth by non-government stakeholders. These may include collective agreements with unions, group insurance policies, pension plans, and other contractual arrangements. Maintaining compliance across all stakeholder requirements is essential to the integrity and effectiveness of the payroll function.

4.3 Responsibilities and Functions of Payroll

The responsibilities of a payroll practitioner can vary significantly based on the size and structure of the organization, the jurisdictions in which employees are paid, and the presence of other supporting departments such as human resources, finance, and administration. These factors influence both the scope and complexity of payroll duties within the organization.

In small and medium-sized organizations, payroll practitioners often take on multiple roles that would typically be divided among separate departments in larger companies. Their responsibilities may extend beyond payroll to include tasks such as employee recruitment, human resources policy development, benefits administration, accounts payable and receivable, budgeting, and general administrative functions. In these settings, a broad and thorough knowledge of all assigned areas is essential, along with an understanding of the resources available to seek advice or guidance when needed.

In contrast, larger organizations tend to maintain dedicated payroll departments, supported by separate teams for human resources, accounting, and administration. Even within these multi-departmental structures, payroll professionals must possess a strong understanding of the employee life cycle. From onboarding through to termination, each stage carries specific implications for pay processing and reporting, requiring close coordination and specialized expertise.

The payroll department in a large organization may have:

- payroll administrators who are responsible for entering payroll data into the system and making required payroll remittances
- payroll coordinators who are responsible for preparing the payroll journal entries and reconciling the payroll related accounts
- payroll managers who manage the payroll function, the payroll staff and represent payroll at the management level

Content Knowledge

Payroll normally requires performing the following duties:

- Payroll Compliance Legislation: the Income Tax Act, the Employment Insurance Act, the Canada Pension Plan Act, Employment/Labour Standards, privacy legislation, Workers' Compensation and provincial/territorial payroll-specific legislation
- Payroll Processes: the remuneration and deduction components of payroll and how to use these components to calculate a net pay in both regular and non-regular circumstances
- Payroll Reporting: how to calculate and remit amounts due to government agencies, insurance companies, unions and other third parties. In addition, payroll reporting includes accounting for payroll expenses and accruals to internal financial systems and federal and provincial/territorial year-end reporting.

Technical Skills

Payroll professionals must possess a strong set of technical skills to perform their roles effectively. These include proficiency in payroll software and financial systems, as well as competence in commonly used computer applications such as spreadsheets, databases, and word processing programs. Mastery of these tools ensures accurate processing, reporting, and management of payroll-related data.

As organizations evolve and adapt to new technologies and reporting requirements, payroll and business systems are frequently updated or replaced. Therefore, it is essential for payroll personnel to remain flexible and open to change. A successful payroll practitioner should demonstrate a willingness to embrace continuous learning and stay current with system upgrades and best practices. This adaptability not only enhances performance but also supports long-term career growth in an ever-changing professional landscape.

Personal and Professional Skills

The following personal and professional skills will assist payroll professionals in dealing with the various stakeholders involved in the payroll process:

- written communication skills, such as preparing employee emails and memos, management reports, policies and procedures and correspondence with various levels of government
- verbal communication skills, to be able to respond to internal and external stakeholder inquiries
- the ability to read, understand and interpret legal terminology found in documents such as collective agreements, benefit contracts and government regulations
- excellent mathematical skills to perform various calculations
- problem solving, decision-making, time management and organizational skills

Behavioural and Ethical Standards

Professional behaviour and ethical conduct are critical components of an effective payroll practitioner's skill set. In this role, individuals must demonstrate trustworthiness, given the constant potential for fraud. Attention to detail is essential, making conscientiousness a valued trait.

Payroll professionals handle sensitive personal and financial data, so discretion is non-negotiable. They must also be tactful when interacting with employees, particularly in conversations involving financial concerns, which may be emotionally charged. Perceptiveness helps practitioners understand multiple perspectives in complex situations.

The ability to work under pressure is key, especially when managing absolute deadlines. Sound judgment and common sense allow practitioners to identify problems quickly and implement effective solutions. Finally, maintaining objectivity and a factual approach when responding to questions and inquiries ensures fair and consistent communication across the organization.

Effective payroll professionals should be:

- trustworthy, as the potential for fraud is ever present
- conscientious, with a keen attention to detail
- discreet, due to the confidential nature of information being handled
- tactful in dealing with employees who can be very sensitive when discussing their financial issues
- perceptive, able to understand all sides of an issue
- able to work under the pressures of absolute deadlines
- able to use common sense in order to recognize problems quickly and apply sound solutions
- able to remain objective and maintain a factual perspective when dealing with questions and inquiries

4.4 Payroll Stakeholders

Stakeholders refer to the individuals, groups, and organizations—both within and outside the company—that have a vested interest in the operations and outcomes of the payroll department. These stakeholders can be viewed as internal customers, and payroll practitioners are encouraged to adopt a proactive, service-oriented approach in meeting their needs and expectations.

Payroll management stakeholders are the federal and provincial/territorial governments, the internal stakeholders and the external stakeholders. Internal stakeholders include employees, employers and other departments within the organization. External stakeholders include benefit carriers, courts, unions, pension providers, charities, third party administrators and outsource/software vendors.

4.4.1 Government Stakeholders

Government legislation establishes the rules and regulations that govern payroll practices, particularly in relation to employee compensation. It is therefore essential for payroll practitioners to understand both the scope and the origin of all payroll-related laws.

Canada is ruled by a federal government with ten largely self-governing provinces and three territories controlled by the federal government. Payroll practitioners have to be compliant not only with the federal government legislation, but with the provincial and territorial governments' legislation as well.

As a result, payroll departments are directly influenced by legislative developments at both the federal and provincial or territorial levels, making ongoing legal awareness a critical component of payroll management.

The federal parliament has the power to make laws for the peace, order and good government of Canada. The federal cabinet is responsible for most of the legislation introduced by parliament, and has the sole power to prepare and introduce tax legislation involving the expenditure of public money.

The provincial/territorial legislatures have power over direct taxation in the province or territory for the purposes of natural resources, prisons (except for federal penitentiaries), charitable institutions, hospitals (except marine hospitals), municipal institutions, education, licences for provincial/territorial and municipal revenue purposes, local works, incorporation of provincial/territorial organizations, the creation of courts and the administration of justice, fines and penalties for breaking provincial/territorial laws.

Both the federal and provincial/territorial governments have power over agriculture, immigration and certain aspects of natural resources. Should their laws conflict, federal law prevails.

In the case of old age, disability, and survivor's pensions, again both the federal and provincial/territorial governments have power. In this instance, if their laws conflict, the provincial/territorial power prevails.

The federal government cannot transfer any of its powers to a provincial/territorial legislature, nor can a provincial/territorial legislature transfer any of its powers to the federal government. The federal government can, however, delegate the administration of a federal act to a provincial/territorial agency, and a provincial/territorial legislature can delegate the administration of a provincial/territorial act to a federal agency.

> As all provinces and territories (except Québec) have delegated the administration of the collection of income tax deductions to the federal government, the Canada Revenue Agency (CRA) collects income tax withheld from employees under both federal and provincial/territorial requirements. Québec collects its provincial income tax directly.

4.4.2 Federal Government

The Constitution Act of 1867 outlined the division of legislative power and authority between federal and provincial/territorial jurisdictional governments. The exclusive legislative authority of the Parliament of Canada extends to all matters regarding:

- regulation of trade and commerce
- Employment Insurance
- postal service
- fixing and providing salaries and allowances for civil and other officers of the Government of Canada
- navigation and shipping
- ferries between a province and any British or foreign country or between two provinces
- criminal law, except the Constitution of Courts of Criminal Jurisdiction, but including the Procedure in Criminal Matters
- anything not specifically assigned to the provinces under this Act

The Canada Labour Code is legislation that consolidates certain statutes respecting labour. Part I deals with Industrial Relations, Part II deals with Occupational Health and Safety and Part III deals with Labour Standards. The primary objective of Part III is to establish and protect employees' and employers' rights to fair and equitable conditions of employment. Part III provisions establish minimum requirements concerning the working conditions of employees under federal jurisdiction in the following industries and organizations:

- industries and undertakings of inter-provincial/territorial, national, or international nature, that is, transportation, communications, radio and television broadcasting, banking, uranium mining, grain elevators, and flour and feed operations
- organizations whose operations have been declared for the general advantage of Canada or two or more provinces, and such Crown corporations as Canada Post Corporation, and the Canadian Broadcasting Corporation (CBC)

4.4.3 Provincial/Territorial Governments

Under the Constitution Act of 1867, the exclusive legislative authority of the provinces and territories exists over:

- all laws regarding property and civil rights, which give the provinces/territories the authority to enact legislation to establish employment standards for working conditions
- employment in manufacturing, mining, construction, wholesale and retail trade, service industries, local businesses and any industry or occupation not specifically covered under federal jurisdiction

Canada's division of authority between federal and provincial or territorial governments directly influences payroll practices, particularly in relation to employment and labour standards. These standards are governed independently by each province and territory, and outline key rules related to workplace conditions.

Among the issues addressed are hours of work, minimum wage, overtime eligibility, vacation entitlements, and termination pay. Because each jurisdiction sets its own legislation, payroll practitioners must ensure compliance with the specific requirements applicable to the location where the employee works. Navigating these variations is an essential aspect of effective and lawful payroll administration.

> **Example:**
>
> The Gap is a retail business with stores across Canada. The workers in each store are governed under the employment/labour standards legislated in the jurisdiction in which they work. For example, the minimum general hourly wage in effect January 1, 2020 (which is governed by provincial/territorial employment/labour standards) is higher in Ontario than in Prince Edward Island. An employee working in Ontario would receive a higher hourly minimum wage than an employee with the same position in Prince Edward Island.
>
> Employers must follow the employment/labour standards legislated by the jurisdiction in which their employees work, unless they are governed by federal labour standards. Federal labour standards apply to certain industries and organizations, regardless of where the employees work.

The person or persons performing the payroll function must clearly understand under which employment/labour standards jurisdiction the employees of the organization fall. Organizations may have some employees who fall under federal jurisdiction and another group of employees who fall under provincial/territorial legislation.

4.4.4 Internal Stakeholders

Internal stakeholders are the people and departments within the organization that rely on the payroll function to operate effectively. They form the core audience served by payroll and include employees who depend on accurate and timely compensation, employers who oversee workforce management, and other internal teams—such as human resources, finance, and operations—that collaborate closely with payroll for data sharing, planning, and compliance. These stakeholders play a direct role in shaping how payroll services are delivered and supported across the organization.

Employers - Management may require certain information from payroll to make sound business decisions.

Employees - Employees require that their pay is received in a timely and accurate manner to meet personal obligations. Employees must also be assured that their personal information is kept confidential.

Other departments - Many departments interact with payroll, either for information or reporting. According to the Canadian Payroll Association's 2020 National Payroll Week (NPW) Payroll Professional Research Survey, fifty-five percent of payroll practitioners report through the finance department and thirty-two percent report through the human resources department. Information such as general ledger posting, payroll and benefit costs and salary information must flow between payroll, human resources and finance in formats needed for their various requirements.

In addition, other departments such as contracts and manufacturing often need payroll information for budgeting, analytical and quality purposes.

4.4.5 External Stakeholders

External stakeholders are entities outside of both the organization and government that maintain a collaborative or service-based relationship with the payroll function. These may include benefit providers, insurance carriers, pension plan administrators, unions, and third-party service vendors. Although not formally part of the company or regulatory bodies, their involvement directly impacts payroll operations.

Ensuring compliance with external stakeholder requirements is a key duty of the payroll department. This often includes verifying data, meeting contractual obligations, and coordinating financial transactions. In many cases, payroll professionals must initiate cheque requests through accounts payable and submit accompanying documentation to these organizations to fulfill obligations accurately and on time. Maintaining strong communication and attention to detail with external partners is essential for smooth and compliant payroll administration.

Benefit Carriers are insurance companies that provide benefit coverage to employees. Payroll is responsible for deducting and remitting premiums for the insurance coverage to the carriers and for providing reports on employee enrolment and coverage levels.

Courts and the CRA require payroll to accurately deduct and remit amounts ordered to be withheld through garnishments, third party demands, requirements to pay and support deduction orders.

Unions require that payroll accurately deduct and remit union dues and initiation fees, and to ensure that the terms of the collective agreement are adhered to. It is estimated that just under one-third of the workforce in Canada belongs to a trade union. Payroll professionals must be familiar with the role and activities of trade unions and the responsibilities of the employer and the payroll department in a unionized environment.

Pension Providers are third party pension plan providers that may require payroll to provide enrolment reports on participating employees and length of service calculations, and to remit employee deductions and employer contributions

Charities have arrangements with some organizations to facilitate employee donations through payroll deductions. Payroll is responsible for remitting these deductions to the charity.

Third Party Administrators are organizations that affect the administration of the payroll function. Examples of these external stakeholders are banking institutions or benefit organizations that offer Group Registered Retirement Saving Plans (RRSP). Payroll is responsible for deducting any employee contributions and remitting employer and employee contributions to the plan administrator.

Outsource/Software vendors are payroll service providers or payroll software vendors that work with the payroll department to ensure the payroll is being processed accurately and efficiently.

4.5 Legislations and Regulations

Federal and provincial/territorial legislation, and amendments to existing legislation and regulations, can affect the operations of a payroll department, as the requirement to comply with the new or amended legislation must be satisfied.

It is important to note the difference between legislation and regulatio. **Legislation** determines what the rules are, while **regulations** determine how the rules are to be applied.

The methods for calculating income tax deductions are specified by the federal government through regulations.

> *Example:*
>
> *The Income Tax Act*
>
> The legislation: Specifies that employers are required to withhold income tax from employees.
>
> The regulation: Specifies the taxation methods that should be used for non-periodic payments such as bonuses, retroactive pay increases, lump sum payments, etc.
>
> *Non-periodic bonus payments*
>
> Where a payment in respect of a bonus is made by an employer to an employee whose total remuneration (including the bonus) from the employer may reasonably be expected to exceed $5,000 in the taxation year of the employee in which the payment is made, the amount to be deducted or withheld by the employer is dictated through a calculation prescribed in the regulation within the Act.

Legislative changes can present significant challenges for payroll departments, especially when implemented mid-year or applied retroactively. These adjustments often require updates to individual payroll records, additional reconciliation efforts, and revisions to year-end balancing procedures, placing extra demands on payroll professionals.

Labour legislation in particular is subject to frequent modifications, including amendments, repeals, and revisions. Therefore, it is critical for payroll practitioners to remain informed about the laws and regulatory updates relevant to each jurisdiction in which their organization operates.

Legislative changes are typically communicated through public media. In larger organizations, updates may also be shared internally by human resources, tax specialists, or legal departments. Regardless of the organization's size, payroll professionals should take a proactive role in monitoring relevant developments and ensuring that all affected parties are made aware of any changes. A variety of resources—such as government publications, industry newsletters, professional associations, and online portals—can support this ongoing effort to stay informed and maintain compliance.

The following are some of the available resources:

- The Canadian Payroll Association offers a phone and email information service, Payroll InfoLine, for members' payroll related questions. The Association also has a website for members, www.payroll.ca, that contains guidelines, legislative updates and other useful payroll related information. As well, the Association is available on Twitter(@cdnpayroll), LinkedIn (The Canadian Payroll Association) and Facebook (@canadianpayroll).
- The Canada Revenue Agency (CRA) produces guides, publications, Income Tax Bulletins, folios and Circulars, posts news bulletins and enables participation on an electronic mailing list with e-mail alerts for new content to the Canada.ca website.
- The Revenu Québec (RQ) website provides guides, publications, bulletins, forms, online services and enables participation on an electronic mailing list with e-mail notifications of tax news articles - https://www.revenuquebec.ca/en/
- Employment/labour standards (federal, provincial and territorial) publications and websites. Each jurisdiction has a website providing information on their employment/labour standards. For example, the websites for Alberta and Québec are: Alberta - https://www.alberta.ca/employment-standards.aspx Québec - www.cnt.gouv.qc.ca/en
- Employment and Social Development Canada (ESDC) and Service Canada (SC) publications including information regarding the Employment Insurance (EI) program and the Social Insurance Number - www.canada.ca
- CCH Canada Limited publishes a series of volumes on employment and labour law, pensions and benefits, etc., that supplies information on legislation with regular updates as changes become law - www.cch.ca
- Carswell publishes The Canadian Payroll Manual and offers a phone and email service to subscribers - www.carswell.com

4.5.1 Legislative Compliance

Payroll plays a critical role not only in ensuring that employees are paid accurately and on time, but also in supporting and maintaining compliance with numerous government regulations. This includes legislative obligations related to payroll source deductions, Canada Pension Plan contributions, Employment Insurance premiums, and both federal and provincial/territorial income tax withholdings. When these obligations are not met, employers may face serious consequences, including financial penalties or legal enforcement actions designed to ensure compliance.

Penalties such as fines, interest charges, and legal sanctions often result from audits or investigations into non-compliance. In more severe cases, enforcement measures may include seizure of bank accounts or assets, and fines.

To monitor and enforce these requirements, government agencies utilize a range of tracking systems. Some, such as those used to oversee source deduction remittances, rely on strict reporting schedules that create a consistent audit trail. Failure to meet these time-sensitive obligations typically triggers a swift response and the imposition of penalties.

For reporting requirements that are less frequent or ongoing, the consequences of non-compliance may not be immediate. However, they can lead to scrutiny from auditors or other officials tasked with verifying that payroll practices align with current legislative standards. Payroll professionals must remain vigilant and informed to protect their organization from financial and legal risk.

> *Example:*
>
> **Record of Employment (ROE)** issuance Failure to issue a ROE within the established deadlines may result in a visit from an investigative officer from Service Canada.
>
> The Canada Revenue Agency's Pensionable and Insurable Earnings Review (PIER) is an annual compliance review system. This system utilizes the data provided on the T4 information slips issued at year-end

to validate the amounts of CPP contributions and EI premiums deducted by employers, and identifies any remittance deficiencies.

4.5.2 Self-Assessment

Both the federal and provincial/territorial tax systems in Canada operate on the principle of self-assessment. Under this system, taxpayers and their representatives—including employers—are responsible for accurately calculating, reporting, and remitting taxes and other required contributions by the prescribed deadlines.

The Canada Revenue Agency (CRA) and Revenu Québec (RQ) serve as administrators of these systems, ensuring that individuals and organizations remain compliant and that all amounts owed are properly paid.

Importantly, both agencies acknowledge the right of taxpayers to organize their financial affairs in a way that minimizes their tax liability, provided it remains within legal boundaries. While tax planning is permitted, tax evasion—such as failing to report income, neglecting to remit amounts due, or submitting false information—is strictly prohibited and subject to enforcement actions.

4.6 The Employee-Employer Relationship

Determining the nature of the working relationship between an individual and an organization is essential in all employment situations. Whether the individual is classified as an employee or self-employed directly affects the statutory withholding requirements and the organization's compliance with applicable legislation. To support this assessment, the Canada Revenue Agency (CRA) provides a set of guidelines designed to help distinguish between the two classifications. Importantly, the decision is not made by the worker but must be based on objective criteria and legal standards.

Payroll practitioners play an important role in promoting awareness of this distinction throughout the organization. By proactively communicating the significance of establishing a valid employee-employer relationship, payroll professionals help ensure that employment classifications are accurate and compliant.

Once an employee-employer relationship is confirmed, the payroll department becomes responsible for meeting compliance obligations related to statutory withholdings. This includes deducting the appropriate amounts—such as income tax, Canada Pension Plan contributions, and Employment Insurance premiums—from employee pay and remitting them to the government within the required timelines. Proper classification and adherence to these rules are key to maintaining legal and financial accountability.

Where an employee-employer relationship exists, the CRA requires the employer to:

- register with the Canada Revenue Agency for a Business Number (BN)
- withhold the statutory deductions of income tax, Canada Pension Plan (CPP) contributions, and Employment Insurance (EI) premiums on amounts paid to employees
- remit the amounts withheld as well as the required employer's share of CPP contributions and EI premiums to the Canada Revenue Agency
- report the employees' income and deductions on the appropriate information return
- give the employees copies of their T4 slips by the end of February of the following calendar year

Information on the factors to consider when determining whether an employee-employer relationship exists can be found in the Canada Revenue Agency guide, Employee or Self-Employed? - RC4110. The guide is available on the CRA's website, https://www.canada.ca/en/revenue-agency.html.

4.6.1 Contract of Service (Employment)

A **contract of service** is an arrangement whereby an individual (the employee) agrees to work on a full-time or part-time basis for an employer for a specified or indeterminate period of time.

Under a contract of service, one party serves another in return for a salary or some other form of remuneration.

4.6.2 Contract for Service (Subcontracting)

A **contract for service** is a business relationship whereby one party agrees to perform certain specific work stipulated in the contract for another party. It usually calls for the accomplishment of a clearly defined task but does not normally require that the contracting party do anything him/herself. A person who carries out a contract for service may be considered a contract worker, a self-employed person or an independent contractor.

A business relationship is formed when a self-employed individual enters into a verbal or written agreement to complete specific work for a payer in exchange for compensation. This arrangement does not establish an employer-employee relationship; instead, it represents a contract for services.

Under this type of agreement, the self-employed individual is responsible for delivering a final result within an agreed timeframe, using methods of their own choosing. They are not subject to the direction or supervision of the payer while completing the work, and they retain autonomy over how tasks are executed. In most cases, the payer does not participate in or influence the work process, meaning control over the work lies entirely with the self-employed individual. This structure reflects a high level of independence and flexibility, distinguishing it clearly from traditional employment relationships.

Under a contract for service, a self-employed individual accepts both the potential for profit and the risk of financial loss. Prior to engagement, the individual agrees on the total cost of the work, uses personal tools and equipment, and assumes full responsibility for how the work is performed. This means the individual bears any unforeseen costs or challenges that arise during the project. Conversely, if the work is completed more efficiently than expected, the financial gain—through retained profits—is greater.

Organizations often utilize contracts for service when they require tasks or projects that fall outside their normal business operations. While the relationship between a payer and a self-employed contractor may resemble that of an employer and employee, there is a key distinction. In a contract for service, the payer specifies the desired outcome or deliverable, but not how the work should be completed. In contrast, a contract of service allows the employer to direct both the tasks and the method by which they are carried out, establishing a more controlled, employee-based relationship.

Under a contract for service, the payer exercises general oversight to ensure that the agreed work is completed as specified. However, this oversight does not extend to controlling how the work is performed. The self-employed individual retains autonomy over the methods used to complete the tasks. Receiving general instructions from a project manager or similar representative does not establish an employer-employee relationship.

An employee-employer relationship is recognized when an organization has the authority to direct and control both the work and the manner in which it is performed. If there is uncertainty about whether such a relationship exists, the Canada Revenue Agency (CRA) recommends submitting Form CPT1 — Request for a CPP/EI Ruling: Employee or Self-Employed? — to obtain clarification. A sample of this form can be found at the end of this section.

Independent contractors or self-employed individuals are not classified as employees if no employer-employee relationship is present. They typically submit invoices and receive payment through accounts payable. However, the act of submitting an invoice alone is not sufficient to confirm self-employment status. Proper assessment of the working relationship is essential sto ensure accurate classification and compliance with tax and labor regulations.

4.6.3 Factors Determining the Type of Contract

The CRA uses a two-step approach to examine the relationship between the worker and the payer for relationships outside the province of Québec. The approach used for relationships in the province of Québec will be discussed in a later chapter.

Step 1: The first step is to establish what the intent was when the worker and the payer entered into the working arrangement. Did they intend to enter into an employee-employer relationship (contract of service) or did they intend to enter into a business relationship (contract for service). The CRA must determine not only how the working relationship has been defined but why it was defined that way.

Step 2: The CRA then considers certain factors when determining if a contract of service or a contract for service exists. In order to understand the working relationship and verify that the intent of the worker and the payer is reflected in the facts, they will ask a series of questions that relate to the following factors:

- the level of control the payer has over the worker
- whether or not the worker provides the tools and equipment
- whether the worker can subcontract the work or hire assistants
- the degree of financial risk taken by the worker
- the degree of responsibility for investment and management held by the worker
- the worker's opportunity for profit
- any other relevant factors, such as written contracts

The CRA will look at the answers independently and then together and consider whether or not they reflect the intent that was originally stated. Considered individually, the response to each of these questions is not conclusive; however, when weighed together, certain conclusions may be drawn. When there is no common intent, the CRA will decide if the answers are more consistent with a contract of service or a contract for service. Each of these factors will be discussed in the material and indicators showing whether the worker is an employee or self-employed will be provided.

4.6.4 Control

One of the key factors in determining a worker's status is the extent to which the payer has the ability, authority, or right to control both what work is performed and how it is carried out. Equally important is the level of independence the worker maintains in performing their duties.

In evaluating the relationship, both the payer's oversight of the worker's day-to-day activities and their overall influence are assessed. However, it is the payer's right to exercise control—rather than whether that control is actively used—that holds the most weight in determining the nature of the working relationship.

Worker is an *Employee* when:

- The relationship is one of subordination.
- The payer will often direct, scrutinize, and effectively control many elements of how the work is performed.
- The payer controls both the results of the work and the method used to do the work.
- The payer determines what jobs the worker will do.
- The worker receives training or direction from the payer on how to do the work.

Worker is a *Self-Employed* when:

- Individual usually works independently, does not have anyone overseeing them.
- The worker is usually free to work when and for whom they choose and may provide their services to different payers at the same time.
- The worker can accept or refuse work from the payer.
- The working relationship between the payer and the worker does not present a degree of continuity, loyalty, security, subordination, or integration.

4.6.5 Tools and Equipment

Ownership of tools and equipment is not a definitive factor in determining the nature of a working relationship or the type of contract in place. While self-employed individuals often use their own tools to fulfill contractual obligations—making such ownership common in business relationships—this alone does not confirm self-employment. Employees may also be required to supply their own tools, depending on the trade or occupation.

In typical employee-employer relationships, the employer provides the necessary equipment and assumes the costs associated with its use, including maintenance, insurance, transportation, rental fees, and operational expenses such as fuel. However, in certain industries—such as automotive repair, painting, carpentry, and technical fields like software development or surveying—it is standard practice for employees to use their own tools or specialized instruments.

In contrast, self-employed individuals not only supply their own equipment but also bear the associated costs. Significant financial investment in tools—especially those that require ongoing maintenance or replacement—can suggest a business relationship, as these individuals assume both the potential for profit and the risk of loss.

Ultimately, the key consideration is the scale of the investment and the financial responsibility related to repairs, replacement, and insurance, rather than mere ownership itself.

The worker is an employee when:

- The payer supplies most of the tools and equipment.
- The payer retains the right of use over the tools and equipment provided to the worker.
- The worker supplies the tools and equipment and the payer reimburses the worker for their use

The worker is a self-employed individual when:

- The worker provides the tools and equipment required and is responsible for the cost of repairs, insurance and maintenance and retains the right over the use of these assets.
- The worker supplies his or her own workspace, is responsible for the costs to maintain it, and does substantial work from that site.

4.6.6 Subcontracting Work or Hiring Assistants

As subcontracting work or hiring assistants can affect a worker's chance of profit or risk of loss, this can help determine the type of business relationship.

The worker is an employee when:

- The worker cannot hire helpers or assistants.
- The worker must perform the services personally.

The worker is a self-employed individual when:

- The worker does not have to perform the service personally.
- They can hire another party to complete the work, without consulting with the payer.

4.6.7 Financial Risk

When evaluating the nature of a working relationship, the Canada Revenue Agency (CRA) considers whether the individual incurs fixed, ongoing costs or unreimbursed expenses. In traditional employee arrangements, employers typically reimburse expenses that arise as part of the job—for example, travel or business-related costs.

In contrast, self-employed individuals often assume greater financial risk by covering recurring operational costs regardless of whether active work is being performed. These may include equipment leasing, office space rental, or other business overheads. While both employees and contractors may receive reimbursement for certain expenses, the CRA places particular emphasis on identifying costs that are not reimbursed. The presence of such expenses may indicate a business relationship, reflecting the independence and financial responsibility characteristic of self-employment.

The worker is an employee when:

- The worker is not usually responsible for any operating expenses.
- The worker is not financially liable if he or she does not fulfill the obligations of the contract.
- The payer determines and controls the method and amount of pay.

The worker is a self-employed individual when:

- The worker is financially liable if he or she does not fulfill the obligations of the contract.
- The worker does not receive any protection or benefits from the payer.
- The worker hires helpers to assist and pays them.
- The worker advertises the services offered.

4.6.8 Responsibility for Investment and Management

When assessing whether a business relationship exists, one important indicator is the worker's financial investment in the services they provide. If an individual is required to invest in equipment, materials, or other resources to complete the work, this suggests the presence of a contract for service rather than an employment relationship.

Another key factor is decision-making authority related to financial outcomes. When the worker independently makes business decisions that influence their profit or loss—such as pricing, project selection, or service delivery methods—it further supports the classification of a self-employed individual operating under a business arrangement. These characteristics reflect the autonomy and financial risk typically associated with self-employment.

The worker is an employee when:

- The worker has no capital investment in the business.
- The worker does not have a business presence.

The worker is a self-employed individual when:

- The worker has capital investment, manages his or her staff, hires and pays individuals to help perform the work, and has established a business presence.

4.6.9 Opportunity for Profit

A business relationship is often indicated when a worker has the ability to realize a profit or incur a loss, reflecting their control over the financial and operational aspects of the services they provide. Self-employed individuals typically negotiate their own rates, choose which contracts to accept, and may take on multiple contracts simultaneously. To fulfill contractual obligations, they often incur and manage expenses, which directly influence their potential for profit.

In contrast, employees generally do not bear financial risk or benefit from profit. While commission-based employees may increase their earnings through performance, this does not represent profit in the traditional sense, as it does not reflect income earned beyond expenses. Moreover, employees do not typically share in a business's profits or losses.

When assessing worker classification, the Canada Revenue Agency (CRA) considers the extent to which the individual controls their revenue and expenses. Another key factor is the method of payment: employees are usually compensated at a fixed rate based on a consistent pay schedule (e.g., hourly, weekly, or annually). Self-employed individuals, however, are often paid a flat rate for a specific job, especially when they absorb related costs—an arrangement that commonly signals a business relationship.

The worker is an employee when:

- The worker is not in a position to realize a business profit or loss.
- The worker is entitled to benefit plans that are normally only offered to employees.

The worker is a self-employed individual when:

- The worker is compensated by a flat fee.
- The worker can hire and pay a substitute.

The worker is an employee when:

The worker is a self-employed individual when:

4.7 Review Summary

The core purpose of the payroll function within any organization is to ensure employees are compensated accurately and punctually, in accordance with all applicable legislation throughout the full annual payroll cycle. This essential function supports employee satisfaction, regulatory compliance, and overall operational efficiency.

Payroll refers to the systematic process of remunerating employees for their services. It involves calculating earnings, applying deductions for taxes and benefits, and issuing payments through approved channels. Precision in these processes is critical to avoid financial discrepancies and foster organizational trust.

Legislation encompasses the legal framework enacted by federal, provincial, and territorial bodies that governs payroll activities. This includes tax laws, employment standards, and workplace rights. Compliance means adhering to these legal requirements to prevent penalties and uphold ethical business practices.

To execute payroll duties effectively, practitioners must possess comprehensive knowledge of payroll legislation, operational processes, and reporting obligations. Beyond technical expertise, strong interpersonal and professional skills are essential, enabling practitioners to adapt to legislative changes and uphold standards of accountability.

Stakeholders—both internal and external—have a vested interest in the payroll function's integrity and outcomes. Internally, this includes employees, employers, and interconnected departments such as human resources and finance. Externally, stakeholders may include benefit providers, unions, pension administrators, charitable organizations, legal entities, and software vendors. Their interaction with payroll processes influences expectations around accuracy, compliance, and data coordination.

Payroll governance is shaped by both federal and provincial/territorial authority. The federal government enacts legislation that applies nationally, particularly for industries operating across provinces or those serving a broader national interest. Provincial and territorial governments regulate regional matters such as civil rights, property, and employment standards within local industries. Any sector not under federal oversight typically falls under provincial or territorial jurisdiction.

Employers are obliged to comply with the labour and employment standards applicable to the jurisdiction in which their employees work—unless federal laws take precedence. Where legislation mandates compliance, enforcement may include financial penalties or legal action to ensure accountability.

Employment relationships are defined through contractual arrangements. A contract of service refers to a traditional employer-employee relationship, where an individual commits to working for an employer—either on a full-time or part-time basis—for a specified or ongoing period. The employer has authority over both the duties and how they are executed.

Conversely, a contract for service reflects a business arrangement where an independent contractor agrees to perform specific tasks, with discretion over how the work is completed. This signifies a client-provider relationship rather than an employment one.

To assess worker classification—particularly outside Québec—the Canada Revenue Agency (CRA) employs a two-step evaluation. Key considerations include:

Control: Whether the payer holds the right to determine what work is done and how it is executed.

Independence: The degree of autonomy exercised by the worker.

Ownership of Tools: Significant investment in tools and equipment, along with maintenance and insurance responsibilities, may indicate a business relationship.

Financial Risk: Ongoing operational costs or unreimbursed expenses reflect a higher likelihood of self-employment.

Revenue Control: The ability to manage pricing, accept multiple contracts, and influence earnings supports classification under a contract for service.

Collectively, these factors guide proper categorization for legal and tax purposes, helping organizations ensure compliance and mitigate potential risk.

4.8 Review Questions

What is the primary objective of the payroll department?

> The primary objective of the payroll department is to pay employees accurately and on time, in compliance with the legislative requirements for a full annual payroll cycle.

List four definitions of payroll.

- the department that administers the payroll
- the total number of people employed by an organization
- the wages and salaries paid out in a year
- a list of employees to be paid and the amount due to each

List the three types of payroll management stakeholders and provide an example of each.

> Payroll management stakeholders are government (federal and provincial/territorial), internal (employees, employers and other departments) and external (benefit carriers, courts, unions, pension providers, charities, third party administrators and outsource/software vendors).

Explain the difference between legislation and regulation.

> Legislation determines what the rules are, while regulations determine how the rules are to be applied.

What are two examples of sources of information that you use (or could use) to keep upto-date on payroll compliance changes?

> The Canadian Payroll Association offers Payroll InfoLine, a phone-in and e-mail information service for members
>
> - The Canada Revenue Agency (CRA) produces guides, publications and Income Tax Bulletins, folios and Circulars, posts news bulletins and enables
>
> participation on an electronic mailing list with e-mail alerts for new content to the site - The Revenu Québec (RQ) website provides guides, publications, bulletins, forms, online services and enables participation on an electronic mailing list with e-mail notifications of tax news articles - Employment/labour standards (federal, provincial and territorial) publications and websites - Employment and Social Development Canada (ESDC) and Service Canada (SC) publications including information regarding the Employment Insurance (EI) program and the Social Insurance Number - CCH Canada Limited publishes a series of volumes on employment and labour law, pensions and benefits, etc., that supplies information on legislation with regular updates as changes become law - Carswell publishes The Canadian Payroll Manual and offers a phone-in service to subscribers
>
> Copies of legislation are available from the printing offices of the federal, provincial and territorial governments as well as through government websites.

List three external stakeholders and explain their compliance requirements.

> Benefit Carriers - Payroll is responsible for deducting and remitting premiums for the insurance coverage to the carriers and for providing reports on employee enrolment and coverage levels. Courts and the CRA - Payroll must accurately deduct and remit amounts ordered to be withheld through garnishments, third party demands, requirements to pay and support deduction orders. Unions - Payroll must accurately deduct and remit union dues and initiation fees, and ensure that the terms of the collective agreement are adhered to. Pension Providers - Third party pension plan providers may require payroll to provide enrolment reports on participating employees and length of service calculations, and to remit employee deductions and employer contributions.

Indicate the jurisdiction the following employees fall under:

- Canada Post Corporation (F)
- An insurance company (P)
- A uranium mining company (F)
- Canadian Broadcasting Corporation (F)
- A retail department store with locations in every province (P)
- A chartered bank (F)

What is the difference between a contract of service and a contract for service?

> A contract of service is an arrangement whereby an individual (the employee) agrees to work on a full-time or part-time basis for an employer for a specified or indeterminate period of time.
>
> A contract for service is a business relationship whereby one party agrees to perform certain specific work stipulated in the contract for another party.

What are the factors that the Canada Revenue Agency (CRA) considers when determining if a contract of service or a contract for service exists?

Please consider the following scenario.

> You are a payroll professional working for a large manufacturing company. Your organization has had many change initiatives over the last number of years including three mergers and two large group terminations. Your company endorses the use of consultants rather than growing the number of permanent employees.
>
> Write a memo to your supervisor, who is the Chief Financial Officer of the company, to explain why your role must coordinate with the Accounts Payable Department to ensure that these payments are being handled correctly. Please prepare your answer in a separate document.
>
> *At the last weekly Finance meeting, Tom and I discussed the increase in the number of contractor invoices being processed through accounts payable (AP). We have some concerns as to whether these individuals would be considered truly selfemployed by the Canada Revenue Agency (CRA), or whether the CRA would determine them to be employees.*
>
> *If the worker is considered self-employed, then payment, on submission of an invoice, will continue to be handled by AP. If, however, the worker is considered an employee, they would have to be set up on payroll, as they would be in receipt of income from employment, subject to all legislated statutory withholdings.*
>
> *I have attached the CRA's form Request for a CPP/EI Ruling - Employee or SelfEmployed? - CPT1 for your information. This form can be completed by the company and sent with supporting documentation, such as the terms and conditions of the contract, for a ruling from the CRA on the individual's status.*
>
> *I think that Payroll must coordinate with the Accounts Payable Department to ensure that these payments are being handled correctly.*
>
> *Tom and I would be pleased to meet with you to ensure the company is in compliance with all legislative requirements. Would you be available next Friday morning at 10:00 to discuss?*

Membership or participation in the Canada Pension Plan (CPP) and Employment Insurance Plan (EI) is compulsory for certain types of employment. As a person responsible for the payroll you need to know which employees must participate in these plans, what amounts to withhold from employees and how much the employer will have to remit or send to the Canada Revenue Agency (CRA).

Payroll plays a pivotal role in administering statutory deductions, specifically the collection and remittance of Canada Pension Plan (CPP) contributions and Employment Insurance (EI) premiums. These mandatory deductions, along with the employer's matching portion, must be accurately submitted to the Canada Revenue Agency (CRA) within prescribed timelines.

This chapter outlines the essential criteria used to identify pensionable and insurable earnings, and provides detailed guidance on calculating both employee deductions and employer contributions for regular and non-regular pay periods.

In accordance with federal legislation, CPP contributions are the **first deduction** applied to employment income, followed by EI premiums. Because these deductions are mandated by statute, they are classified as **statutory deductions**, underscoring their legal significance and the employer's obligation to ensure full compliance.

Learning Objectives

Upon completion of this chapter, you should be able to explain:

1. The requirements and calculations for Canada Pension Plan contributions
2. The requirements and calculations for Employment Insurance premiums
3. What Service Canada uses the information on a Record of Employment for

This chapter will cover the following topics:

1. Identify the following Canada Pension Plan components:
   - Who must contribute to the Canada Pension Plan
   - Types of employment subject to Canada Pension Plan contributions
   - Types of employment not subject to Canada Pension Plan contributions
   - Payments and benefits subject to Canada Pension Plan contributions
   - Payments and benefits not subject to Canada Pension Plan contributions
2. Calculate Canada Pension Plan contributions at an individual level
3. Identify the following Employment Insurance components:
   - Who must pay Employment Insurance premiums
   - Types of employment subject to Employment Insurance premiums
   - Types of employment not subject to Employment Insurance premiums
   - Payments and benefits subject to Employment Insurance premiums
   - Payments and benefits not subject to Employment Insurance premiums
4. Calculate Employment Insurance premiums at an individual level
5. Describe the purpose of a Record of Employment
6. Identify when the Record of Employment must be completed

CHAPTER

FIVE

CANADA PENSION PLAN

Objective of this section is to enable you to identify the following Canada Pension Plan components:

- Who must contribute to the Canada Pension Plan
- Types of employment subject to Canada Pension Plan contributions
- Types of employment not subject to Canada Pension Plan contributions
- Payments and benefits subject to Canada Pension Plan contributions
- Payments and benefits not subject to Canada Pension Plan contributions
- Calculate Canada Pension Plan contributions at an individual level

The **Canada Pension Plan** (CPP) is a federally legislated social insurance program established under the Canada Pension Plan Act. Its primary purpose is to provide financial protection to contributors and their families in the event of retirement, disability, or death. The program is funded through mandatory payroll deductions from employees, which are matched equally by employers. These employee contributions are specifically referred to as Canada Pension Plan contributions.

In addition to the CPP, employers may offer private or non-government pension plans, which may also involve payroll deductions from employees. The specific payroll withholding requirements for these supplementary pension plans will be discussed in more detail in the later chapters; it is important to note that the CPP is often one of multiple retirement savings vehicles available within an organization's compensation structure.

Note

Employers located in Quebec are responsible for deducting Québec Pension Plan (QPP) contributions, instead of CPP contributions, from their Québec employees and remitting those contributions to Revenu Québec (RQ).

The Canada Pension Plan (CPP) was designed as an income replacement program for individuals who have been in pensionable employment during their working life. A CPP retirement pension is a monthly benefit paid to people who have contributed to the Canada Pension Plan. The pension is designed to replace about 25 percent of the earnings on which a person's contributions were based. Individuals can apply for their CPP retirement pension when they turn 60.

There are three Canada Pension Plan benefits:

- retirement pension
- disability benefits (for contributors with a disability and their dependent children)
- survivor benefits (including the death benefit, the survivor's pension and the children's benefit)

The CPP operates throughout Canada while the province of Québec administers its own program for workers in Québec called the **Québec Pension Plan** (QPP). The two plans work together to ensure that all contributors are protected, no matter where the individual lives. Québec Pension Plan requirements will be covered later in this course.

5.1 Who Must Contribute to the Canada Pension Plan

The CPP is a **contributory plan**. This means that all costs are covered by the financial contributions paid by employees, employers and self-employed workers, and from revenue earned on CPP investments. The CPP is not funded through general tax revenues.

Canada Pension Plan contributions must be withheld from employees who:

1. CPP contributions must be withheld from employees who have reached the age of 18 but are under the age of 70.
2. CPP contributions must be withheld from employees who are in pensionable employment.
3. CPP contributions must be withheld from employees in pensionable employment who are not considered to be disabled by either Service Canada or Retraite Québec.

4. CPP contributions must be withheld from employees who are 65 years of age but are under the age of 70 and are in receipt of the Canada or Québec Pension Plan retirement pension, but have not filed an election to stop paying CPP contributions.

In principle, employees who do not fall within the categories listed previously would not make CPP contributions. However, it is not always clear what constitutes pensionable earnings and pensionable employment. To clarify eligibility, the CRA has developed a list of the types of employment that are not subject to CPP contributions. This information can also be found in the Employers' Guide - Payroll Deductions and Remittances - T4001, which is published by the CRA.

The following types of employment are excluded by legislation and therefore do not constitute pensionable employment. Payments arising from such employment are not subject to CPP contributions:

- employment in agriculture, or an agricultural enterprise, horticulture, fishing, hunting, trapping, forestry, logging, or lumbering, by an employer:
  - who pays the employee less than $250 in cash remuneration in a calendar year; or
  - employs the employee for a period of less than 25 working days in the same year on terms providing for payment of cash remuneration—the working days do not have to be consecutive
- employment of a casual nature other than for the purpose of the employer's usual trade or business
- employment of a person, other than as an entertainer, in connection with a circus, fair, parade, carnival, exposition, exhibition, or other similar activity, if that person is:
  - not regularly employed by that employer, and
  - employed by that employer for less than seven days in a year
- employment of a person by a government body as an election worker, if that person:
  - is not a regular employee of the government body, and
  - works for less than 35 hours in a calendar year
- employment as a teacher on exchange from a foreign country
- employment of a spouse or common-law partner if the employer cannot deduct the remuneration paid as an expense under the Income Tax Act
- employment of a member of a religious order who has taken a vow of perpetual poverty. This applies whether the remuneration is paid directly to the order or paid by the member to the order.
- employment for which no cash remuneration is paid, where the employee is the child of, or is maintained by, the employer
- employment of a person who helps the employer in a disaster or in a rescue operation if the employee is not regularly employed by the employer

CHAPTER

SIX

EMPLOYMENT INSURANCE

Objective of this section is to enable you to identify the following Employment Insurance components:

- Who must pay Employment Insurance premiums
- Types of employment subject to Employment Insurance premiums
- Types of employment not subject to Employment Insurance premiums
- Payments and benefits subject to Employment Insurance premiums
- Payments and benefits not subject to Employment Insurance premiums
- Calculate Employment Insurance premiums at an individual level

Employment Insurance (EI) is a federally legislated social insurance program established under the Employment Insurance Act. It provides temporary financial support to individuals who are unemployed while seeking new employment or engaging in skill development. In addition to regular benefits, EI offers special provisions for workers who take leave due to significant life events such as illness, pregnancy, caring for a newborn or newly adopted child, supporting a critically ill or injured person, or tending to a family member facing a serious health condition with a risk of death.

The EI program is funded through payroll contributions made by employees, known as Employment Insurance premiums. Employers also contribute by paying a premium that is calculated based on their employees' deductions.

While Employment Insurance is a government-mandated program, it may not be the only insurance plan available in the workplace. Many organizations offer private or non-government insurance options such as life and disability coverage, which are funded by employers, employees, or both. Although this chapter focuses specifically on the federally legislated EI program, additional information about private insurance plans will be covered in the later chapters.

CHAPTER

SEVEN

RECORD OF EMPLOYMENT

The **Record of Employment** (ROE) is the form used by Service Canada to determine an individual's qualification to collect Employment Insurance benefits when their employment is interrupted, how much the benefit will be and how long they will collect it. As payroll is responsible for completing the ROE, the form will be illustrated in this chapter, along with an explanation of what payroll information must be tracked for ROE reporting purposes.

CHAPTER

EIGHT

DETERMINING ANNUAL AND PAY PERIOD EARNINGS

8.1 Employment Income

8.2 Allowances

8.3 Expenses

8.4 Benefits

CHAPTER

NINE

OBNOARDING EMPLOYEE

In the context of Canadian payroll administration, onboarding an employee refers to the formal process of integrating a new hire into both the organizational and payroll systems. It ensures that the employee is properly registered, legally compliant, and ready to be paid accurately and on time.

Key Steps on Onboarding an Employee:

- Collect Required Personal Information: Includes full legal name, address, date of birth, and Social Insurance Number (SIN). The SIN is

critical for tax reporting to the CRA (Canada Revenue Agency).

- Obtain Federal & Provincial Tax Forms: New employees must complete Form TD1 (Federal and possibly a Provincial version) to declare tax

credits and determine income tax withholdings.

- Set Up Banking Info for Direct Deposit: Employees usually provide a void cheque or bank form to set up electronic payments.
- Register the Employee in the Payroll System: Involves entering all personal and job-related data, assigning a payroll ID, and verifying

employment status (e.g. full-time, part-time, contract).

- Enroll in Benefits or Pension Programs: If applicable, the employee may be signed up for group insurance, retirement savings plans (like

RRSP or pension plans), and other benefits. These deductions must be accurately reflected in payroll.

- Assign Statutory Deductions that Employers must withhold and remit
  - CPP (Canada Pension Plan)
  - EI (Employment Insurance)
  - Income Tax (based on TD1 form)
- Confirm Employment Agreement & Start Date

Compliance & Record Keeping

- Employers in Canada are responsible for keeping accurate records of employee data, pay stubs, deductions, and remittances for

at least 6 years.

- If audited by CRA, these documents must be readily available.
- Employers must also provide T4 slips by end of February each year to summarize annual earnings and deductions for tax filing.

Employment Standards Requirements

Each province/territory, as well as the federal government, sets minimum employment standards, including:

- Minimum wage
- Minimum age (may also be governed by other legislation)
- Required pay statement information: - Employee name - Pay period date - Rates of pay and hours worked - Gross earnings - Itemized deductions - Net pay

9.1 Internal Forms

Typical commencement package forms include:

- Authorization for hiring
- Direct deposit agreement
- Union membership application
- Benefits enrollment (e.g., health/dental, pension)
- Confidentiality agreement

9.1.1 Authorization for Hiring

This internal document includes:

- New employee's basic info
- Start date, department, salary
- Probation details
- Hiring authority's signature

Important: Employer must obtain a valid SIN. A SIN starting with 9 must have a valid expiry date and associated work permit.

9.1.2 Union Membership

For unionized workplaces:

- Amount of union dues to be deducted
- Employees signature authorization for deduction
- Exemptions may apply, but dues equivalent still required

9.1.3 Benefit Enrollment Forms

Forms cover group insurance and pension plans:

- Employee indicates coverage type
- Signatures authorize payroll deductions

9.1.4 Confidentiality Agreement

A legally binding agreement protecting sensitive company info:

- Defines proprietary data
- Outlines responsibilities, penalties, and timeframe

9.2 Required Federal and Provincial/Territorial Forms

Purpose: Determine correct income tax withholdings.

Forms:

- TD1 (Federal)
- TD1 (Provincial/Territorial)
- TP-1015.3-V (Québec employees)

Provincial/territorial withholding is based on *province of employment*, but tax liability is based on *province of residence*.

Adjustments:

- Request extra withholding via TD1 or TP-1015.3-V
- Request reduction using CRA Form T1213 or RQ Form TP-1016-V

Essential Info on All Forms:

- Employee name
- Date of birth
- Social Insurance Number

9.2.1 Tax Credits (TD1)

1. Basic personal amount
2. Canada caregiver (infirm children)
3. Age amount
4. Pension income
5. Tuition
6. Disability
7. Spouse/common-law partner amount
8. Eligible dependant
9. Caregiver for infirm spouse or dependant
10. Caregiver for dependant age 18+
11. Transfers from spouse
12. Transfers from dependant
13. Total

Additional Instructions:

- Fill out TD1 only if claiming more than basic credit

- Québec employees must always complete TP-1015.3-V

9.2.2 Tax Credits (TP-1015.3-V - Québec)

- Basic amount
- Transfer from spouse
- Amount for dependants
- Impairment in mental/physical function
- Age amount, retirement income, living alone
- Career extension

Deductions:

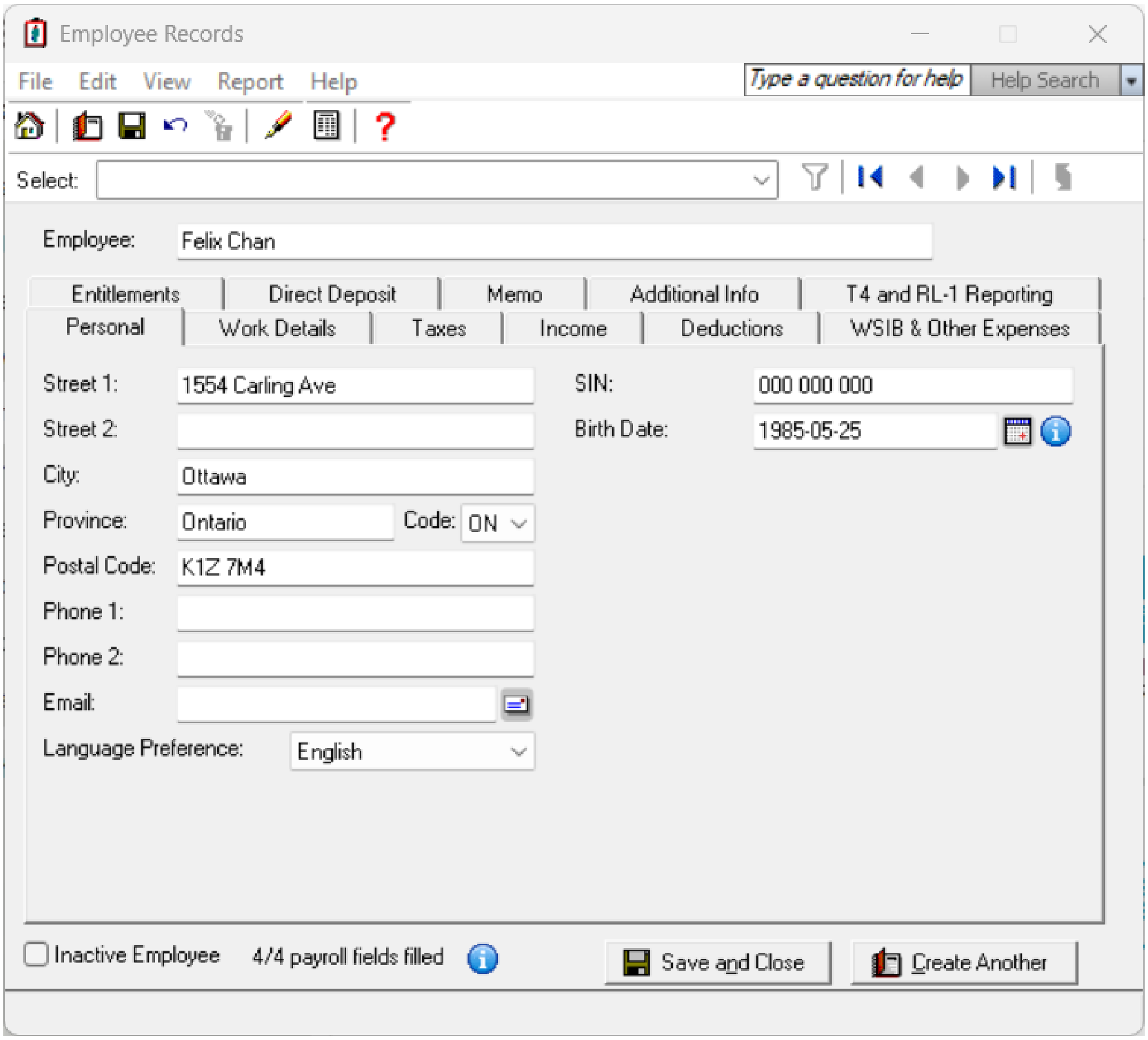
- Remote area housing
- Deductible support payments

9.3 Entering Employee Information into Sage50

To enter a new employee into the Sage 50 Payroll module (Canada edition), start by navigating to the Employees & Payroll section in the Home window. Right-click the Employees icon and choose "Add Employee" to begin creating employee's record. Input the employee's full legal name. Then, proceed to fill in the personal and payroll details across several tabs: the Personal tab for birth date and contact info, the Taxes tab to select the appropriate provincial tax table, the Income tab to configure their pay frequency, and the Deductions tab to define benefit or pension deductions. You'll also want to enter their bank details for direct deposit. For compliance, be sure to complete and store signed TD1 forms (Federal and Provincial) separately, as Sage50 does not automatically generate these. You'll also need to set up EI, CPP, and Income Tax deductions and link them to remittance vendors in the system. Once all information is reviewed for accuracy, save and close the record to finalize setup. If you prefer a guided approach, Sage50 also offers an Employee Wizard to walk you through these steps.

Important

To maintain accuracy and compliance in Sage 50 Payroll, carefully verify that all employee information entered into the system, including full legal name, Social Insurance Number (SIN), residential address, and compensation details, matches the data provided on official documentation such as the signed employment contract and government-issued identification (e.g. driver's licence, Employment Contract). Double-checking these entries helps prevent administrative errors and ensures that payroll records remain consistent with legal and regulatory standards.


Employee Records
File Edit View Report Help
Type a question for help
Help Search
Select:
Employee: Felix Chan
Entitlements
Direct Deposit
Memo
Additional Info
T4 and RL-1 Reporting
Personal
Work Details
Taxes
Income
Deductions
WSIB & Other Expenses
Street 1: 1554 Carling Ave
Street 2:
City: Ottawa
Province: Ontario
Code: ON
Postal Code: K1Z 7M4
Phone 1:
Phone 2:
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Inactive Employee
4/4 payroll fields filled
Save and Close
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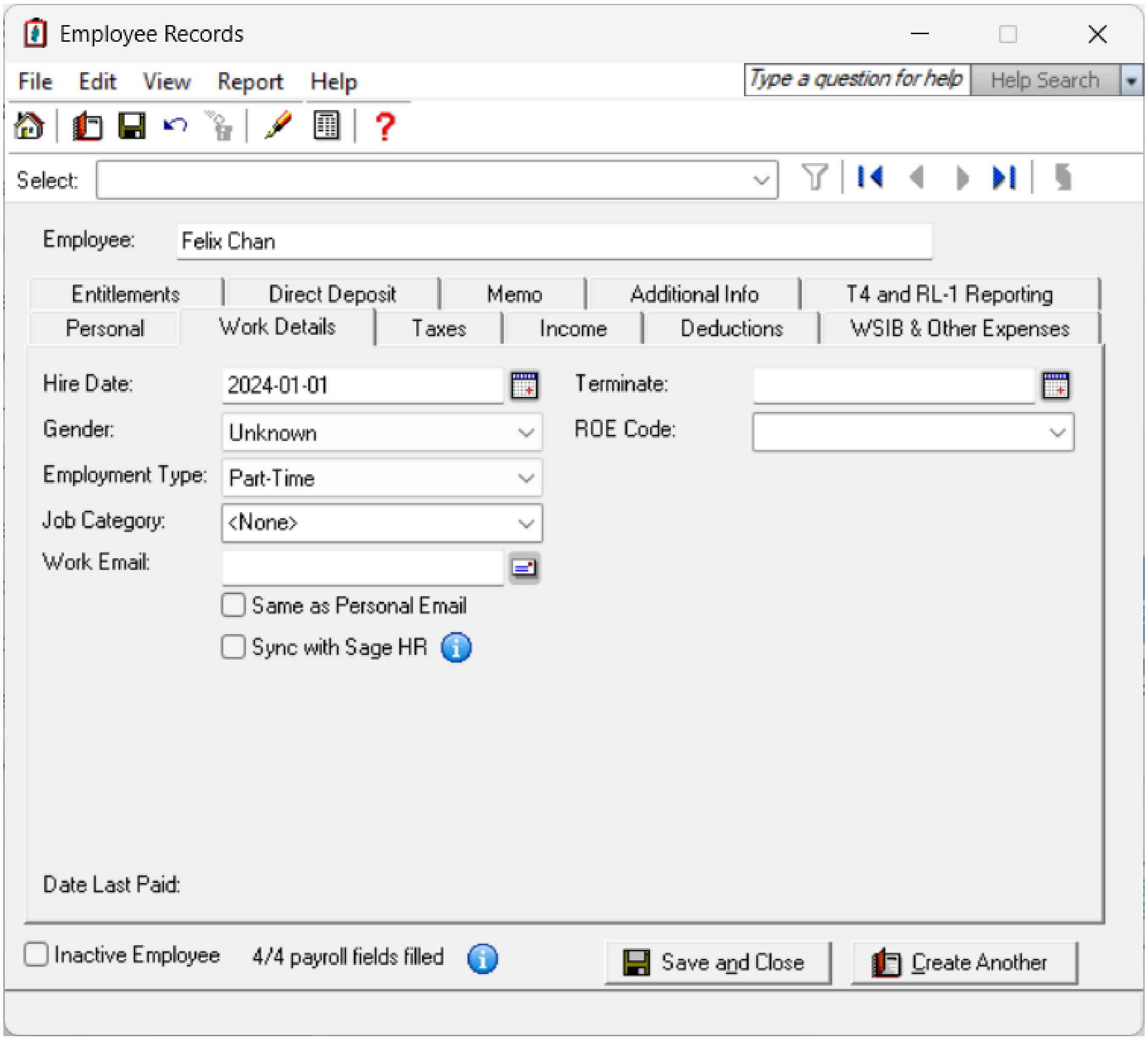
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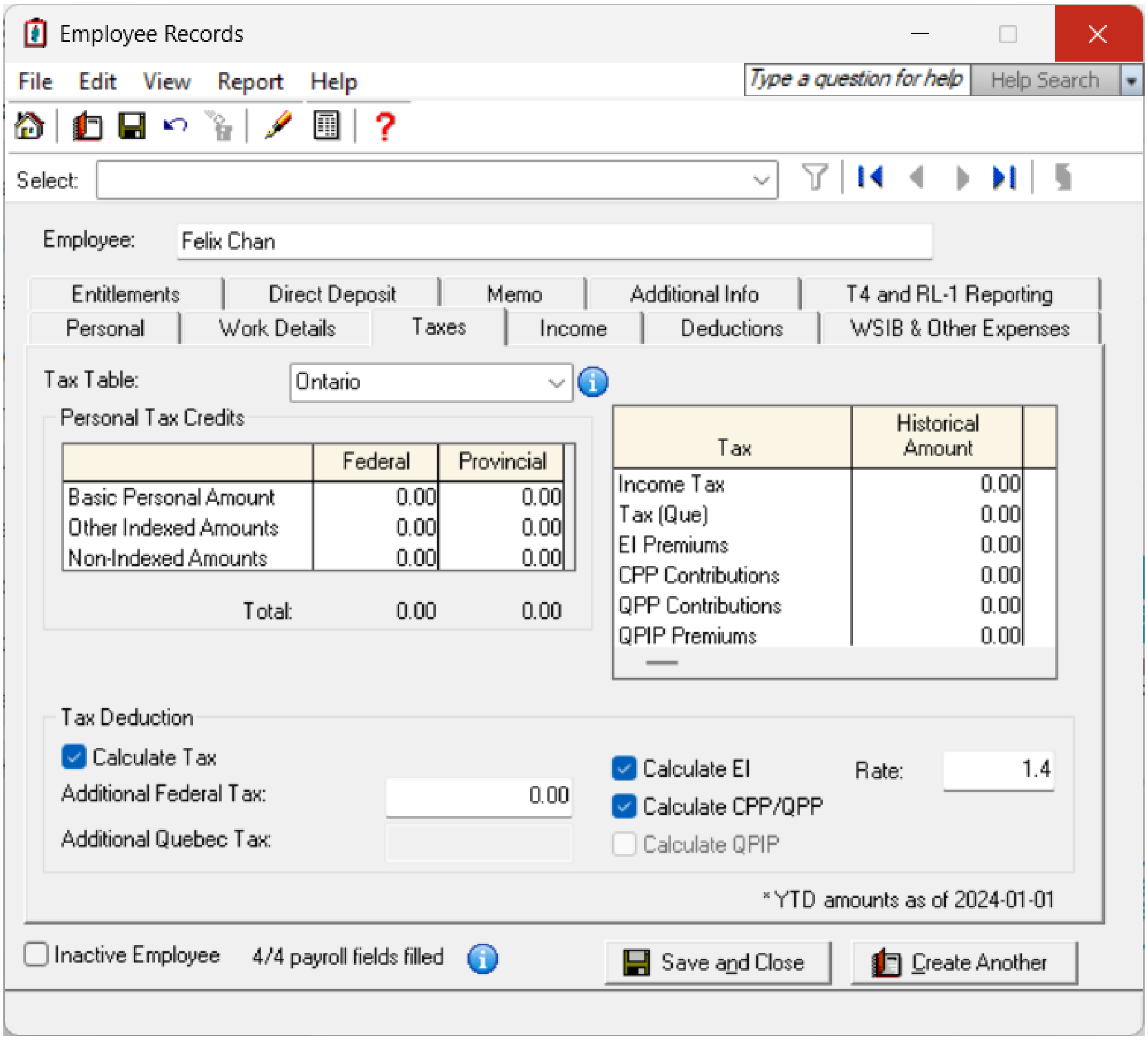
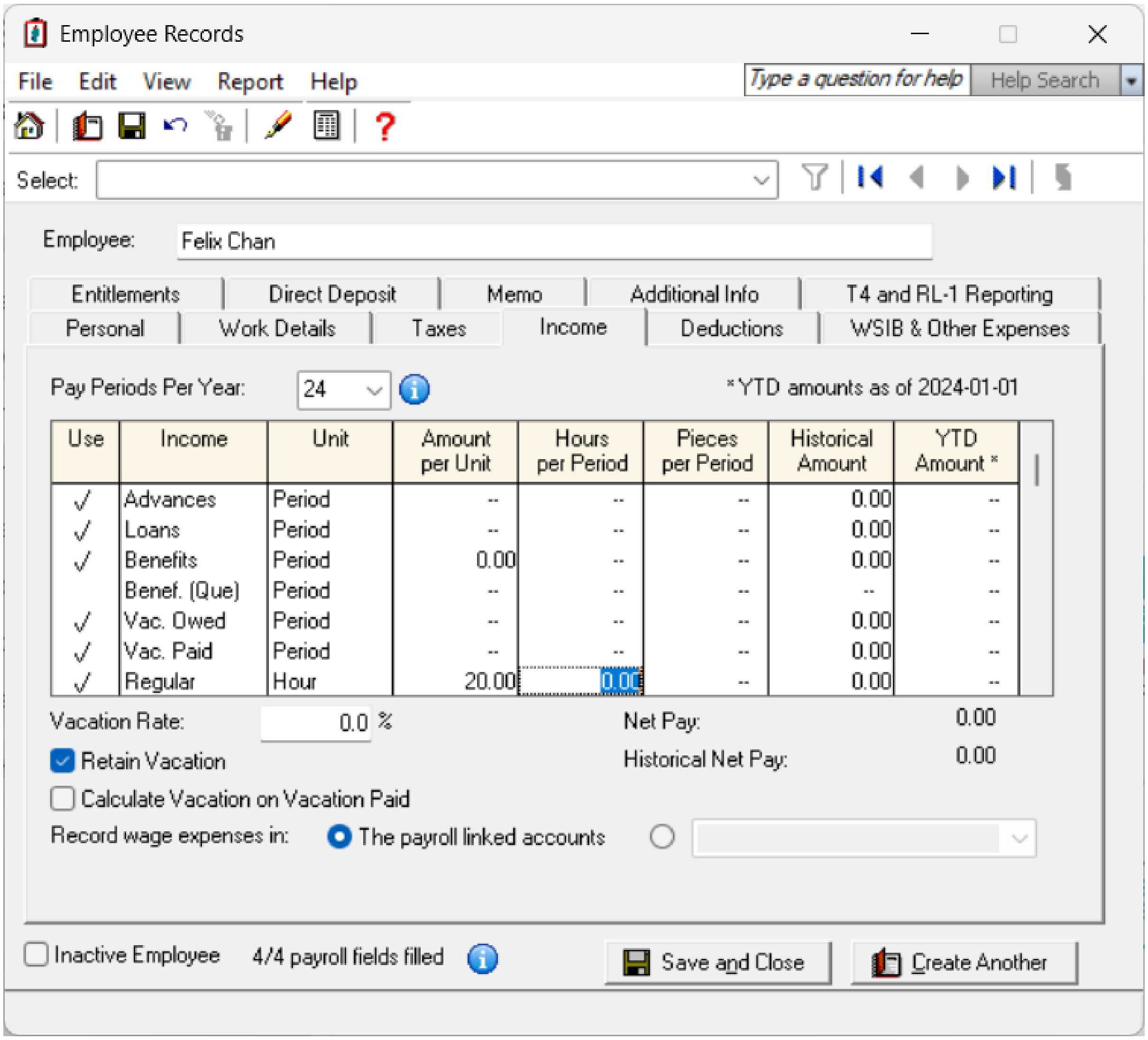
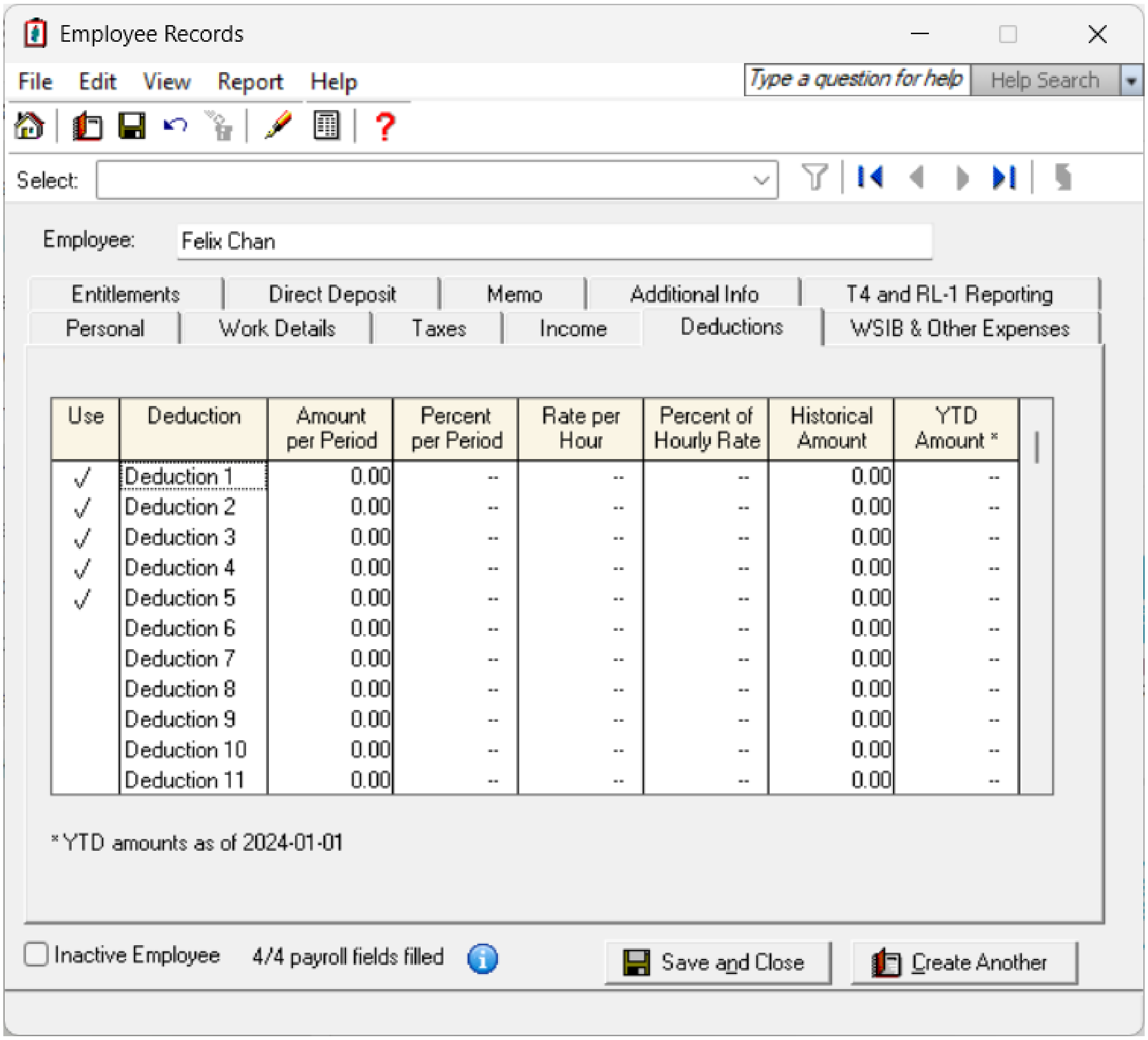
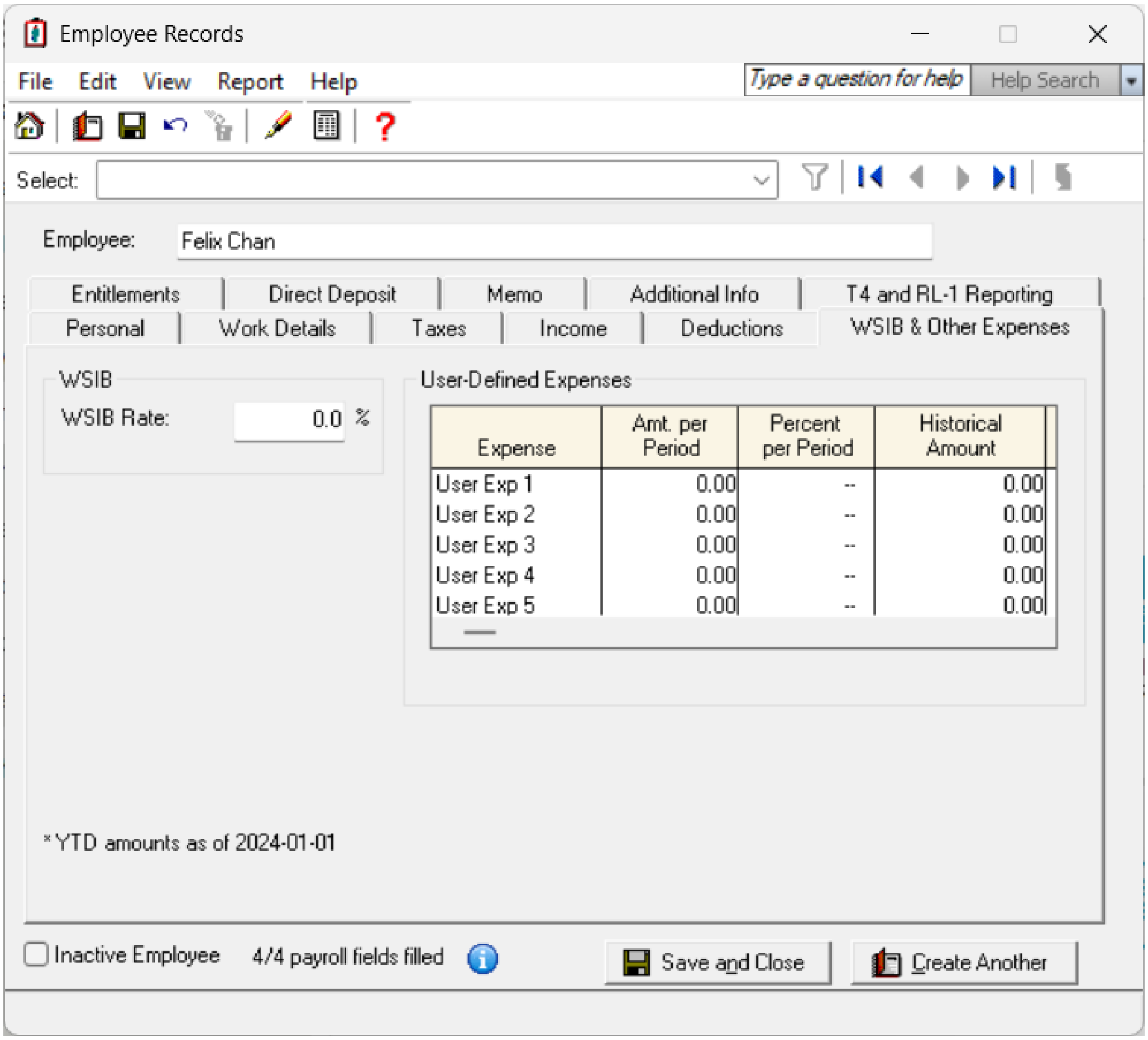
Personal
Work Details
Taxes
Income
Deductions
WSIB & Other Expenses
Hire Date: 2024-01-01
Terminate:
Gender: Unknown
ROE Code:
Employment Type: Part-Time
Job Category: <None>
Work Email:
Same as Personal Email
Sync with Sage HR
Date Last Paid:
Inactive Employee
4/4 payroll fields filled
Save and Close
Create Another


Employee Records
File Edit View Report Help
Type a question for help
Help Search
Select:
Employee: Felix Chan
Entitlements
Direct Deposit
Memo
Additional Info
T4 and RL-1 Reporting
Personal
Work Details
Taxes
Income
Deductions
WSIB & Other Expenses
Tax Table: Ontario
Personal Tax Credits
Federal
Provincial
Basic Personal Amount 0.00 0.00
Other Indexed Amounts 0.00 0.00
Non-Indexed Amounts 0.00 0.00
Total: 0.00 0.00
Tax
Historical Amount
Income Tax 0.00
Tax (Que) 0.00
EI Premiums 0.00
CPP Contributions 0.00
QPP Contributions 0.00
QPIP Premiums 0.00
Tax Deduction
Calculate Tax
Additional Federal Tax: 0.00
Additional Quebec Tax:
Calculate EI
Rate: 1.4
Calculate CPP/QPP
Calculate QPIP
* YTD amounts as of 2024-01-01
Inactive Employee
4/4 payroll fields filled
Save and Close
Create Another


Employee Records
File Edit View Report Help
Type a question for help
Help Search
Select:
Employee: Felix Chan
Entitlements
Direct Deposit
Memo
Additional Info
T4 and RL-1 Reporting
Personal
Work Details
Taxes
Income
Deductions
WSIB & Other Expenses
Pay Periods Per Year: 24
*YTD amounts as of 2024-01-01
Use Income Unit Amount per Unit Hours per Period Pieces per Period Historical Amount YTD Amount *
√ Advances Period -- -- -- 0.00 --
√ Loans Period -- -- -- 0.00 --
√ Benefits Period 0.00 -- -- 0.00 --
Benef. (Que) Period -- -- -- -- --
√ Vac. Owed Period -- -- -- 0.00 --
√ Vac. Paid Period -- -- -- 0.00 --
√ Regular Hour 20.00 0.00 -- 0.00 --
Vacation Rate: 0.0 %
Net Pay: 0.00
Retain Vacation
Historical Net Pay: 0.00
Calculate Vacation on Vacation Paid
Record wage expenses in: The payroll linked accounts
Inactive Employee
4/4 payroll fields filled
Save and Close
Create Another


Employee Records
File Edit View Report Help
Type a question for help
Help Search
Select:
Employee: Felix Chan
Entitlements
Direct Deposit
Memo
Additional Info
T4 and RL-1 Reporting
Personal
Work Details
Taxes
Income
Deductions
WSIB & Other Expenses
Use
Deduction
Amount per Period
Percent per Period
Rate per Hour
Percent of Hourly Rate
Historical Amount
YTD Amount *
Deduction 1 0.00 -- -- -- 0.00 --
Deduction 2 0.00 -- -- -- 0.00 --
Deduction 3 0.00 -- -- -- 0.00 --
Deduction 4 0.00 -- -- -- 0.00 --
Deduction 5 0.00 -- -- -- 0.00 --
Deduction 6 0.00 -- -- -- 0.00 --
Deduction 7 0.00 -- -- -- 0.00 --
Deduction 8 0.00 -- -- -- 0.00 --
Deduction 9 0.00 -- -- -- 0.00 --
Deduction 10 0.00 -- -- -- 0.00 --
Deduction 11 0.00 -- -- -- 0.00 --
* YTD amounts as of 2024-01-01
Inactive Employee
4/4 payroll fields filled
Save and Close
Create Another



9.3.1 Review Questions

1. What is the significance of accurately entering the "Date Hired" field when setting up a new employee profile in Sage 50?

   Accurately entering the "Date Hired" in Sage 50 is a critical step in ensuring the integrity of payroll records and overall HR compliance. This field defines the employee's official start date, which determines pay cycle alignment, benefit entitlement periods, and the correct application of mandatory deductions such as CPP and EI. It also plays a pivotal role in historical payroll reporting—including audit readiness and the generation of year-end T4 slips. Furthermore, the hire date is essential when preparing a Record of Employment (ROE), as it establishes the starting point for the employee's insurable earnings and service duration.

2. Within the scope of Payroll Administration, how should the department ethically and legally respond when a supervisor requests access to an employee's date of birth for the purpose of workplace recognition, given that this personal information is already held by payroll?

   Under Canadian payroll administration and the Personal Information Protection and Electronic Documents Act (PIPEDA), sharing an employee's date of birth — even for positive intentions like workplace recognition, is not legally or ethically appropriate.

   PIPEDA requires employers to:

- Limit the collection, use, and disclosure of personal information to what is necessary for clearly identified business purposes.
- Obtain meaningful consent before using personal data for any purpose beyond what it was originally collected for—such as payroll or benefits administration.
- Protect employee privacy by restricting access to personal information on a strict need-to-know basis.

In this case, using the date of birth for celebrations or acknowledgments is outside the scope of payroll processing. Even if the Payroll department holds this information, it cannot be disclosed to supervisors or other staff.

9.4 Content Review Highlights

- Consent is required for personal info collection
- TD1 and TP-1015.3-V are used to calculate source deductions
- Claim amounts may differ between federal and provincial forms
- Employers must keep the forms on file (do not send to CRA/RQ)

9.5 Review Questions (Sample)

1. What does an offer letter signature signify?
2. What documents are included in a commencement package?
3. Name three common internal forms
4. What must payroll verify on a hiring form?
5. What must be checked for SINs starting with "9"?
6. True/False: Union dues can be deducted without consent.
7. What authorizes benefit premium deductions?

9.6 Example Evaluations

Gloria Meyer (Alberta): - Claimed: Basic, eligible dependant, transferred tuition - Appears accurate

Luc Laframboise (Québec): - Claimed: Basic, spouse, dependant in school, tuition transfer - Appropriate provincial and federal claims made

Ingrid Johansson (Alberta, Single Parent): - Claimed credits for two children - **Overclaimed** dependant credit – only one is eligible - Needs correction on federal and AB TD1 forms

ONBOARDING EMPLOYEE EXERCISE

Using MS Forms, create a questionaire for gathering all required information for onboarding a new employee at Quebec-based company for the payroll purposes.

CHAPTER

TEN

PAYROLL ACCOUNTING

10.1 Journal Entries

10.1.1 Accounting Recap

$$\Sigma \text{ Total Debits} = \Sigma \text{ Total Credits}$$

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

$$Assets = Liabilities + Equity \tag{10.1}$$

Furthermore, we know that:

Equity = Revenue - Expenses , which leads us to:

Assets = Liabilities + (Revenues - Expenses)

Accounting equation (10.1)

Payroll accounting is a critical component of the Canadian Payroll Administration system. It involves the systematic recording, analysis, and reporting of payroll transactions to ensure that all financial aspects of employee compensation are accurately reflected in the organization's financial statements. Payroll accounting includes the management of employee wages, tax withholdings, benefit deductions, and other payroll-related expenses. The system is designed to automate these processes, ensuring accuracy and compliance with Canadian payroll regulations.

10.1.2 Journal Entries

Journal entries are a key part of payroll accounting, as they document the financial impact of payroll transactions on the organization's accounts. Each payroll run generates a series of journal entries that reflect the distribution of wages, taxes, and deductions across various accounts. These entries are essential for maintaining accurate financial records and ensuring that the organization's financial statements reflect the true cost of employee compensation. The Canadian Payroll Administration system automates the generation of these journal entries, reducing the risk of errors and ensuring compliance with accounting standards.

DR Payroll Expenses $10,500.00
    CR Payroll Payable $10,500.00

CHAPTER

ELEVEN

REVIEW QUESTIONS

This section contains review questions for the material covered in the course. These questions are designed to test your understanding and help reinforce the concepts learned.

11.1 New Employee Information

Which one of the following is correct?

- **a.** Choice A
- **b.** Choice B
- **c.** Choice C

CHAPTER

TWELVE

TD1

12.1 TD1 - 2025 Personal Tax Credits Return

Last name	
First name and initial(s)	
Date of birth (Year/Month/Day)	
Employee number	
Address	Postal Code

1. Basic personal amount - Every resident of Canada can enter a basic personal amount of $16,129. However, if your net income from all sources will be greater than $177,882 and you enter $16,129, you may have an amount owing on your income tax and benefit return at the end of the tax year. If your income from all sources will be greater than $177,882 you have the option to calculate a partial claim. To do so, fill in the appropriate section of Form TD1-WS, Worksheet for the 2025 Personal Tax Credits Return, and enter the calculated amount here. ^

2. Canada caregiver amount for infirm children under age 18 - Only one parent may claim $2,687 for each infirm child born in 2008 or later who lives with both parents throughout the year. If the child does not live with both parents throughout the year, the parent who has the right to claim the "Amount for an eligible dependant" on line 8 may also claim the Canada caregiver amount for the child. ^

3. Age amount - If you will be 65 or older on December 31, 2025, and your net income for the year from all sources will be $45,522 or less, enter $9,028. You may enter a partial amount if your net income for the year will be between $45,522 and $105,709. To calculate a partial amount, fill out the line 3 section of Form TD1-WS. ^

4. Pension income amount - If you will receive regular pension payments from a pension plan or fund (not including Canada Pension Plan, Quebec Pension Plan, old age security, or guaranteed income supplement payments), enter whichever is less: $2,000 or your estimated annual pension income. ^

5. Tuition (full-time and part-time) - Fill in this section if you are a student at a university or college, or an educational institution certified by Employment and Social Development Canada, and you will pay more than $100 per institution in tuition fees. Enter the total tuition fees that you will pay if you are a full-time or part-time student. ^

6. Disability amount - If you will claim the disability amount on your income tax and benefit return by using Form T2201, Disability Tax Credit Certificate, enter $10,138. ^

7. Spouse or common-law partner amount - Enter the difference between the amount on line 1 (line 1 plus $2,687 if your spouse or common-law partner is infirm) and your spouse's or common-law partner's estimated net income for the year if two of the following conditions apply:

- You are supporting your spouse or common-law partner who lives with you
- Your spouse or common-law partner's net income for the year will be less

than the amount on line 1 (line 1 plus $2,687 if your spouse or common-law partner is infirm)

In all cases, go to line 9 if your spouse or common-law partner is infirm and has a net income for the year of $28,798 or less. ^

8. Amount for an eligible dependant - Enter the difference between the amount on line 1 (line 1 plus $2,687 if your eligible dependant is infirm) and your eligible dependant's estimated net income for the year if all of the following conditions apply:

- You do not have a spouse or common-law partner, or you have a spouse or

common-law partner who does not live with you and who you are not supporting or being supported by

- You are supporting the dependant who is related to you and lives with you
- The dependant's net income for the year will be less than the amount on

line 1 (line 1 plus $2,687 if your dependant is infirm and you cannot claim the Canada caregiver amount for infirm children under 18 years of age for this dependant)

In all cases, go to line 9 if your dependant is18 years or older, infirm, and has a net income for the year of $28,798 or less. ^

9. Canada caregiver amount for eligible dependant or spouse or common-law partner - Fill out this section if, at any time in the year, you support an infirm eligible dependant (aged 18 or older)or an infirm spouse or common-law partner whose net income for the year will be $28,798 or less. To calculate the amount you may enter here, fill out the line 9 section of Form TD1-WS. ^

10. Canada caregiver amount for dependant(s) age 18 or older - If, at any time in the year, you support an infirm dependant age 18 or older (other than the spouse or common-law partner or eligible dependant you claimed an amount for on line 9 or could have claimed an amount for if their net income were under $18,816) whose net income for the year will be $20,197 or less, enter $8,601. You may enter a partial amount if their net income for the year will be between $20,197 and $28,798. To calculate a partial amount, fill out the line 10 section of Form TD1-WS. This worksheet may also be used to calculate your part of the amount if you are sharing it with another caregiver who supports the same dependant. You may claim this amount for more than one infirm dependant age 18 or older. ^

11. Amounts transferred from your spouse or common-law partner - If your spouse or common-law partner will not use all of their age amount, pension income amount, tuition amount, or disability amount on their income tax and benefit return, enter the unused amount. ^

12. Amounts transferred from a dependant - If your dependant will not use all of their disability amount on their income tax and benefit return, enter the unused amount. If your or your spouse's or common-law partner's dependent child or grandchild will not use all of their tuition amount on their income tax and benefit return, enter the unused amount. ^

13. TOTAL CLAIM AMOUNT - Add lines 1 to 12. Your employer or payer will use this amount to determine the amount of your tax deductions. ^

CHAPTER

THIRTEEN

CALCULATING NET PAY

13.1 Salary

13.2 Commission

13.3 Pension

CHAPTER

FOURTEEN

RATES FOR 2025

14.1 CANADA / QUEBEC PENSION PLAN (CPP / QPP)

Table 1: CANADA / QUEBEC PENSION PLAN (CPP / QPP)

Description	CPP	QPP
Yearly maximum pensionable earnings	$71,300	$
Annual maximum contributory earnings	$67,800	$
Annual maximum contribution	$3,500	$
Employee contribution rate	5.95%	
Employer contribution rate	5.95%	
Basic exemption (Annual)	$3,500	
Basic exemption (Monthly, 12)	$291.67	$
Basic exemption (Weekly, 52)	$67.31	$
Basic exemption (Weekly, 53)	$66.04	$
Basic exemption (Semi-monthly, 24)	$145.83	$
Basic exemption (Bi-weekly, 26)	$134.61	$

14.2 CPP2 CONTRIBUTION RATES MAXIMUMS

Table 2: CPP2 Contribution Rates Maximums

Description	Ammount
Additional maximum annual pensionable earnings	$81,200
Employee and employer contribution rate	4%
Maximum employee and employer contribution	$396
Maimum annual self-employed contribution	$792

14.3 References

CPP Maximum contributory earnings

Second additional CPP contributions

CHAPTER FIFTEEN

REFERENCES

Payroll Deductions Online Calculator

CHAPTER

SIXTEEN

ERRORS AND ERRATA

CHAPTER

SEVENTEEN

TITLE

17.1 TITLE =

CHAPTER

EIGHTEEN

GLOSSARY

- genindex

CHAPTER

NINETEEN

CANADIAN PAYROLL ADMINISTRATION

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Python 3.12.3
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5
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