Chapter 6

Termination of Employment

Learning Objectives:

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

1. Identify when the employment relationship is severed
2. Apply the relevant employment standards
3. Calculate employment income termination payments
4. Calculate retiring allowance payments
5. Calculate the eligible and non-eligible retiring allowances
6. Calculate net pay

Communication Objective:

Upon completion of this chapter, you should be able to explain to your Human Resources Department the importance of differentiating between the various payments made on termination of employment.

Chapter Contents

Introduction

Termination of employment is a reality that most organizations must deal with during an employee's service. Terminations can be either employee-initiated or employer-initiated. An employee may choose to leave their employment for many reasons, including finding another job, returning to school, retiring or relocating. An employer may decide to terminate the employment of a worker for reasons such as a shortage of work, poor performance, or misconduct.

Depending on the nature of the business, employers often experience shortages of work. Sometimes the shortage only results in a temporary lay-off, while in other situations it may result in permanent termination of employment. Employers must follow the employment standards provisions for temporary lay-offs or terminations. If the employer is governed by a collective agreement or organizational policy that provides for greater benefits than the employment or labour standards, the collective agreement or organizational policy prevails.

Before an employer terminates an employee for poor performance, they must ensure, through ongoing feedback and regular performance reviews, that the employee knows there is a performance problem. The employee must be given adequate time and the support required to bring their performance up to agreed-upon, and preferably documented standards. If the employee still does not perform to the required level, the termination should not come as a surprise.

Employment/labour standards legislate the length of any notice period that must be given to the employee as well as any payments due on termination. Regardless of the reason for the termination of employment, employers must ensure that the process is compliant with the requirements under employment/labour standards.

Severing the Employment Relationship

Before addressing the issue of payments on termination of employment, it is necessary to determine whether or not the employee-employer relationship has been severed, as the existence of the employment relationship is what determines the required statutory withholdings on any payments made.

Generally, an employee-employer relationship is deemed to exist where any one of the following four statements is true:

- the employee retains the right to be recalled to work
- there is an expectation of work to be performed by the employee
- the employee continues to accrue benefits in the employer's registered pension plan
- the employee continues to participate in all the benefit plans that were available while they were employed

Employers must be cautious when using the above statements to determine the existence of the relationship. When any one of the first three statements is true, employers can be confident that the employee-employer relationship still exists. Situations involving the fourth statement must be examined more closely to take into consideration which benefit plans are continuing and which plans will cease.

For example, an employer provides group term life insurance, health, dental, short and long term disability coverage to its active employees. The employer is offering to continue only the health and dental coverage for an individual whose employment is being terminated. The organization does not have a registered pension plan. In this situation, as the employer is providing only health and dental coverage, rather than all benefits to the terminating employee, the relationship is severed; a termination of employment has occurred.

The Canada Revenue Agency (CRA) looks at the parameters of the group insurance coverage when deciding whether or not a relationship has been severed. Some insurance carriers will only insure employees who are actively and physically working, so if participation in the benefit plan continues, the government will probably consider the relationship to still exist.

Employers can purchase non-group insurance benefits plans for employees who are no longer physically working. Providing benefits to an employee under these separate plans usually signifies the relationship is severed; however, the only way for the employer to be completely sure is to obtain a ruling from the CRA. In most situations, the determination as to whether the relationship has been severed is straightforward. The unique employer-initiated terminations, such as downsizing, restructuring, and offering early retirements or buyouts to long service employees, require close examination to determine when the actual severing of the relationship occurs.

Employment Standards

As detailed in *Payroll Compliance Legislation,* the employment/labour standards in each jurisdiction legislate the amount of working notice or wages in lieu of notice that must be given to an employee whose employment is being terminated, and the percentage or fraction of vacation pay that must be paid, as well as any severance pay requirements.

Wages in Lieu of Notice

When employers initiate the termination of an individual's employment, they are required to provide the employee with written notice that their employment is being terminated or pay the employee wages in lieu of working the notice period, in compliance with the employment/labour standards in the jurisdiction where the employee works. The amount of notice the employer must give depends on the employee's length of service and the jurisdiction in which they work. Legislated wages in lieu of notice in all jurisdictions except Québec are considered income from employment. Québec treats wages in lieu of notice as a retiring allowance.

As a refresher of the material provided in *Payroll Compliance Legislation*, the legislation regarding the length in weeks of the required notice period in Alberta, Ontario and Québec follows.

LENGTH OF SERVICE	NOTICE PERIOD IN WEEKS		
	Alberta	Ontario	Québec
3 months	1	1	1
6 months	1	1	1
1 year	1	2	2
2 years	2	2	2
3 years	2	3	2
4 years	4	4	2
5 years	4	5	4
6 years	5	6	4
7 years	5	7	4
8 years	6	8	4
9 years	6	8	4
10 years	8	8	8

Example:

Corona Consolidated, located in Alberta, has experienced a reduction in business. As a result, the organization will be terminating the employment of two employees in their Contracts Department on February 17 of the current year. The organization does not want the employees to work the notice period, so they will be paying each employee the legislated wages in lieu of notice, based on their length of service.

Employee 1:

Lalita Moreno has been with Corona for six months. Alberta employment standards require that one week notice of termination be provided. Lalita earns a bi-weekly salary of $1,236.00.

Weekly salary $= \dfrac{\$1,236.00 \times 26}{52}$

Wages in lieu of notice (1 week) = $618.00

Employee 2:

Svetlana Dragowski has been with Corona for twelve years. The regular bi-weekly salary is $2,500.00. According to Alberta employment standards eight weeks notice of termination is required.

Weekly salary $= \dfrac{\$2,500.00 \times 26}{52}$
= $1,250.00

Wages in lieu of notice (8 weeks) = $1,250.00 x 8
= $10,000.00

Vacation Pay on Termination

The employment/labour standards in each jurisdiction legislate the types of earnings that are considered vacationable and the percentage or fraction of vacationable earnings to be paid as vacation pay. Employees are entitled to vacation pay that is calculated as a percentage or fraction of their vacationable earnings during their period of employment, less any vacation pay already paid. Vacation payments made on termination of employment are considered income from employment.

In Alberta, employees are entitled to two weeks of vacation, paid at 4% of vacationable earnings after one year. After five years their vacation time increases to three weeks, paid at 6% of vacationable earnings.

The following are some of the earnings included in the calculation of vacation pay:

- regular wages or salary (including call-in pay, shift premium, retroactive pay and commissions)
- work-related bonuses
- previously paid vacation pay

In Ontario, employees are entitled to two weeks of vacation time, paid at 4% of the legislated vacationable earnings after one year. After five years of continuous employment with the same employer, vacation time increases to three weeks, paid at 6% of vacationable earnings. The following are some of the earnings included in the calculation of vacation pay:

- regular wages or salary (including call-in pay, shift premium, retroactive pay and commissions)
- overtime pay
- work-related bonuses
- wages in lieu of notice of termination
- statutory holiday pay
- board and lodging cash taxable benefit

Québec employees are entitled to two weeks of vacation time, paid at 4% of vacationable earnings after one year. After three years of uninterrupted service with the same employer, at the end of the reference year, the vacation time increases to three weeks, paid at 6%. The following are some of the earnings included in the calculation of vacation pay:

- regular wages or salary (including call-in pay, shift premium, retroactive pay and commissions)
- overtime pay
- work-related bonuses
- wages in lieu of notice of termination
- statutory holiday pay
- sick pay
- previously paid vacation pay
- vacation pay owing at termination

Example:

Madeleine Bourget has been employed by Alouette Inc. in Québec for 12 years. Employment was terminated effective March 23 of the current year. The organization's vacation year is based on the calendar year. In the current year, Madeleine took one week of the prior year three-week vacation entitlement and was paid $500. On termination of employment, Madeleine's vacation pay owing was calculated as follows.

Prior year vacationable earnings	
Regular salary	$26,000.00
Bonus	1,000.00
Overtime pay	+ 540.00
Total vacationable earnings	$27,540.00
Vacationable earnings	$27,540.00
Vacation rate	x 0.06
Prior year vacation pay	$ 1,652.40
Vacation paid	- 500.00
Prior year vacation pay owing	$ 1,152.40
Current year vacationable earnings	
Regular salary	$ 5,500.00
Previously paid vacation	500.00
Prior year vacation pay owing	1,152.40
Wages in lieu of notice (8 weeks)	+ 4,000.00
	$11,152.40
Vacationable earnings	$11,152.40
Vacation rate	x 0.06
Current year vacation pay owing	$ 669.14
Total vacation pay owing	$ 1,152.40
	+ 669.14
	$ 1,821.54

Severance Pay

The term severance pay is commonly and incorrectly used to refer to all payments on termination of employment, whether they are payments of wages in lieu of notice or payments of retiring allowances. In this material, severance has a specific meaning. Severance pay is not considered to be income from employment but falls under the definition of a retiring allowance. The severance pay requirements fall under the federal *Canada Labour Code, Part III* and Ontario's *Employment Standards Act, 2000*. In these jurisdictions, severance pay, in addition to employer notice of termination, is a requirement based on length of service. In Ontario, the amount of the employer's payroll is also a factor.

Under the *Canada Labour Code, Part III*, employees who have 12 months of continuous service, and are not being terminated for just cause, are entitled to the greater of:

- 2 days' wages at the regular rate, excluding overtime, for each completed year of employment or
- 5 days' wages at the regular rate, excluding overtime

Where the employee's wages vary, severance pay is calculated using an average of the employee's earnings, exclusive of overtime, for the last four complete weeks of employment.

Example:

Shanti Ranjbar has worked as a receptionist at Via Rail for 3 years. Via Rail is governed under the *Canada Labour Code, Part III.* Employment is being terminated due to restructuring. Shanti earns a bi-weekly salary of $1,750.00 and is employed 5 days a week, 52 weeks of the year (260 working days).

Working days in the year	= 52 x 5
	= 260
Daily salary	$= \frac{\$1,750.00 \text{ x } 26}{260}$
	= $175.00
Completed years of service	August (3 years prior) to July (current year) - 3 years
Severance payment	= 3 years x 2 days per year = 6 days' regular wages
	= $175.00 x 6 = $1,050.00

Under Ontario legislation, an employee qualifies for severance pay if:

- they have five or more years of continuous service (including all the time spent by the employee in employment with the employer, whether continuous or not and whether active or not); and
- their employer:
  - has global payroll of $2.5 million or more; or
  - has severed the employment of 50 or more employees in six months due to partial or complete business closure

An employer is considered to have global payroll of $2.5 million if:

- the total wages earned by all of the employer's employees in the four weeks that ended with the last day of the last pay period completed before the severance of an employee's employment, when multiplied by 13, was $2.5 million or more; or
- the total wages earned by all of the employer's employees in the last or second-last fiscal year of the employer before the severance of an employee's employment was $2.5 million or more

An employee that qualifies for severance pay is entitled to receive their regular weekly wage multiplied by:

- one week for each completed year of service; plus
- a pro-rated week for any partial year of service

The maximum amount of severance required is capped at 26 weeks.

When determining the total period of continuous employment the lieu of notice period, whether worked or paid in lieu, is counted towards total service.

To determine the pro-rated week for a partial year of service plus the weeks of notice paid in lieu, calculate as follows:

- Completed months of service ÷ 12
- Weeks of notice paid in lieu ÷ 52

Example:

Anne Evans works in Ontario. Employment is being terminated on the last working day of June of the current year, the end of the eight weeks of working notice period.

Anne started with the organization 13 years prior on March 1. As the organization's annual payroll is $6.3 million and the period of employment was more than five years of service, Anne is entitled to severance pay.

In Ontario, employment is deemed continuous through the notice period; therefore, the length of service for the calculation of the severance payment is 13 years and 4 months (through the end of June) and the severance payment will be calculated as 13 weeks + 4/12 week of regular wages.

Anne earns $2,873.00 on a semi-monthly basis.

Weekly salary	$= \frac{\$2,873.00 \times 24}{52}$
	= $1,326.00
Full years of service	March (13 years prior) – February (current year) 13 years
Part year of service	March (current year) – June (current year) 4 months
Severance payment	= ($1,326.00 x 13) + ($1,326.00 x 4/12) = $17,680.00

Severance pay is calculated on the full length of service, even when the service is broken into several periods or spread between two employers as in the case of the sale of a business.

Note:
In Ontario, if an employee's employment is terminated without working notice, the length of employment for the calculation of severance pay will include the pay in lieu of notice period.

Example:

Marie's employment is terminated without notice three weeks before the fifth anniversary with the employer. Marie will also be entitled to severance pay based on the required notice period. The four weeks wages in lieu of notice are considered as if they had been worked. Marie will be considered to have a total of five years of service.

Employees entitled to severance pay include:

- regular full-time and part-time employees
- employees terminated due to strike or lock-out, except where the strike or lock-out caused the economic hardship which led to the mass termination
- employees terminated due to another employee exercising seniority rights
- employees who, on termination, retire and accept a reduced pension

Employees are *not* entitled to severance pay when they:

- refuse a reasonable offer of alternate employment
- refuse to exercise seniority rights
- retire in receipt of an actuarially unreduced pension from a defined benefit plan
- are engaged in any aspect of the construction industry
- are terminated for just cause
- refuse a call-in to work (such as supply teachers)
- are engaged in the on-site maintenance of buildings, structures, road sewers, pipelines, mains, tunnels or similar work
- have a contract of employment that is impossible to perform or has been frustrated by an unforeseen event or circumstance

Content Review

- An employee-employer relationship is deemed to exist where any one of the following four statements is true:
  - the employee retains the right to be recalled to work
  - there is an expectation of work to be performed by the employee
  - the employee continues to accrue benefits in the employer's registered pension plan
  - the employee continues to participate in all the benefit plans that were available while they were employed
- The employment/labour standards in each jurisdiction legislate the amount of working notice or wages in lieu of notice that must be given to an employee whose employment is being terminated, and the percentage or fraction of vacation pay that must be paid, as well as any severance pay requirements.
- When employers initiate the termination of an individual's employment, they are required to provide the employee with written notice that their employment is being terminated or pay the employee wages in lieu of working the notice period, in compliance with the employment/labour standards in the jurisdiction where the employee works.
- The employment/labour standards in each jurisdiction legislate the types of earnings that are considered vacationable and the percentage or fraction of vacationable earnings to be paid as vacation pay.
- Under the federal *Canada Labour Code, Part III* and Ontario's *Employment Standards Act, 2000*, severance pay, in addition to employer notice of termination, is a requirement based on length of service and, in Ontario, also on the amount of the employer's global payroll.

Review Questions

1. An employee-employer relationship is deemed to exist when:

   a. the employee stops accruing benefits in the employer's registered pension plan
   b. the employee continues to participate in some of the benefit plans that were available while they were employed
   c. the employee no longer retains the right to be recalled to work
   d. none of the above

2. The amount of working notice an employer must provide an employee on termination of employment depends in part on:

   a. the employee's position in the organization
   b. the employee's salary
   c. the organization's financial position
   d. the employee's length of service

3. Which of the following payments is not considered income from employment?

   a. Legislated wages in lieu of notice (non-Québec)
   b. Regular salary
   c. Vacation pay
   d. Severance pay

4. Ingrid Boes, an Alberta employee, is being released from employment in April of the current year after 11 years of service. Ingrid's regular semi-monthly salary is $2,790.00. Calculate the gross amount of legislated wages in lieu of notice the employer must pay Ingrid.

5. Kelli Roper's employment has been terminated by the Ontario employer, Jubilee Florists, at the end of June of the current year. Kelli has not taken the two weeks' vacation time earned from the prior year and has not received payment for it. Calculate the vacation pay Kelli is owed based on the earnings for the current and prior year.

Prior year earnings:	
Regular salary	$36,340.00
Overtime	$ 1,360.00
Christmas bonus	$ 500.00
Current year earnings:	
Regular salary	$19,475.00
Overtime	$ 796.00
Legislated wages in lieu of notice	$ 3,745.20
Severance pay	$ 3,745.20

6. Sarah Van Dyck has worked for The Canada Council for the Arts for six (6) years and two (2) months. Employment was terminated due to downsizing in March of the current year. How much severance must the employer (who is a federal employer, governed by the *Canada Labour Code, Part III*) provide?

   a. 5 days
   b. 14 days
   c. 7 weeks
   d. 12 days

7. Olga Flood earned $3,590.00 on a bi-weekly basis when employment was terminated by Planet Distributors, an Ontario employer, on April 2, 2022, at the end of the notice period. Planet's annual payroll for the prior year was $7.0 million dollars. Olga was hired by Planet on October 1, 2012. Calculate the legislated severance payment owing.

8. True or False. In Ontario, if an employee's employment is terminated without working notice, the length of employment for the calculation of severance pay will include the pay in lieu of notice period.

Types of Termination Payments

Payments made on or leading up to, the termination of employment are an important part of the process for both the employer and the employee. Employers have obligations either through employment and labour standards laws, collective agreements or organizational policy to ensure that all required payments are made on termination of employment. Employees are concerned that they receive all payments owing to them.

Under employment/labour standards, the following payments are required on termination of employment; the amount of the payment is based on length of service and the jurisdiction in which the employee works:

- wages in lieu of notice
- vacation pay
- severance pay

An organization may have collective agreements or organizational policies in place that provide for better benefits than those legislated under employment or labour standards. In these cases, the terms of the collective agreement or organizational policy would be honoured. Some organizations will pay an employee an amount of money in recognition of long service or as compensation for loss of their office or employment. These payments are termed retiring allowances which will be discussed later in this material.

Employment Income

As previously discussed, legislated wages in lieu of notice and vacation payments on termination of employment are considered income from employment according to the Canada Revenue Agency. Revenu Québec does not, however, consider wages in lieu of notice to be income from employment. The required withholdings and the correct method of calculating the withholdings depend on whether the payments made on termination are considered income from employment.

Salary Continuance

At the time of termination, many employers choose to keep paying regular salary for a specified period of time to the employee and continue to maintain these individuals on the organization's benefit plans even though the employee is no longer required to report to work. The employer may require that the individual be available for consultation should the need arise. These payments are defined as salary continuance. Salary continuance is regular employment income, subject to all statutory deductions (C/QPP contributions, EI and QPIP premiums, income taxes and Northwest Territories/Nunavut payroll taxes, if applicable).

Example:

The Redwood Corporation terminated Carol's employment but is continuing to pay the regular monthly salary for four months. Carol is not required to come to work or to perform any employment duties. In addition to the salary, the organization is retaining all benefits, including contributions to the employer's registered pension plan, during the salary continuance period.

In this situation, the employee-employer relationship is still deemed to exist. As Carol's employment will only be terminated at the end of the salary continuance period, the payments are considered regular employment income and are subject to all statutory deductions.

Wages in Lieu of Notice

In all federal and provincial jurisdictions, except Québec, legislated wages in lieu of notice are considered income from employment and are subject to the following statutory deductions:

- Canada Pension Plan (CPP) contributions
- Employment Insurance (EI) and Québec Parental Insurance Plan (QPIP) premiums
- Income taxes
- Northwest Territories/Nunavut payroll taxes, where applicable

If the legislated wages in lieu of notice are paid together with the final pay period earnings, regular deductions for CPP will apply. If paid separately, the straight percentage method is applied, with no pay period exemption, up to the maximum annual CPP contribution.

Whether legislated wages in lieu of notice are paid with, or separately from, the employee's final pay, the straight percentage method for EI and QPIP premiums is applied, up to the maximum annual premium amount.

Federal and non-Québec income taxes are calculated using the bonus tax method as wages in lieu of notice are deemed to be an irregular payment. The method of calculating Québec income tax is explained in the section on retiring allowances.

Northwest Territories and Nunavut payroll taxes are calculated using the annual tax rate.

Example:

Svetlana Dragowski has worked for Corona Consolidated, in Alberta, for 12 years; Svetlana's regular bi-weekly income is $2,500.00. According to Alberta employment standards, eight weeks' notice of termination is required, which will be paid separately from the final regular pay. Svetlana will not reach the annual maximums for CPP contributions or EI premiums with this payment. Svetlana has a TD1 federal and provincial claim code of 1.

Wages in lieu of notice $= \frac{(\$2{,}500.00 \times 26)}{52} \times 8$
$= \$10{,}000.00$

Step One: Determine Gross Earnings

Gross Earnings (GE)	=	Wages in lieu of notice + taxable allowances + non-taxable allowances + cash taxable benefits
	=	$10,000.00 + $0.00 + $0.00 + $0.00
	=	$10,000.00

Step Two: Determine Non-Cash or Near-Cash Taxable Benefits

Taxable Benefits	=	Non-cash taxable benefits + Near-cash taxable benefits
	=	$0.00 + $0.00
	=	$0.00

Step Three: Determine Canada/Quebec Pension Plan (C/QPP) contribution

Pensionable Earnings (PE)	=	Wages in lieu of notice + taxable allowances + cash taxable benefits + non-cash taxable benefits + near-cash taxable benefits
	=	$10,000.00 + $0.00 + $0.00 + $0.00
	=	$10,000.00
C/QPP contribution	=	PE x annual C/QPP rate
	=	$10,000.00 x 0.0570
	=	$570.00

Step Four: Determine Employment Insurance (EI) premium

Insurable Earnings (IE)	=	Wages in lieu of notice + taxable allowances + cash taxable benefits
	=	\$10,000.00 + \$0.00 + \$0.00 + \$0.00
	=	\$10,000.00
	=	IE x annual EI rate
	=	\$10,000.00 x 0.0158
	=	\$158.00

Step Five: Determine Quebec Parental Insurance Plan (QPIP) premium

Insurable Earnings (IE)	Not applicable Svetlana is an Alberta employee

Step Six: Determine Federal Income Tax

Net Federal Taxable Income	=	Wages in lieu of notice + taxable allowances + cash taxable benefits + non-cash taxable benefits + near-cash taxable benefits – authorized deductions = Employee contribution to an RPP = Contributions to an RRSP = Union dues = Deduction for living in a prescribed zone = CRA authorized deductions
	=	\$10,000.00 + \$0.00 + \$0.00 + \$0.00 – \$0.00
	=	\$10,000.00

1	Divide the payment amount by the pay period frequency \$10,000.00 ÷ 26 = \$384.62	
2	Add results from Step 1 to the employee's regular pay period net federal taxable income \$384.62 + 2,500.00 = \$2,884.62	
3	Determine federal income tax on Step 2 result of \$2,884.62 Using Alberta tax tables, bi-weekly pay, claim code 1.	\$522.45
4	Determine federal income tax on the employee's regular pay period net federal taxable income of \$2,500.00 Using Alberta tax tables, bi-weekly pay, claim code 1.	\$422.60
5	Subtract the Step 4 federal income tax from the Step 3 federal income tax	\$ 99.85
6	Multiply the Step 5 result by pay period frequency Federal income tax on bonus	x 26 \$2,596.10

Step Seven: Determine Provincial Income Tax

Net Provincial Taxable Income (non-Quebec) = Wages in lieu of notice + taxable allowances + cash taxable benefits + non-cash taxable benefits + near-cash taxable benefits – authorized deductions

- = Employee contribution to an RPP
- = Contributions to an RRSP
- = Union dues
- = Deduction for living in a prescribed zone
- = CRA authorized deductions

= $10,000.00 + $0.00 + $0.00 + $0.00 – $0.00

= $10,000.00

1	Divide the payment amount by the pay period frequency $10,000.00 ÷ 26 = $384.62	
2	Add results from Step 1 to the employee's regular pay period net provincial taxable income $384.62 + $2,500.00 = $2,884.62	
3	Determine provincial income tax on Step 2 result of $2,884.62 Using Alberta tax tables, bi-weekly pay, claim code 1.	$241.45
4	Determine provincial income tax on the employee's regular pay period net provincial taxable income of $2,500.00 Using Alberta tax tables, bi-weekly pay, claim code 1.	$201.15
5	Subtract the Step 4 provincial income tax from the Step 3 provincial income tax	$ 40.30
6	Multiply the Step 5 result by pay period frequency Provincial income tax on bonus	x 26 $1,047.80

Total income tax on $10,000.00 wages in lieu of notice payment $2,596.10 + 1,047.80
= $3,643.90

Step Eight: Total Deductions

Total Deductions

- \+ C/QPP contributions
- \+ EI premiums
- \+ QPIP premiums
- \+ Federal income tax
- \+ Quebec provincial income tax
- \+ Other deductions

\+ $570.00 (CPP)
158.00 (EI)
3,643.90 (Federal and provincial income tax)
$4,371.90

Step Nine: Net Pay

Net Pay	=	Gross Earnings – Total Deductions
	=	$10,000.00 - 4,371.90
	=	$5,628.10

Vacation Pay on Termination

Vacation pay paid on termination of employment is considered income from employment and is subject to all statutory deductions (C/QPP contributions, EI and QPIP premiums, income taxes and Northwest Territories/Nunavut payroll taxes).

If the vacation pay is paid with the final pay period earnings, regular deductions for C/QPP apply. If paid separately, the annual contribution rate is applied up to the maximum C/QPP contribution for the year; no pay period exemption is applied.

For EI and QPIP purposes, the money is allocated to the employee's final pay period earnings, up to the annual maximum. The insurable amount is multiplied by the appropriate annual EI premium rate, either federal or Québec.

Income taxes on vacation paid on termination of employment are calculated using the bonus method, which was covered in an earlier chapter.

Northwest Territories and Nunavut payroll taxes are calculated using the annual tax rate.

Example:

Madeleine Bourget has been employed by Alouette Inc. in Québec for 12 years. When employment was terminated effective March 23 of the current year, Madeleine was owed $1,821.54 in vacation pay. Madeleine is paid $1,000.00 on a bi-weekly basis and has a group term life insurance taxable benefit, including taxes, of $9.50 per pay. The federal claim code is 1 and the provincial deduction code is A. Madeleine's vacation pay will be paid together with the bi-weekly final pay.

Step One: Determine Gross Earnings		
Gross Earnings (GE)	=	Regular salary + vacation pay + taxable allowances + non-taxable allowances + cash taxable benefits
	=	\$1,000.00 + \$1,821.54 + \$0.00 + \$0.00
	=	\$2,821.54
Step Two: Determine Non-Cash or Near-Cash Taxable Benefits		
Taxable Benefits	=	Non-cash taxable benefits + Near-cash taxable benefits
	=	\$9.50 + \$0.00
	=	\$9.50
Step Three: Determine Canada/Quebec Pension Plan (C/QPP) contribution		
Pensionable Earnings (PE)	=	Regular salary + vacation pay + taxable allowances + cash taxable benefits + non-cash taxable benefits + near-cash taxable benefits
	=	\$1,000.00 + \$1,821.54 + \$0.00 + \$0.00 + \$9.50 + \$0.00
	=	\$2,831.04
C/QPP contribution	=	(PE – pay period exemption) x annual C/QPP rate
	=	(\$2,831.04 – \$134.61) x 0.0615
	=	\$165.83
Step Four: Determine Employment Insurance (EI) premium		
Insurable Earnings (IE)	=	Regular salary + vacation pay + taxable allowances + cash taxable benefits
	=	\$1,000.00 + \$1,821.54 + \$0.00 + \$0.00
	=	\$2,821.54
	=	IE x annual EI rate
	=	\$2,821.54 x 0.0120
	=	\$33.86
Step Five: Determine Quebec Parental Insurance Plan (QPIP) premium		
Insurable Earnings (IE)	=	Regular salary + vacation pay + taxable allowances + cash taxable benefits
	=	\$1,000.00 + \$1,821.54 + \$0.00 + \$0.00
	=	\$2,821.54
	=	IE x annual QPIP rate
	=	\$2,821.54 x 0.00494
	=	\$13.94

Step Six: Determine Federal Income Tax

Net Federal Taxable Income (regular salary)	=	Regular salary + taxable allowances + cash taxable benefits + non-cash taxable benefits + near-cash taxable benefits − authorized deductions
		= Employee contribution to an RPP
		= Contributions to an RRSP
		= Union dues
		= Deduction for living in a prescribed zone
		= CRA authorized deductions
	=	\$1,000.00 + \$0.00 + \$0.00 + \$9.50 + \$0.00 – \$0.00
	=	\$1,009.50
		Using the federal tax tables for a Quebec employee, bi-weekly pay, claim code
	=	\$88.80

Tax on irregular payment of vacation pay using the bonus tax method

1	Divide the payment amount by the pay period frequency \$1,821.54 ÷ 26 = \$70.06	
2	Add results from Step 1 to the employee's regular pay period net federal taxable income \$70.06 + \$1,009.50 = \$1,079.56	
3	Determine federal income tax on Step 2 result of \$1,079.56 Using Quebec tax tables, bi-weekly pay, claim code 1.	\$96.80
4	Determine federal income tax on the employee's regular pay period net federal taxable income of \$1,009.50 Using Quebec tax tables, bi-weekly pay, claim code 1.	\$88.80
5	Subtract the Step 4 federal income tax from the Step 3 federal income tax	\$ 8.00
6	Multiply the Step 5 result by pay period frequency Federal income tax on irregular payment	x 26 \$208.00

Step Seven: Determine Provincial Income Tax

Net Provincial Taxable Income (Quebec) (regular pay)	=	Regular salary + taxable allowances + cash taxable benefits + non-cash taxable benefits + near-cash taxable benefits – authorized deductions = Employee contribution to an RPP = Contributions to an RRSP = Union dues = Deduction for living in a prescribed zone = CRA authorized deductions
	=	\$1,000.00 + \$0.00 + \$0.00 + \$9.50 + \$0.00 – \$0.00
	=	\$1,009.50
		Using the Quebec tax tables, bi-weekly pay, claim code A
	=	\$112.66

Tax on irregular payment of vacation pay using the bonus tax method

1	Divide the payment amount by the pay period frequency \$1,821.54 ÷ 26 = \$70.06	
2	Add results from Step 1 to the employee's regular pay period net provincial taxable income \$70.06 + \$1,009.50 = \$1,079.56	
3	Determine provincial income tax on Step 2 result of \$1,079.56 Using Quebec tax tables, bi-weekly pay, claim code A.	\$126.16
4	Determine provincial income tax on the employee's regular pay period net taxable income of \$1,009.50 Using Quebec tax tables, bi-weekly pay, claim code A.	\$112.66
5	Subtract the Step 4 provincial income tax from the Step 3 provincial income tax	\$ 13.50
6	Multiply the Step 5 result by pay period frequency Provincial income tax on irregular payment	x 26 \$351.00

Step Eight: Total Deductions		
Total Deductions	+	C/QPP contributions
	+	EI premiums
	+	QPIP premiums
	+	Federal income tax
	+	Quebec provincial income tax
	+	Other deductions
		$165.83 (QPP)
		33.86 (EI)
		13.94 (QPIP)
		296.80 (Federal income tax)
		463.66 (Quebec provincial income tax)
		$974.09
Step Nine: Net Pay		
Net Pay	=	Gross Earnings – Total Deductions
	=	$2,821.54 - $974.09
	=	$1,847.45

Retiring Allowances

A retiring allowance is a term in the federal *Income Tax Act* that refers to an amount of money paid to officers or employees once the employment relationship has been severed. Although the term includes the word "retiring", an individual does not have to retire from employment for the payment to be considered a retiring allowance.

The legislation defines a retiring allowance as an amount paid to officers or employees when, or after, they retire from an office or employment, either in recognition of long service or for the loss of office or employment.

A retiring allowance includes:

- payments for unused accumulated sick leave credits
- severance payments as legislated under the *Canada Labour Code, Part III* and under the *Ontario Employment Standards Act, 2000*
- excess wages in lieu of notice provided the employee-employer relationship has been severed
- amounts individuals receive when their office or employment is terminated, even if the amount is for damages (wrongful dismissal)

- payments in recognition of long service
- loss of office compensation
- gratuitous payments

A retiring allowance does not include:

- legislated wages in lieu of notice per employment or labour standards (except in Québec)
- vacation pay
- accumulated overtime
- a death benefit
- bonus or incentive pay
- commissions
- any payment made where the employee-employer relationship is deemed to exist
- damages awarded under Human Rights legislation

Note:
Federally, legislated wages in lieu of notice are considered income from employment, however, Québec requires that wages in lieu of notice are treated and reported in the same way as a retiring allowance.

Except for employees who are entitled to severance pay under the *Canada Labour Code, Part III* or under the *Ontario Employment Standards Act, 2000*, retiring allowances are paid at the discretion of the employer. The amount will vary for each employee, and the method of payment can vary as well. Some employers will pay the retiring allowance as a single lump-sum payment; others will choose to spread the payment over several months or even years.

Statutory Deductions on Retiring Allowances

Federally, as retiring allowances are not considered income from employment, the statutory withholding requirements differ from those discussed under employment income paid on termination of employment. While it is true that a retiring allowance is paid in consideration of the individual's service with the organization, it is not a payment made directly for services performed.

Canada/Québec Pension Plan Contributions

Federally, none of the payments that are included as retiring allowances are considered pensionable earnings; therefore, there are no withholdings for Canada Pension Plan (CPP) contributions. As Québec considers wages in lieu of notice to be a retiring allowance, not income from employment, there are no Québec Pension Plan (QPP) contributions required.

Employment Insurance and Québec Parental Insurance Plan Premiums

Federally, payments included as retiring allowances are not considered insurable earnings, therefore there are no withholdings for Employment Insurance (EI) or Québec Parental Insurance Plan (QPIP) premiums. As the Canada Revenue Agency (CRA) maintains the position that legislated wages in lieu of notice are employment income, legislated wages in lieu of notice payments to Québec employees must be treated federally as employment income, which means EI and QPIP premiums are calculated using the annual rates for Québec employees.

Example:

D'Aoust Construction, a Québec employer, is terminating the employment of Suzette Emard, who has completed 9 years of service with the organization. Québec employment standards require that Suzette be given 4 weeks' notice of termination. D'Aoust has decided to pay the notice period, rather than having Suzette work the 4 weeks. Suzette is paid $1,150.00 on a weekly basis.

Wages in lieu of notice	= $1,150.00 x 4 = $4,600.00

Determine Employment Insurance (EI) premium

Insurable Earnings (IE)	= Wages in lieu of notice + taxable allowances + cash taxable benefits = $4,600.00 + $0.00 + $0.00 = $4,600.00
Employment Insurance premium	= IE x annual Québec EI rate = $4,600.00 x 0.0120 = $55.20

Determine Québec Parental Insurance Plan (QPIP) premium

Insurable Earnings (IE)	= Wages in lieu of notice + taxable allowances + cash taxable benefits = $4,600.00 + $0.00 + $0.00 = $4,600.00
Québec Parental Insurance Plan premium	= IE x annual QPIP rate = $4,600.00 x 0.00494 = $22.72

Federal and Provincial Income Taxes

Every payment included as a retiring allowance is subject to federal and provincial income tax withholdings, calculated using the lump-sum tax rates, except for legislated wages in lieu of notice paid to a Québec employee.

As the CRA deems legislated wages in lieu of notice to be employment income, the Québec legislated wages in lieu are subject to federal income tax calculated using the bonus method. As Québec considers wages in lieu of notice to be a retiring allowance, Québec provincial income tax would be calculated using the Québec lump-sum tax rates.

Exhibit 6-1

LUMP-SUM PAYMENT (NON-QUÉBEC)	COMBINED FEDERAL/ PROVINCIAL TAX RATES
Up to $5,000.00	10%
$5,000.01 to $15,000.00	20%
$15,000.01 and over	30%

Exhibit 6-2

LUMP-SUM PAYMENT (QUÉBEC)	FEDERAL TAX RATE	QUÉBEC TAX RATE
Up to $5,000.00	5%	15%
$5,000.01 to $15,000.00	10%	20%
$15,000.01 and over	15%	20%

Example:

Continuing with the above example of Suzette Emard, the federal and provincial income taxes on the wages in lieu of notice payment would be determined as follows. Suzette has a claim code of 2 on the federal TD1 form and a deduction code B on the Québec TP-1015.3-V form.

Federal Income Tax (using bonus tax method):

1	Divide the payment amount by the pay period frequency $4,600.00 ÷ 52 = $88.46	
2	Add results from Step 1 to the employee's regular pay period net federal taxable income $88.46 + 1,150.00 = $1,238.46	
3	Determine federal income tax on Step 2 result of $1,238.46 Using federal tax tables for a Quebec employee, weekly pay, claim code 2.	$171.70
4	Determine federal income tax on the employee's regular pay period net federal taxable income of $1,150.00 Using federal tax tables for a Quebec employee, weekly pay, claim code 2.	$154.55
5	Subtract the Step 4 federal income tax from the Step 3 federal income tax	$ 17.15
6	Multiply the Step 5 result by pay period frequency Federal income tax on irregular payment	x 52 $891.80

Québec Provincial Income Tax (using lump-sum tax method):

As Québec does not consider wages in lieu of notice to be income from employment, provincial income taxes are calculated using the lump-sum tax method.

The Québec tax rate for a payment of $4,600.00 is 15%.

Québec provincial income tax	$4,600.00
	x 0.15
	$ 690.00

Northwest Territories and Nunavut Payroll Taxes

All payments included as retiring allowances are subject to the Northwest Territories and Nunavut payroll taxes, which are calculated using the annual percentage determined by the jurisdiction in which the employee worked.

Eligible and Non-Eligible Retiring Allowances

Employees who are paid a retiring allowance have the option of transferring all or part of the allowance, including the non-eligible portion, to a Registered Retirement Savings Plan (RRSP) or Registered Pension Plan (RPP), with no income tax withholding at source. The eligible portion is determined based on the employee's years of service with the employer and its associated businesses. The Income Tax Act requires that employers calculate the eligible and non-eligible portions of a retiring allowance. While Québec requires that wages in lieu of notice are reported and treated as a retiring allowance, they would be excluded from this calculation as it is a federal requirement and federally, legislated wages in lieu of notice are considered income from employment.

Employers base their calculations on the provisions of the legislation which state that the eligible amount of a retiring allowance is limited to:

- $2,000.00 for each calendar year, or part year, prior to 1996 in which the individual was employed with the organization, plus
- $1,500.00 for each year or part year of service, prior to 1989, that the employee:
    - did not belong to a registered pension plan, pension fund or deferred profit sharing plan (DPSP)
    - did belong to a registered pension plan, fund or DPSP, but was not fully vested for the pre-1989 years when receiving the retiring allowance

Vesting refers to the employee's entitlement to the contributions the employer made to the pension plan on the employee's behalf. A fully vested employee is entitled to 100% of the employer's contributions; an employee who is not fully vested is only entitled to a portion of the employer's contributions.

Example:

Sita Maraj was hired in January of 1981 and employment was terminated this year. Sita joined the company pension plan in 1983 and is 100% vested at termination.

As per the CRA's formula for calculating the eligible portion of the retiring allowance, $2,000.00 for every calendar year prior to 1996 would result in the following:

Calendar years from January 1981 to December 1995 = 15

$2,000.00 x 15 = $30,000.00

As Sita was not a member of the company pension plan for the years 1981 and 1982, an additional $1,500.00 can be allocated for each of those two calendar years.

$1,500.00 x 2 = $3,000.00

The total eligible portion would be $30,000.00 + 3,000.00 = $33,000.00

The non-eligible amount of a retiring allowance is the total retiring allowance less any eligible portion that has been calculated using the provisions stated above. As the criteria for determining the eligible portion of the retiring allowance are based on pre-1996 employment, employees hired in 1996 or later would not have any eligible amounts. Their entire retiring allowance would be considered non-eligible.

Employees are not required to fill in any special forms when they wish to transfer the eligible portion of a retiring allowance to an RRSP/RPP. If the employee wishes to transfer the non-eligible portion of the retiring allowance to an RRSP/RPP, the employer should have reasonable grounds to believe that the amount being transferred is within the employee's RRSP contribution limit.

The employee should provide the employer with written documentation indicating the amount of the eligible or non-eligible portion of the retiring allowance to be transferred, the financial institution to which it should be sent, and the RRSP account number.

Note:
Under no circumstance should this payment be made payable to the individual with the expectation that they will deposit the amount in the RRSP account.

For the amount being transferred to be exempt from income tax deductions at source, the employer must transfer the amount directly to the employee's RRSP account. Any monies paid to the employee, including any part of the eligible portion that was not transferred to an RRSP/RPP, are subject to tax deductions, using the lump-sum tax rates.

The eligible and non-eligible portions of the retiring allowance are calculated as follows:

Exhibit 6-3

STEP	ACTION
1	Calculate the number of applicable years for each of the two categories according to the provisions.
2	Calculate the amount eligible for transfer to an RRSP or RPP using the number of years from step 1.
3	Subtract the total of step 2 from the total amount of the retiring allowance to determine the non-eligible amount.

Example:

Kim Chen started with Hospital Food Services, a Nova Scotia employer, on September 6, 1988. Employment was terminated on January 12 of the current year, and a $20,000.00 retiring allowance will be paid. The organization does not have a pension plan, a pension fund or a DPSP. The eligible portion of the retiring allowance, based on Kim's years of service, is calculated as follows:

1. Calculate the number of applicable years for each of the two categories as per the provisions.

   - $2,000.00 for each calendar year, or part year, prior to 1996 in which the individual was employed with the organization:

     September 1988 to December 1995 = 8 years

   - $1,500.00 for each year or part year of service, prior to 1989, that the employee:
     - did not belong to a registered pension plan, pension fund or deferred profit sharing plan (DPSP)
     - did belong to a registered pension plan, fund or DPSP, but was not fully vested for the pre-1989 years when receiving the retiring allowance

     September 1988 (part year of service) = 1 year

2. Calculate the amount eligible for transfer to an RRSP or RPP using the number of years from step 1.

$2,000.00 x 8 years	$16,000.00
$1,500.00 x 1 year	+ 1,500.00
Eligible amount	$17,500.00

3. Subtract the total of step 2 from the total amount of the retiring allowance to determine the non-eligible amount.

Retiring Allowance	$20,000.00
Eligible amount	- 17,500.00
Non-eligible amount	$ 2,500.00

Kim can request that the employer transfer all or part of the $17,500.00 eligible portion directly to an RRSP, with no income tax withholding at source. The non-eligible portion may also be transferred, provided Kim does not exceed current RRSP contribution room. Any amount paid directly to Kim is taxed using the lump-sum tax rates.

Kim has decided to transfer $15,000.00 of the retiring allowance to an RRSP and be paid the remaining $5,000.00. The employer will calculate the income tax withholdings on the payment made using the lump-sum tax rate of 10%.

Income tax withholding	$5,000.00
	x 0.10
	$ 500.00
Net payment	$5,000.00
	- 500.00
	$4,500.00

Example:

Tony Spagnolo has been employed with Cantarel, located in Québec, since March 1985 and is paid a salary of $1,000.00 on a weekly basis. When employment was terminated on June 1 of the current year, a $29,000.00 retiring allowance was paid as well as $8,000.00 as legislated wages in lieu of notice. Tony joined the company pension plan in January 1989 and was 100% vested at termination.

Only the $29,000.00 retiring allowance is used for the calculation of the eligible and non-eligible portion, as the $8,000.00 Québec legislated wages in lieu of notice are considered income from employment by the CRA.

1. Calculate the number of applicable years for each of the two categories as per the provisions.

   - $2,000.00 for each calendar year, or part year, prior to 1996 in which the individual was employed with the organization:

     March 1985 to December 1995 = 11 years

   - $1,500.00 for each year or part year of service, prior to 1989, that the employee:
     - did not belong to a registered pension plan, pension fund or deferred profit sharing plan (DPSP)
     - did belong to a registered pension plan, fund or DPSP, but was not fully vested for the pre-1989 years when receiving the retiring allowance

     Calendar years 1985 through 1988 = 4 years

2. Calculate the amount eligible for transfer to an RRSP or RPP using the number of years from step 1.

$2,000.00 x 11 years	$22,000.00
$1,500.00 x 4 years	+ 6,000.00
Eligible amount	$28,000.00

3. Subtract the total of step 2 from the total amount of the retiring allowance to determine the non-eligible amount.

Retiring Allowance	$29,000.00
Eligible amount	- 28,000.00
Non-eligible amount	$ 1,000.00

Tony requested that the employer transfer $12,000.00 of the $28,000.00 eligible amount directly to an RRSP. The balance of the payments, $25,000.00 ($16,000.00 eligible, $1,000.00 non-eligible plus the $8,000.00 legislated wages in lieu of notice) will be paid out. The statutory deductions on the amounts paid out are calculated as follows.

1. Québec Pension Plan (QPP)
   As Québec considers the wages in lieu of notice to be a retiring allowance, there are no QPP contributions required.

2. Employment Insurance (EI)/Québec Parental Insurance Plan (QPIP)
   Federally, the $8,000.00 legislated wages in lieu of notice are considered income from employment and are subject to EI and QPIP premiums. The $17,000.00 retiring allowance is not subject to EI or QPIP premiums.

EI:	$8,000.00
	x 0.0120
	$ 96.00

QPIP:	$8,000.00
	x 0.00494
	$ 39.52

3. Federal and Québec provincial income tax.

   Federal income tax:
   Retiring allowance paid in cash – lump-sum tax method
   Wages in lieu of notice – bonus tax method

   Québec provincial income tax:
   Wages in lieu of notice and retiring allowance – lump-sum tax method

   Federal income tax – Québec employee

   The federal lump-sum tax rate for a payment of $17,000.00 is 15%.

Retiring allowance	$17,000.00
	x 0.15
	$ 2,550.00

   Wages in lieu of notice – bonus tax method

1	Divide the payment amount by the pay period frequency $8,000.00 ÷ 52 = $153.85	
2	Add results from Step 1 to the employee's regular pay period net federal taxable income $153.85 + $1,000.00 = $1,153.85	
3	Determine federal income tax on Step 2 result of $1,153.85 Using Quebec tax tables, weekly pay, claim code 1.	$156.65
4	Determine federal income tax on the employee's regular pay period net federal taxable income of $1,000.00 Using Quebec tax tables, weekly pay, claim code 1.	$128.00
5	Subtract the Step 4 federal income tax from the Step 3 federal income tax	$ 28.65
6	Multiply the Step 5 result by pay period frequency Federal income tax on irregular payment	x 52 $1,489.80

Total federal income tax: $2,550.00 + $1,489.80 = $4,039.80

Québec Provincial Income Tax (using lump-sum tax method):

As Québec considers wages in lieu of notice to be a retiring allowance, provincial income taxes on the $25,000.00 cash payment (eligible retiring allowance, non-eligible retiring allowance and wages in lieu of notice paid) are calculated using the lump-sum tax method.

The Québec lump-sum tax rate for a payment of $25,000.00 is 20%.

Québec income tax	$25,000.00
	x 0.20
	$ 5,000.00
Total deductions:	$ 96.00 (EI)
	39.52 (QPIP)
	12,000.00 (RRSP contribution)
	4,039.80 (Federal income tax)
	5,000.00 (Québec provincial income tax)
	$21,175.32
Net payment	$37,000.00
	- 21,175.32
	$15,824.68

An individual who chooses not to transfer part or all of the eligible portion of the retiring allowance when the money is paid, still has the opportunity to contribute an amount equal to the eligible portion to an RRSP within 60 days after the end of the year the retiring allowance is paid. Any taxes the employee paid when they received the payment will be refunded when the individual files their personal tax return.

Example:

In the above example, Tony chose to transfer $12,000.00 of the retiring allowance directly to an RRSP; the amount paid in cash, $17,000.00, was subject to federal lump-sum tax withholdings at source. Tony could contribute the remaining eligible portion, $16,000.00 ($28,000.00 - $12,000.00), to an RRSP within 60 days after the end of the year. That $16.000.00 contribution would reduce taxable income for the year when an income tax return is filed.

Retiring allowances are taxed using the lump-sum tax rates for any amount not transferred directly to an RRSP/RPP. Applying lump-sum taxes to a retiring allowance may result in insufficient income taxes being withheld, as these lump-sum tax rates are minimal. The lump-sum tax rate to use is based on the total amount of the retiring allowance paid in the taxation year.

Example:

Hoda Mohamoud received a retiring allowance from Vendome Manufacturing, located in Alberta when employment was terminated. Hoda had only been employed with the organization since 1997, so the entire $15,000.00 retiring allowance was considered non-eligible. Vendome paid the retiring allowance in three monthly payments of $5,000.00 each, starting in December of the previous year. The lump-sum tax rate used for calculating income tax withholdings is based on the total amount of the retiring allowance paid in the taxation year.

Previous year:	
December	$5,000.00

As the total previous year payment is $5,000.00, the lump-sum tax rate to apply to the payment is 10%.

Current year:	
January	$ 5,000.00
February	5,000.00
	$10,000.00

As the total current year payment is $10,000.00, the lump-sum tax rate to apply to each $5,000.00 payment is 20%.

Note:
In Québec, if a retiring allowance is paid in instalments, it is no longer considered a one-time payment, and therefore the installments are not subject to the lump sum tax rate for Québec. The installments would be taxed using the bonus tax method for Québec income tax purposes.

The following summary table details which statutory deductions apply to each of the payments included in this chapter, as well as the prescribed method of withholding.

Exhibit 6-4

TERMINATION PAYMENTS	CANADA PENSION PLAN CONTRIBUTIONS	QUÉBEC PENSION PLAN CONTRIBUTIONS	EMPLOYMENT INSURANCE PREMIUMS	QUEBEC PARENTAL INSURANCE PLAN PREMIUMS	INCOME TAXES	NORTHWEST TERRITORIES/ NUNAVUT PAYROLL TAXES
Legislated Wages in Lieu of Notice outside Québec	Yes – Straight percentage	N/A	Yes – Straight percentage method	N/A	Yes – Bonus tax method	Yes – Straight percentage method
Legislated Wages in Lieu of Notice – Québec	N/A	No – Not considered income from employment	Yes – Straight percentage method	Yes – Straight percentage method	Yes – Federal tax - bonus tax method Québec tax – lump-sum tax method	N/A
Vacation Pay	Yes – Regular pay period deduction methods or straight percentage	Yes – Regular pay period deduction methods or straight percentage	Yes – Straight percentage method	Yes – Straight percentage method	Yes – Bonus tax method	Yes – Straight percentage method
Salary Continuance	Yes – Regular pay period deduction methods	Yes – Regular pay period deduction methods	Yes – Straight percentage method	Yes – Straight percentage method	Yes – Regular pay period deduction methods	Yes – Straight percentage method
Retiring Allowance	No – Not pensionable for CPP contributions	No – Not pensionable for QPP contributions	No – Not insurable for EI premiums	No – Not insurable for QPIP premiums	Yes – Lump-sum tax method on amounts not transferred directly to an RRSP/RPP	Yes – Straight percentage method

TERMINATION PAYMENTS	CANADA PENSION PLAN CONTRIBUTIONS	QUÉBEC PENSION PLAN CONTRIBUTIONS	EMPLOYMENT INSURANCE PREMIUMS	QUEBEC PARENTAL INSURANCE PLAN PREMIUMS	INCOME TAXES	NORTHWEST TERRITORIES/ NUNAVUT PAYROLL TAXES
Severance Pay	No – Not pensionable for CPP contributions	No – Not pensionable for QPP contributions	No – Not insurable for EI premiums	No – Not insurable for QPIP premiums	Yes – Lump-sum tax method on amounts not transferred directly to an RRSP/RPP	Yes – Straight percentage method

Communication

Communication plays a very important role in the termination of an employee's employment. There may be government agencies that must be dealt with, as well as legislative requirements that must be addressed. Employers must be aware of the required notice period when terminating employment. Communication with legal counsel might be necessary depending on the severity of the termination. Also, an organization may have involvement and/or communication with some of the following agencies on termination of employment:

- the Canada Revenue Agency (CRA) or Revenu Québec (RQ) must be informed of a termination if there is a requirement to pay, a garnishment order or a third party demand in effect
- Service Canada (SC) has responsibility for completion of the Record of Employment (ROE); clarification of any data entered on the ROE takes place with Service Canada
- Service Canada must also be informed if there is a settlement after a termination has occurred, as this could impact Employment Insurance benefits that may already have been paid
- Workers' Compensation (WC) is informed if the individual was on workers' compensation benefits before the termination
- pension plan administrators and insurance carriers must be notified to remove terminated employees from plans
- British Columbia's Ministry of Health Services must be notified regarding the removal of the employee from the organization's group plan if the employer is still the administrator of the plan
- the Ministry of Justice, Attorney General, Provincial Courts or Family Support and Maintenance offices must be informed of employment terminations when garnishments or family support and maintenance orders are in effect

Proper communication of select information relating to the termination is necessary to ensure that the employee's co-workers are advised in an accurate and timely manner. A concise communication plan is essential to a successful termination process. All employees will require notification of the termination, but a decision must be made regarding the appropriate time to communicate the information to them.

The organization may consider creating different communication plans for management, co-workers and external third parties or contacts. There may be issues that can be shared with the management team that co-workers do not need to know. The same applies to the information shared with external third parties or contacts. Depending on the severity of the issues surrounding the termination, an employer may also seek the advice of their in-house legal department or external legal counsel. Employers must also remember to consider privacy issues.

Once a decision has been made to end the employee-employer relationship, a standard procedure should be in place and specific documents completed to finalize the termination. A well-prepared payroll professional will always have an organization-specific termination checklist. The purpose of the checklist is to ensure that all elements of the termination are handled systematically and completely. Many organizations will have an organization-specific checklist that covers all of their particular issues.

A generic termination checklist is provided as an aid. The termination checklist will not be tested in this course.

Termination Checklist

Employee Name:			
Employee #:	Salary:	Department:	Manager:
Date Hired:		Date of Termination/Resignation:	
Resignation letter received? ________	Termination letter returned and signed? _________		Rehire? Yes ☐ No ☐

ITEM	ACTION TO BE TAKEN	DONE
Final Pay Cheque	Ensure final timesheet, overtime and/or commission sheets have been submitted	
Severance Pay/Retiring Allowance	Calculate; determine method of payment	
EI Record of Employment	Issue according to deadline	
Pension Plan/Group RRSP	Advise employee of options. ☐ Options given ☐ Forms returned	
Profit Sharing/Bonus	Calculate percentage owing	
Shares		
Stock Options		
Vacation Pay		
Overtime/Banked Hours		
Commissions		
Advances/Draws		
Banked Sick Days		
Benefits (medical, dental)	Cancel or continue until:	
Life Insurance	Advise employee of conversion option	
Car Allowance		
Personal Kilometres		
Loan	Repay by:	
Mortgage	Still eligible?	
Credit Union		
Expense Advance	Deduct from last pay (provide written authorization from employee) or advise employee to submit; ☐ Received	
Credit Card(s)		
Long Distance Telephone Card		
I.D. Card/Access Card		

ITEM	ACTION TO BE TAKEN	DONE
Computer Access Codes		
Keys		
Tools		
Computers or Other Equipment		
Manuals, Books or Other Documents		
Employee Discount Card		
Internal/Staff Directories	Remove employee's name	
Mailing Lists		
Association/Board Membership		
Voice Mail/Passwords		
Current Address for T4/RL-1 slips		
Comments/Observations:		

Net Pay Calculation Example

Comet Entertainment has employees in each jurisdiction in Canada. They have decided to close their office in Edmonton, Alberta on September 26, of the current year and terminate the employment of their office manager, Jocelyn Corneau, who was hired when the office was first opened 6 years ago.

The following information is required to calculate the employee's final payments.

Salary	\$46,000.00
Pay period	Bi-weekly
TD1 claim codes	1 – Federal and provincial

Jocelyn will not reach the annual maximums for CPP contributions or EI premiums with this payment.

Regular salary owing	2 weeks
Vacation pay owing	\$3,562.00
Wages in lieu of notice	5 weeks (legislated)
Retiring allowance	\$7,500.00 (all non-eligible)

Final Payments Calculations

Regular bi-weekly salary $= \frac{\$46{,}000.00}{26} = \$1{,}769.23$

Weekly salary $= \frac{\$46{,}000.00}{52} = \$884.62$

Vacation pay = \$3,562.00

Wages in lieu of notice = \$884.62 x 5 = \$4,423.10

Retiring allowance = \$7,500.00

Statutory withholding calculation methods on first payment: regular salary, vacation pay and wages in lieu of notice

PAYMENT	CPP	EI	FEDERAL AND PROVINCIAL INCOME TAX
Regular salary	Regular pay period deduction method	Straight percentage	Regular pay period deduction method
Vacation pay	Regular pay period deduction method	Straight percentage	Bonus tax method
Wages in lieu of notice	Regular pay period deduction method	Straight percentage	Bonus tax method

Statutory withholding calculation method on second payment: retiring allowance

PAYMENT	CPP	EI	FEDERAL AND PROVINCIAL INCOME TAX
Retiring Allowance	N/A	N/A	Lump-sum tax method

<u>First payment: regular salary, vacation pay and wages in lieu of notice</u>

Step One: Determine Gross Earnings

Gross Earnings (GE)	=	Regular salary + vacation pay + wages in lieu of notice + taxable allowances + non-taxable allowances + cash taxable benefits
	=	$1,769.23 + $3,562.00 + $4,423.10 + $0.00 + $0.00 + $0.00
	=	$9,754.33

Step Two: Determine Non-Cash or Near-Cash Taxable Benefits

Taxable Benefits	=	Non-cash taxable benefits + Near-cash taxable benefits
	=	$0.00 + $0.00
	=	$0.00

Step Three: Determine Canada/Quebec Pension Plan (C/QPP) contribution		
Pensionable Earnings (PE)	=	Regular salary + vacation pay + wages in lieu of notice + taxable allowances + cash taxable benefits + non-cash taxable benefits
	=	$1,769.23 + $3,562.00 + $4,423.10 + $0.00 + $0.00 + $0.00
	=	$9,754.33
C/QPP contribution	=	(PE – pay period exemption) x annual C/QPP rate
	=	($9,754.33 – $134.61) x 0.0570
	=	$548.32
Step Four: Determine Employment Insurance (EI) premium		
Insurable Earnings (IE)	=	Regular salary + vacation pay + wages in lieu of notice + taxable allowances + cash taxable benefits
	=	$1,769.23 + $3,562.00 + $4,423.10 + $0.00 + $0.00
	=	$9,754.33
	=	IE x annual EI rate
	=	$9,754.33 x 0.0158
	=	$154.12
Step Five: Determine Quebec Parental Insurance Plan (QPIP) premium		
Insurable Earnings (IE)		Not applicable Jocelyn is an Alberta employee
Step Six: Determine Federal Income Tax		
Net Federal Taxable Income on regular salary	=	Regular salary + taxable allowances + cash taxable benefits + non-cash taxable benefits + near-cash taxable benefits– authorized deductions = Employee contribution to an RPP = Contributions to an RRSP = Union dues = Deduction for living in a prescribed zone = CRA authorized deductions
	=	$1,769.23 + $0.00 + $0.00 + $0.00 + $0.00 – $0.00
	=	$1,769.23
Federal income tax on regular pay		Using the federal tax tables for an Alberta employee, bi-weekly pay, claim code 1
	=	$256.45

Federal income tax on combined vacation pay and wages in lieu of notice using bonus tax method

1	Divide the payment amount by the pay period frequency ($3,562.00 + 4,423.10) ÷ 26 = $307.12	
2	Add result from Step 1 to the employee's regular pay period net federal taxable income $307.12 + $1,769.23 = $2,076.35	
3	Determine federal income tax on Step 2 result of $2,076.35 Using Alberta tax tables, bi-weekly pay, claim code 1.	$327.75
4	Determine federal income tax employee's regular pay period net taxable income of $1,769.23 Using Alberta tax tables, bi-weekly pay, claim code 1.	$256.45
5	Subtract the Step 4 federal income tax from the Step 3 federal income tax	$ 71.30
6	Multiply the Step 5 result by pay period frequency Federal income tax on vacation pay and wages in lieu of notice	x 26 $1,853.80

Step Seven: Determine Provincial Income Tax

Net Provincial Taxable Income on regular salary = Regular salary + taxable allowances + cash taxable benefits + non-cash taxable benefits near-cash taxable benefits – authorized deductions

- = Employee contribution to an RPP
- = Contributions to an RRSP
- = Union dues
- = Deduction for living in a prescribed zone
- = CRA authorized deductions

= $1,769.23 + $0.00 + $0.00 + $0.00 + $0.00 – $0.00

= $1,769.23

Provincial income tax on regular pay: Using the federal tax tables for an Alberta employee, bi-weekly pay, claim code 1

= $123.45

Provincial income tax on combined vacation pay and wages in lieu of notice using the bonus tax method

1	Divide the payment amount by the pay period frequency ($3,562.00 + $4,423.10) ÷ 26 = $307.12	
2	Add result from Step 1 to the employee's regular pay period net taxable income $307.12 + $1,769.23 = $2,076.35	
3	Determine provincial income tax on Step 2 result of $2,076.35 Using Alberta tax tables, bi-weekly pay, claim code 1.	$155.75
4	Determine provincial income tax employee's regular pay period net taxable income of $1,769.23 Using Alberta tax tables, bi-weekly pay, claim code 1.	$123.45
5	Subtract the Step 4 provincial income tax from the Step 3 provincial income tax	$ 32.30
6	Multiply the Step 5 result by pay period frequency Provincial income tax on vacation pay and wages in lieu of notice	x 26 $839.80

Total federal income tax	=	$256.45 + $1,853.80
	=	$2,110.25
Total provincial income tax	=	$123.45 + $839.80
	=	$963.25
Total federal and provincial income tax	=	$2,110.25 + $963.25
	=	$3,073.50

Step Eight: Total Deductions

Total Deductions	+	C/QPP contributions
	+	EI premiums
	+	QPIP premiums
	+	Federal and provincial income tax
	+	Quebec provincial income tax
	+	Other deductions

$548.32 (CPP)
154.12 (EI)
3,073.50 (Federal and provincial income tax)
$3,775.94

Step Nine: Net Pay		
Net Pay	=	Gross Earnings – Total Deductions
	=	$9,754.33 - $3,775.94
	=	$5,978.39

As Jocelyn was hired after 1995, the entire retiring allowance is considered non-eligible. Assuming Jocelyn will be paid the full retiring allowance, the payment will be taxed using the combined federal and provincial lump-sum tax rate, 20% on a payment of $7,500.00.

Step One: Determine Gross Earnings		
Gross Earnings (GE)	=	Retiring allowance
	=	$7,500.00
Step Two: Determine Non-Cash or Near-Cash Taxable Benefits		
Taxable Benefits	=	Non-cash taxable benefits + Near-cash taxable benefits
	=	$0.00 + $0.00
	=	$0.00
Step Three: Determine Canada/Quebec Pension Plan (C/QPP) contribution		
Not applicable		Retiring allowances are not pensionable
Step Four: Determine Employment Insurance (EI) premium		
Not applicable		Retiring allowances are not insurable
Step Five: Determine Quebec Parental Insurance Plan (QPIP) premium		
Not applicable		Retiring allowances are not insurable
Step Six: Determine Combined Federal and Provincial Lump-Sum Income Tax		
Net Taxable Income	=	Retiring allowance – authorized deductions • Employee contribution to an RPP • Contributions to an RRSP • Union dues • Deduction for living in a prescribed zone • CRA authorized deduction
	=	$7,500.00 – $0.00
		Jocelyn's net taxable income of $7,500.00 will be subject to a combined federal and provincial lump-sum tax rate of 20%
Lump sum tax calculation	=	$7,500.00 x 20%
	=	$1,500.00

Step Seven: Total Deductions		
Total Deductions	+	C/QPP contributions
	+	EI premiums
	+	QPIP premiums
	+	Federal income tax
	+	Quebec provincial income tax
	+	Other deductions
	+	$ 0.00 (CPP)
	+	$ 0.00 (EI)
	+	$1,500.00 (Federal and provincial income tax)
		$1,500.00
Step Eight: Net Pay		
Net Pay	=	$7,500.00 – $1,500.00
	=	$6,000.00

Content Review

- Employers have obligations either through employment and labour standards laws, collective agreements or organizational policy to ensure that all required payments are made on termination of employment.
- Under employment/labour standards, the following payments are required on termination of employment; the amount of the payment is based on length of service and the jurisdiction in which the employee works:
  - wages in lieu of notice
  - vacation pay
  - severance pay
- Salary continuance is regular employment income, subject to all statutory deductions.
- In all jurisdictions, except Québec, legislated wages in lieu of notice are considered income from employment, subject to all statutory deductions.
- Vacation pay paid on termination of employment is considered income from employment and is subject to all statutory deductions.
- A retiring allowance is a term in the federal *Income Tax Act* that refers to an amount of money paid to officers or employees once the employment relationship has been severed.
- The legislation defines a retiring allowance as an amount paid to officers or employees when, or after, they retire from an office or employment, either for recognition of long service or for the loss of office or employment.
- A retiring allowance includes:
  - payments for unused accumulated sick leave credits
  - severance payments as legislated under the *Canada Labour Code, Part III* and under the *Ontario Employment Standards Act, 2000*
  - excess wages in lieu of notice provided the employee-employer relationship has been severed
  - amounts individuals receive when their office or employment is terminated, even if the amount is for damages (wrongful dismissal)
  - payments in recognition of long service
  - loss of office compensation
  - gratuitous payments
- A retiring allowance does not include:
  - legislated wages in lieu of notice per employment or labour standards (except in Québec)
  - vacation pay
  - accumulated overtime

  - a death benefit
  - bonus or incentive pay
  - commissions
  - any payment made where the employee-employer relationship is deemed to exist
  - damages awarded under Human Rights legislation
- Retiring allowances are not considered income from employment; they are neither pensionable nor insurable but are subject to federal and provincial income tax withholdings and the Northwest Territories/Nunavut payroll taxes.
- The lump-sum tax rate to be used is based on the total amount of the retiring allowance paid in the taxation year.
- Employees who are paid a retiring allowance have the option of transferring part of the allowance, defined as the eligible portion, to a Registered Retirement Savings Plan (RRSP) or Registered Pension Plan (RPP), with no income tax withholding at source.
- The eligible amount of a retiring allowance is limited to:
  - $2,000.00 for each calendar year, or part year, prior to 1996 in which the individual was employed with the organization, plus
  - $1,500.00 for each year or part year of service, prior to 1989, that the employee:
    - did not belong to a registered pension plan, pension fund or deferred profit sharing plan (DPSP)
    - did belong to a registered pension plan, fund or DPSP, but was not fully vested for the pre-1989 years when receiving the retiring allowance
- For the amount being transferred to not be subject to income tax deductions at source, the employer must transfer the amount directly to the employee's RRSP account. Any monies paid to the employee, including any part of the eligible portion that was not transferred to an RRSP/RPP, are subject to tax deductions, using the lump-sum tax rates.

Review Questions

9. True or False. Salary continuance payments are considered income from employment.

10. In Québec, wages in lieu of notice payments are taxed provincially using:

    a. the bonus method
    b. payroll deduction tables
    c. the manual method
    d. the lump-sum tax method

11. Calculate the gross wages in lieu of notice due in the following scenarios:

NAME/SALARY	REQUIRED NOTICE PERIOD	WAGES IN LIEU OF NOTICE
Ginger Forrest $76,036.00 annual salary	8 weeks	
Paul Robillard $1,768.34 semi-monthly	5 weeks	
Fatima Jeaurond $5,946.00 bi-weekly	4 weeks	

12. Income tax withholdings on vacation paid on termination of employment are calculated using:

    a. the bonus method
    b. payroll deduction tables
    c. the manual method
    d. the lump-sum tax method

13. Indicate which of the following payments can be included in a retiring allowance, by placing an “X” in the column:

PAYMENT	INCLUDED
Severance payments	
Vacation pay	
Loss of office compensation	
Commissions	
Unused accumulated sick leave credits payments	
Non-Québec legislated wages in lieu of notice	
Accumulated overtime	
Payments in recognition of long service	
Death benefit	

14. Shayla Mattice is being paid a $45,000.00 retiring allowance on termination of employment, April 25 of the current year. Shayla joined the organization in 1983; the organization does not have a pension plan. Calculate the eligible and non-eligible portions of Shayla’s retiring allowance.

15. Indicate which of the following payments made on termination of employment are federally considered income from employment, by placing an "X" in the column:

PAYMENT	INCOME FROM EMPLOYMENT
Legislated wages in lieu of notice - non-Québec	
Legislated wages in lieu of notice - Québec	
Salary continuance	
Retiring allowance	
Vacation pay	
Severance pay	

16. List three agencies that might need to be informed of a termination of employment and the reason for doing so.

17. True or False. Retiring allowances are considered income from employment.

18. Paulette Morin has worked for Ultra Energy in Alberta since 1985. Ultra does not have a pension plan for its employees. Employment is terminated on April 13 of the current year. The following amounts are to be included in Paulette's final pay:

Regular bi-weekly salary	$ 2,196.00
Group term life insurance non-cash taxable benefit	$ 13.50
Vacation pay	$ 2,953.00
Legislated wages in lieu of notice	8 weeks
Retiring allowance	$46,116.00

Paulette has federal and provincial TD1 claim codes of 2. A request to transfer $25,000.00 of the retiring allowance to an RRSP was submitted. The regular salary, vacation pay and wages in lieu of notice will be paid together; the retiring allowance will be paid separately.

Paulette will not reach the annual maximums for CPP contributions or EI premiums with these payments

Calculate the net pay for each payment that will be paid to Paulette upon termination.

Chapter Review Questions and Answers

1. An employee-employer relationship is deemed to exist when:

   a. the employee stops accruing benefits in the employer's registered pension plan
   b. the employee continues to participate in some of the benefit plans that were available while they were employed
   c. the employee no longer retains the right to be recalled to work
   d. none of the above

2. The amount of working notice an employer must provide an employee on termination of employment depends in part on:

   a. the employee's position in the organization
   b. the employee's salary
   c. the organization's financial position
   d. **the employee's length of service**

3. Which of the following payments is not considered income from employment?

   a. Legislated wages in lieu of notice (non-Québec)
   b. Regular salary
   c. Vacation pay
   d. Severance pay

4. Ingrid Boes, an Alberta employee, is being released from employment in April of the current year after 11 years of service. Ingrid's regular semi-monthly salary is $2,790.00. Calculate the gross amount of legislated wages in lieu of notice the employer must pay Ingrid.

   Length of service **11 years**

   Weekly salary $= \dfrac{\$2{,}790.00 \times 24}{52}$

   = $1,287.69

   Wages in lieu of notice = $1,287.69 x 8 weeks
   = $10,301.52

5. Kelli Roper's employment has been terminated by the Ontario employer Jubilee Florists at the end of June of the current year. Kelli has not taken the two weeks' vacation time earned from the prior year and payment has not been received for it. Calculate the vacation pay Kelli is owed based on the earnings for the current and prior year.

Prior year earnings:	
Regular salary	$36,340.00
Overtime	$ 1,360.00
Christmas bonus (not work related)	$ 500.00
Current year earnings:	
Regular salary	$19,475.00
Overtime	$ 796.00
Legislated wages in lieu of notice	$ 3,745.20
Severance pay	$ 3,745.20

Prior year vacationable earnings:	
Regular salary	**$36,340.00**
Overtime	**1,360.00**
	$37,700.00
Current year vacationable earnings:	
Regular salary	**$19,475.00**
Overtime	**796.00**
Wages in lieu of notice	**3,745.20**
	$24,016.20
Total vacationable earnings	**$37,700.00**
	24,016.20
	$61,716.20
Vacation rate (4%)	**x 0.04**
Vacation pay owing	**$ 2,468.65**

6. Sarah Van Dyck has worked for The Canada Council for the Arts for six (6) years and two (2) months. Employment was terminated due to downsizing in March of the current year. How much severance must the employer (who is a federal employer, governed by the *Canada Labour Code, Part III*) provide?

   a. 5 days

   b. 14 days

   c. 7 weeks

   d. 12 days

7. Olga Flood earned $3,590.00 on a bi-weekly basis when employment was terminated by Planet Distributors, an Ontario employer, on April 2, 2022, at the end of the notice period. Planet's annual payroll for the prior year was $7.0 million dollars. Olga was hired by Planet on October 1, 2012. Calculate the legislated severance payment owing.

Weekly salary	**= $\frac{\$3{,}590.00 \times 26}{52}$**
	= $1,795.00
Full years of service	**October 1, 2012 – September 30, 2021** **8 years**
Part years of service	**October 1, 2021 – April 2, 2022** **6 months**
Severance payment	**= $1,795.00 x 8 weeks plus 6/12 of one week**
	= $15,257.50

8. True or False. In Ontario, if an employee's employment is terminated without working notice, the length of employment for the calculation of severance pay will include the pay in lieu of notice period.

   True.

9. True or False. Salary continuance payments are considered income from employment.

   True.

10. In Québec, wages in lieu of notice payments are taxed provincially using:

    a. the bonus method
    b. payroll deduction tables
    c. the manual method
    d. **the lump-sum tax method**

11. Calculate the gross wages in lieu of notice due in the following scenarios:

NAME/SALARY	REQUIRED NOTICE PERIOD	WAGES IN LIEU OF NOTICE
Ginger Forrest $76,036.00 annual salary	8 weeks	**$11,697.84**
Paul Robillard $1,768.34 semi-monthly	5 weeks	**$4,080.80**
Fatima Jeaurond $5,946.00 bi-weekly	4 weeks	**$11,892.00**

12. Income tax withholdings on vacation paid on termination of employment are calculated using:

   a. **the bonus method**
   b. payroll deduction tables
   c. the manual method
   d. the lump-sum tax method

13. Indicate which of the following payments can be included in a retiring allowance, by placing an "X" in the column:

PAYMENT	INCLUDED
Severance payments	**X**
Vacation pay	
Loss of office compensation	**X**
Commissions	
Unused accumulated sick leave credits payments	**X**
Non-Québec legislated wages in lieu of notice	
Accumulated overtime	
Payments in recognition of long service	**X**
Death benefit	

14. Shayla Mattice is being paid a $45,000.00 retiring allowance on termination of employment on April 25 of the current year. Shayla joined the organization in 1983; the organization does not have a pension plan. Calculate the eligible and non-eligible portions of Shayla's retiring allowance.

$2,000.00 for each calendar year, or part year, prior to 1996 in which the individual was employed with the organization:

1983 to 1995 = 13 years

$1,500.00 for each year or part year of service, prior to 1989, that the employee:

- **did not belong to a registered pension plan, pension fund or deferred profit sharing plan (DPSP)**
- **did belong to a registered pension plan, fund or DPSP, but was not fully vested for the pre-1989 years when receiving the retiring allowance**

1983 to 1988 = 6 years

$2,000.00 x 13 years	**$26,000.00**
$1,500.00 x 6 years	**+ 9,000.00**
Eligible amount	**$35,000.00**

Retiring Allowance	**$45,000.00**
Eligible amount	**- 35,000.00**
Non-eligible amount	**$10,000.00**

15. Indicate which of the following payments made on termination of employment are federally considered income from employment, by placing an "X" in the column:

PAYMENT	INCOME FROM EMPLOYMENT
Legislated wages in lieu of notice - non-Québec	**X**
Legislated wages in lieu of notice - Québec	**X**
Salary continuance	**X**
Retiring allowance	
Vacation pay	**X**
Severance pay	

16. List three agencies that might need to be informed of a termination of employment and the reason for doing so.

- **the Canada Revenue Agency (CRA) or Revenu Québec (RQ) must be informed of a termination if there is a requirement to pay, a garnishment order or a third party demand in effect**
- **Service Canada (SC) has responsibility for completion of the Record of Employment (ROE); clarification of any data entered on the ROE takes place with Service Canada**
- **Service Canada must also be informed if there is a settlement after a termination has occurred, as this could impact Employment Insurance benefits that may already have been paid**
- **Workers' Compensation is informed if the individual was on workers' compensation benefits before the termination**
- **pension plan administrators and insurance carriers must be notified for removal from plans**
- **British Columbia's Ministry of Health Services must be notified regarding the removal of the employee from the organization's group plan if the employer is still the administrator of the plan**
- **the Ministry of Justice, Attorney General, Provincial Courts or Family Support and Maintenance offices must be informed of employment terminations when garnishments or family support and maintenance orders are in effect**

17. True or False. Retiring allowances are considered income from employment.

False. Retiring allowances are not considered income from employment; they are neither pensionable nor insurable but are subject to federal and provincial income tax withholdings and the Northwest Territories/Nunavut payroll taxes.

18. Paulette Morin has worked for Ultra Energy in Alberta since 1985. Ultra does not have a pension plan for its employees. Employment is terminated on April 13 of the current year. The following amounts are to be included in Paulette's final pay:

Regular bi-weekly salary	$ 2,196.00
Group term life insurance non-cash taxable benefit	$ 13.50
Vacation pay	$ 2,953.00
Legislated wages in lieu of notice	8 weeks
Retiring allowance	$46,116.00

Paulette has federal and provincial claim codes of 2. A request to transfer $25,000.00 of the retiring allowance to an RRSP was submitted. The regular salary, vacation pay and wages in lieu of notice will be paid together; the retiring allowance will be paid separately.

Paulette will not reach the annual maximums for CPP contributions or EI premiums with these payments

Calculate the net pay for each payment that will be paid to Paulette upon termination.

Weekly salary $= \dfrac{\$2{,}196.00 \times 26}{52}$
$= \$1{,}098.00$

Wages in lieu $= \$1{,}098.00 \times 8$
$= \$8{,}784.00$

There will be two net pay processes for Paulette, one for the combined regular salary, vacation pay and wages in lieu of notice, the other for the retiring allowance.

Step One: Determine Gross Earnings

Gross Earnings (GE)	=	**Regular salary + vacation pay + wages in lieu of notice + taxable allowances + non-taxable allowances + cash taxable benefits**
	=	**$2,196.00 + $2,953.00 + $8,784.00 + $0.00 + $0.00 + $0.00**
	=	**$13,933.00**

Step Two: Determine Non-Cash or Near-Cash Taxable Benefits

Taxable Benefits	=	**Non-cash taxable benefits + Near-cash taxable benefits**
	=	**$13.50 + $0.00**
	=	**$13.50**

Step Three: Determine Canada/Quebec Pension Plan (C/QPP) contribution		
Pensionable Earnings (PE)	=	**Regular salary + vacation pay + wages in lieu of notice + taxable allowances + cash taxable benefits + non-cash taxable benefits + near-cash taxable benefits**
	=	**\$2,196.00 + \$2,953.00 + \$8,784.00 + \$0.00 + \$0.00 + \$13.50 + \$0.00**
	=	**\$13,946.50**
C/QPP contribution	=	**(PE – pay period exemption) x annual C/QPP rate**
	=	**(\$13,946.50 – \$134.61) x 0.0570**
	=	**\$787.28**
Step Four: Determine Employment Insurance (EI) premium		
Insurable Earnings (IE)	=	**Regular salary + vacation pay + wages in lieu of notice + taxable allowances + cash taxable benefits**
	=	**\$2,196.00 + \$2,953.00 + \$8,784.00 + \$0.00 + \$0.00**
	=	**\$13,933.00**
	=	**IE x annual EI rate**
	=	**\$13,933.00 x 0.0158**
	=	**\$220.14**
Step Five: Determine Quebec Parental Insurance Plan (QPIP) premium		
Insurable Earnings (IE)		**Not applicable Paulette is an Alberta employee**
Step Six: Determine Federal Income Tax		
Net Federal Taxable Income on regular salary	=	**Regular salary + taxable allowances + cash taxable benefits + non-cash taxable benefits + near-cash taxable benefits– authorized deductions** = **Employee contribution to an RPP** = **Contributions to an RRSP** = **Union dues** = **Deduction for living in a prescribed zone** = **CRA authorized deductions**
	=	**\$2,196.00 + \$0.00 + \$0.00 + \$13.50 + \$0.00 – \$0.00**
	=	**\$2,209.50**
Federal income tax on regular pay		**Using the federal tax tables for an Alberta employee, bi-weekly pay, claim code 2**
	=	**\$349.10**

Federal income tax on combined vacation pay and wages in lieu of notice using the bonus tax method

1	**Divide the payment amount by the pay period frequency** **($2,953.00 + 8,784.00) ÷ 26 = $451.42**	
2	**Add result from Step 1 to the employee's regular pay period net taxable income** **$451.42 + $2,209.50 = $2,660.92**	
3	**Determine federal income tax on Step 2 result of $2,660.92** **Using Federal Alberta tax tables, bi-weekly pay, claim code 2.**	**$ 461.25**
4	**Determine federal income tax on employee's regular pay period net taxable income of $2,209.50** **Using Federal Alberta tax tables, bi-weekly pay, claim code 2.**	**$ 349.10**
5	**Subtract the Step 4 federal income tax from the Step 3 federal income tax**	**$ 112.15**
6	**Multiply the Step 5 result by pay period frequency** **Federal income tax on vacation pay and wages in lieu of notice**	**x 26** **$2,915.90**

Step Seven: Determine Provincial Income Tax

Net Provincial Taxable Income on regular salary = **Regular salary + taxable allowances + cash taxable benefits + non-cash taxable benefits near-cash taxable benefits – authorized deductions**
- = **Employee contribution to an RPP**
- = **Contributions to an RRSP**
- = **Union dues**
- = **Deduction for living in a prescribed zone**
- = **CRA authorized deductions**

= **$2,196.00 +$ 0.00 + $0.00 + $13.50 + $0.00 – $0.00**
$2,209.50

Provincial income tax on regular pay = **Using the federal tax tables for an Alberta employee, bi-weekly pay, claim code 2**
= **$167.05**

Provincial income tax on combined vacation pay and wages in lieu of notice using the bonus tax method.

1	**Divide the payment amount by the pay period frequency** **($2,953.00 + $8,784.00) ÷ 26 = $451.42**	
2	**Add result from Step 1 to the employee's regular pay period net taxable income** **$451.42 + $2,209.50 = $2,660.92**	
3	**Determine provincial income tax on Step 2 result of $2,660.92** **Using Alberta tax tables, bi-weekly pay, claim code 2.**	**$ 214.95**
4	**Determine provincial income tax employee's regular pay period net taxable income of $2,209.50** **Using Alberta tax tables, bi-weekly pay, claim code 2.**	**$ 167.05**
5	**Subtract the Step 4 provincial income tax from the Step 3 provincial income tax**	**$ 47.90**
6	**Multiply the Step 5 result by pay period frequency** **Provincial income tax on vacation pay and wages in lieu of notice**	**x 26** **$1,245.40**

Total federal income tax	=	**$349.10 + $2,915.90**
	=	**$3,265.00**
Total provincial income tax	=	**$167.05 + $1,245.40**
	=	**$1,412.45**
Total federal and provincial income tax	=	**$3,265.00 + $1,412.45**
	=	**$4,677.45**

Step Eight: Total Deductions

Total Deductions	+	**C/QPP contributions**
	+	**EI premiums**
	+	**QPIP premiums**
	+	**Federal and provincial income tax**
	+	**Quebec provincial income tax**
	+	**Other deductions**

$787.28 (CPP)
220.14 (EI)
4,677.45 (Federal and provincial income tax)
$5,684.87

Step Nine: Net Pay		
Net Pay	=	**Gross Earnings – Total Deductions**
	=	**$13,933.00 - $5,684.87**
	=	**$8,248.13**

Retiring Allowance Net Pay

Total retiring allowance: $46,116.00

Eligible portion of retiring allowance

11 years (1985 – 1995) x $2,000.00 = $22,000.00
+ 4 years (1985 – 1988) x $1,500.00 = 6,000.00
$28,000.00

Non-eligible portion of retiring allowance $46,116.00
- 28,000.00
$18,116.00

Paulette has requested that $25,000.00 of the retiring allowance be transferred directly to an RRSP; this amount is within the eligible portion of $28,000.00.

Step One: Determine Gross Earnings		
Gross Earnings (GE)	=	**Retiring allowance**
	=	**$46,116.00**
Step Two: Determine Non-Cash or Near-Cash Taxable Benefits		
Taxable Benefits	=	**Non-cash taxable benefits + Near-cash taxable benefits**
	=	**$0.00 + $0.00**
	=	**$0.00**
Step Three: Determine Canada/Quebec Pension Plan (C/QPP) contribution		
Not applicable		**Retiring allowances are not pensionable**
Step Four: Determine Employment Insurance (EI) premium		
Not applicable		**Retiring allowances are not insurable**
Step Five: Determine Quebec Parental Insurance Plan (QPIP) premium		
Not applicable		**Retiring allowances are not insurable**

Step Six: Determine Combined Federal and Provincial Lump-Sum Income Tax		
Net Taxable Income	=	**Retiring allowance – authorized deductions** • **Employee contribution to an RPP** • **Contributions to an RRSP** • **Union dues** • **Deduction for living in a prescribed zone** • **CRA authorized deduction**
	=	**$46,116 – $25,000.00**
	=	**$21,116.00**
		Paulette**'s net taxable income of $21,116.00 will be subject to a combined federal and provincial lump-sum tax rate of 30%**
Lump sum tax calculation	=	**$21,116.00 x 30%**
	=	**$6,334.80**
Step Seven: Total Deductions		
Total Deductions	+	**C/QPP contributions**
	+	**EI premiums**
	+	**QPIP premiums**
	+	**Federal income tax**
	+	**Quebec provincial income tax**
	+	**Other deductions**
	+	**0.00 (CPP)**
	+	**0.00 (EI)**
	+	**6,334.80 (Federal and provincial income tax)**
	+	**25,000.00 (RRSP)**
		$31,334.80
Step Eight: Net Pay		
Net Pay	=	**$46,116.00 – $31,334.80**
	=	**$14,781.20**