

Payroll Administration

Version Fall 2025

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ABOUT THE AUTHOR

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.

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.

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

Recommended Course Material

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.

INTRODUCTION

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)

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.

Payroll Accounting

Journal Entries

Accounting Recap

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

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

$$^{(1)} \text{Assets} = \text{Liabilities} + \text{Equity}$$

Furthermore, we know that:

$$\text{Equity} = \text{Revenue} - \text{Expenses}, \text{ which leads us to:}$$

$$\text{Assets} = \text{Liabilities} + (\text{Revenues} - \text{Expenses})$$

Accounting equation (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.

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

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.

New Employee Information

Which one of the following is correct?

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

OBNOARDING EMPLOYEE

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

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

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.

Union Membership

For unionized workplaces:

- Union dues are deducted
- Employees sign authorization for deduction
- Exemptions may apply, but dues equivalent still required

Benefit Enrollment Forms

Forms cover group insurance and pension plans:

- Employee indicates coverage type
- Signatures authorize payroll deductions

Confidentiality Agreement

A legally binding agreement protecting sensitive company info:

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

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

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

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

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)

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?

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

Download and fill-up the required forms.

[Download the onboarding form](#)

TD1

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 is 18 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. ^

CALCULATING NET PAY

Salary

Commission

Pension

RATES FOR 2025

CANADA / QUEBEC PENSION PLAN (CPP / QPP)

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	\$

Description	CPP	QPP
Basic exemption (Bi-weekly, 26)	\$134.61	\$

CPP2 CONTRIBUTION RATES MAXIMUMS

CPP2 Contribution Rates Maximums

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

References

[CPP Maximum contributory earnings](#)

[Second additional CPP contributions](#)

REFERENCES

[Payroll Deductions Online Calculator](#)

Errors and Errata

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Glossary

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Canadian Payroll Administration

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