Chapter 4

Non-Regular Payments

Learning Objectives:

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

1. apply statutory withholdings to:
   - Retroactive earnings
   - Bonus and incentive pay
   - Vacation pay without time taken
   - Directors' fees
   - Death benefits
2. Calculate net pay

Communication Objective:

Upon completion of this chapter, you should be able to explain that the bonus tax method is the most accurate method for bonus payments.

Chapter Contents

Introduction

In addition to regular wages, earnings, allowances and benefits, there are other forms of employment income that an employer may pay to an employee. In this chapter, we will look at three of the more common types of non-regular employment income – retroactive and reinstatement pay, bonus and incentive pay, and vacation pay when no vacation time is taken.

There are also situations when an organization may make payments to individuals who are not its employees. We will discuss two types of payments made when an employee-employer relationship does not exist, directors' fees and death benefits.

The calculation of statutory withholdings on these non-regular types of employment income and non-employment payments will be discussed in this chapter.

Non-Regular Employment Income Payments

Unlike regular salary payments which are paid on a regular basis, non-regular payments have no established frequency:

- retroactive adjustments are required when an employee's salary has changed before the current pay period
- bonus payments are made based on an employee, or group of employees, achieving certain objectives or targets
- vacation payments with no time taken are made as necessary

All of these payments are made within the framework of an employee-employer relationship and are deemed income from employment. All statutory deductions must be withheld from these payments.

Retroactive Earnings

Retroactive earnings refer to delayed payment of earnings owed to an employee. The following table lists and describes the three different types of retroactive earnings.

Exhibit 4-1

TYPE	DESCRIPTION
Retroactive Adjustment	Retroactive adjustments are required when the increase in wages is processed after the increase has been awarded; for example, where the paperwork authorizing the increase is late in coming to the payroll department.
Retroactive Increase	A retroactive increase is required when an increase in wages is awarded and the effective date is backdated; for example, where the signing of a new contract occurs after the expiry date of the old contract.
Reinstatement Payment	A reinstatement payment is required when an employee whose employment was terminated, is later reinstated, with back pay, as a result of a court decision or union intervention.

Retroactive and reinstatement earnings are considered employment income, subject to statutory deductions for Canada/Québec Pension Plan (C/QPP) contributions, Employment Insurance (EI) and Québec Parental Insurance Plan (QPIP) premiums, federal and provincial income taxes and Northwest Territories (NT)/Nunavut (NU) payroll taxes.

Examples:

The annual salary increase for the non-unionized employees at Glacier Foods was effective January 2. The payroll department received the authorized salary increase information after they had transmitted the payroll for the period ending January 4. The salary increases were processed on the next pay, January 18, and a **retroactive adjustment** was made for the three days (January 2, 3 and 4) at the new salary that was effective on the previous pay.

The contract for the unionized employees at Glacier Foods expired on June 1 of the previous year. The negotiations for the new contract continued through the summer and the contract was ratified on December 1. On the first pay of January, **retroactive increases** were paid to the unionized employees for the period June 1 to present.

Ginger Reed, whose employment was terminated in the previous year, sued the company for wrongful dismissal. The court ruled in the employee’s favour, the company was required to reinstate Ginger to the former position and make a **reinstatement payment** for the lost wages.

Bonus and Incentive Pay

A bonus or incentive payment is a non-regular payment made to an employee, over and above regular wages. The bonus can be work-related, tied to production or work performance, or it can be discretionary, such as a Christmas bonus. Other types of bonuses or incentives can include payments made for:

- recognition for a job well done
- meeting certain goals or deadlines
- being part of an organization's profit sharing plan
- a signing or pre-employment bonus
- a retention bonus

Regardless of the reason for the bonus, the bonus is considered income from employment. As a result, the bonus amount is included in the individual's income and subject to statutory deductions for C/QPP contributions, EI and QPIP premiums, federal and provincial income taxes and Northwest Territories/Nunavut payroll taxes.

Vacation Pay

Vacation pay is an amount paid when an employee goes on vacation leave. Vacation pay is legislated by employment standards in each jurisdiction and is based on a percentage or fraction of vacationable earnings.

Normally the employee will take their vacation during the year and receive their vacation pay at that time. There may be occasions when an employer will authorize the payment of vacation pay when the employee does not take their vacation time. Although most employment standards legislation does not permit the waiving of vacation time without approval, there are special situations that may result in an employer making a vacation payment to the employee when no time has been taken. These situations might include:

- a payout of excess accrued vacation
- a payout of accrued vacation on termination of employment
- a payout of accrued vacation as a result of an Employment Standards approval

When the vacation entitlement is paid and no time is taken, the payment is considered employment income and subject to statutory deductions for C/QPP contributions, EI and QPIP premiums, federal and provincial income taxes and NT/NU payroll taxes.

Calculation of Statutory Withholdings

The government prescribes the calculation methods that employers must use to determine the statutory withholdings on earnings. These methods can vary based on whether the payment is:

- considered pensionable and/or insurable earnings
- regular or non-regular earnings
- combined with the regular earnings or paid on a separate cheque

The methods for calculating statutory deductions on non-regular payments will be presented in the order of:

1. Canada/Québec Pension Plan (C/QPP) contributions
   - regular pay period deduction method using the government-provided payroll deduction tables or software
   - manual calculation method – using the current C/QPP contribution rate
2. Employment Insurance (EI) premiums
   - regular pay period deduction method using the government-provided payroll deduction tables or software
   - manual calculation method – using the current EI premium rates
3. Québec Parental Insurance Plan (QPIP) premiums
   - regular pay period deduction method using the government-provided payroll deduction tables or software
   - manual calculation method – using the current QPIP premium rates
4. Federal and provincial income tax
   - retroactive tax method
   - bonus tax method
   - lump-sum tax method
5. Northwest Territories/Nunavut payroll tax
   - manual calculation method – using the current payroll tax rates

Canada/Québec Pension Plan (C/QPP) Contributions

The *Payroll Compliance Legislation* course detailed how to determine the C/QPP contributions on an employee's pensionable income using the government-provided payroll deductions tables, the government-provided software, or the manual calculation method. The payroll deductions tables and the government-provided software have the pay period exemption built into the calculations for C/QPP contributions. To calculate the C/QPP contributions on regular earnings using the manual calculation method, subtract the pay period exemption from the employee's pensionable income before applying the current C/QPP rate. Once an employee has contributed the annual maximum C/QPP contributions for the year, no further contributions can be withheld.

The pay period exemptions for 2022 are:

Exhibit 4-2

PAY PERIOD TYPE	YEARLY BASIC EXEMPTION	NUMBER OF PAYS PER YEAR	PAY PERIOD EXEMPTION
Weekly	$3,500.00	52	$67.30
Weekly	$3,500.00	53	$66.03
Bi-weekly	$3,500.00	26	$134.61
Bi-weekly	$3,500.00	27	$129.62
Semi-monthly	$3,500.00	24	$145.83
Monthly	$3,500.00	12	$291.66

The pay period exemption is truncated at two decimal places (no rounding) to avoid the accumulated pay period exemptions exceeding the $3500.00 yearly maximum.

When a non-regular payment of pensionable employment income is made, the method used to calculate the C/QPP contributions is based on whether the non-regular payment is combined with the regular salary or wages, or paid separately.

If the non-regular payment is combined with the employee's regular salary or wages payment the C/QPP contribution can be determined using the payroll deduction tables, the government-provided software, or the manual calculation method, applying the pay period exemption.

Example:

Lowney Ltd., an Alberta employer, awards Treena Nieves a $2,500.00 bonus that will be paid out together with the bi-weekly salary of $1,500.00. Treena will not reach the annual CPP maximum contribution with this payment.

The amount of Treena's pensionable income is required to manually calculate the CPP contributions.

Pensionable Earnings (PE) = Earnings + taxable allowances + cash taxable benefits + non-cash taxable benefits + near-cash taxable benefits
= ($1,500.00 + $2,500.00) + $0.00 + $0.00 + $0.00 + $0.00
= $4,000.00

CPP contribution = (PE - pay period exemption) x annual CPP rate
= ($4,000.00 - $134.61) x 0.057
= $3,865.39 x 0.057
= $220.33

If the non-regular payment is paid separately from the regular salary or wages payment, the manual calculation method must be used, without applying the pay period exemption. The pay period exemption would have been applied when calculating the C/QPP contributions on the regular pay period pensionable earnings. This will ensure that only one pay period exemption is applied for each pay period and that the yearly basic exemption is not exceeded.

Example:

Using the previous example, if Lowney Ltd. paid the $2,500.00 bonus separately from Treena's regular salary payment, the CPP contributions would be calculated as follows:

1st payment – regular salary

CPP = (PE - pay period exemption) x annual CPP rate
= (Salary - pay period exemption) x annual CPP rate
= ($1,500.00 - $134.61) x annual CPP rate
= $1,365.39 x 0.057
= $77.83

2nd payment – bonus – no pay period exemption applied

CPP = PE x annual CPP rate
= Bonus x annual CPP rate
= $2,500.00 x 0.057
= $142.50

Employment Insurance (EI) Premiums

In *Payroll Compliance Legislation*, the calculation of EI premiums on insurable earnings using the government-provided payroll deduction tables, the government-provided software and the manual calculation method were explained. There is no exemption to consider when calculating EI premiums; the payroll deduction tables, the software or the manual calculation method can be used for non-regular payments, whether they are paid together with, or separately from, a regular salary or wages payment.

The 2022 EI rate for non-Québec employees is 1.58%; the rate for Québec employees is 1.20%. Once an employee has contributed the annual maximum in federal EI premiums ($952.74 for 2022) or Québec EI premiums ($723.60 for 2022), no further premiums should be withheld.

Example:

In early March, Aliments Terrebonne, located in Ste-Foy, Québec, completed its negotiations with the union for a new collective agreement, effective June 1 of the previous year. The payroll department processed the retroactive increases on the last pay of March.

Pierre Lemieux will be receiving a retroactive increase of $946.50 that will be paid together with the new weekly salary of $675.00. Pierre's EI premiums will be calculated as:

Insurable Earnings (IE)	= Earnings + taxable allowances + cash taxable benefits = ($675.00 + $946.50) + $0.00 + $0.00 = $1,621.50
EI premium	= IE x annual Québec EI rate = $1,621.50 x 0.012 = $19.46

Québec Parental Insurance Plan

Québec Parental Insurance Plan (QPIP) premiums are calculated on a Québec employee's insurable earnings. The premiums can be calculated using the payroll deduction tables for QPIP premiums, the WinRAS software or by applying the annual percentage rate (0.494% for 2022). Similar to EI, there is no pay period exemption for QPIP premiums, so any of the approved methods can be used for non-regular payments, whether they are paid together with, or separately from, the employee's regular salary. QPIP premiums are deducted only up to the annual maximum ($ 434.72 for 2022).

Example:

Continuing with our previous example, Pierre's salary and retroactive increase are also subject to QPIP premiums.

Pierre will be receiving the retroactive increase of $946.50 paid with the new weekly salary of $675.00. Pierre's QPIP premium will be calculated as:

Insurable Earnings (IE)	= Earnings + taxable allowances + cash taxable benefits = ($675.00 + $946.50) + $0.00 + $0.00 = $1,621.50
QPIP premium	= IE x annual QPIP rate = $1,621.50 x 0.00494 = $8.01

Income Tax

The methods of determining federal and provincial income tax withholdings on regular payments made to employees include the payroll deduction tables, federal and Québec software programs, manual calculations and the government-provided formulas for computer programs. For non-regular payments, the methods prescribed to determine the income tax withholdings are the retroactive tax method and the bonus tax method.

Retroactive Tax Method

The retroactive tax method is the government-prescribed method for calculating income tax withholdings on retroactive adjustments or increases, while the regular payroll deduction method is used to determine the taxes on a reinstatement payment made within the same tax year as it was awarded. As explained previously in the material, a reinstatement payment is required when an employee who was terminated is later reinstated with back pay as a result of a court decision or union intervention.

The payroll deduction tables assume that the employee will be earning their regular pay period net taxable income in each of the pay periods during the year. The tax rate that is used to determine the federal and provincial income tax withholdings on the regular pay period net taxable income is based on the employee's estimated annual net taxable income, calculated as:

Pay period net taxable income x pay period frequency
= Estimated annual net taxable income

A retroactive adjustment or increase will increase the employee's annual earnings, which increases the rate at which the employee should have been paying tax since the effective date of the change in earnings. As a result, when paying a retroactive adjustment or increase, the retroactive tax method must be used to accurately determine the tax withholdings.

With the retroactive tax method, the retroactive amount is prorated over the number of lapsed pay periods since the increase was effective. The tax on the employee's regular net taxable income before the increase is compared to the tax on the employee's new net taxable income and the difference is multiplied by the number of lapsed pay periods.

Exhibit 4-3

STEP	ACTION
1	Calculate the employee's new pay period earnings
2	Calculate the retroactive earnings amount
3	Determine the federal and provincial income taxes on the employee's previous net taxable income
4	Determine the federal and provincial income taxes on the employee's new net taxable income
5	Subtract the Step 3 federal and provincial income taxes from the Step 4 federal and provincial income taxes
6	Multiply the Step 5 total by the number of pay periods that have passed since the increase was effective

Example:

Stargate Software, an Alberta employer, processed salary increases at the end of March that were effective February 5, three pay periods prior. Eric Long's increase was calculated to be $50.00 per pay. The previous semi-monthly net taxable income was $1,300.00 and the federal and provincial TD1 claims codes are 1.

STEP	ACTION	
1	Calculate the employee's new pay period earnings	
	Regular earnings	$1,300.00
	Salary increase	+ 50.00
	New regular earnings per pay	$1,350.00
2	Calculate the retroactive earnings amount	
	Salary increase	$ 50.00
	Number of lapsed pay periods	x 3
	Retroactive earnings	$150.00

STEP	ACTION		
		FEDERAL	PROVINCIAL
3	Determine federal and provincial income tax on employee's new net taxable income of $1,350.00. Using Alberta tax tables, semi-monthly pay, claim code 1.	$156.95	$77.45
4	Determine federal and provincial income tax on employee's previous net taxable income of $1,300.00. Using Alberta tax tables, semi-monthly pay, claim code 1	$145.60	$72.15
5	Subtract the Step 4 federal and provincial income taxes from the Step 3 federal and provincial income taxes	$ 11.35	$ 5.30
6	Multiply the Step 5 total by the number of pay periods that have passed since the increase was effective (two pay periods in February and one in March) Total federal and provincial tax on retroactive increase	x 3 $ 34.05	x 3 $15.90

Bonus Tax Method

The bonus tax method is the government-prescribed method for calculating income tax withholdings on bonus payments or payments of vacation pay with no time taken. It can also be used to calculate the income tax withholding on other types of non-regular payments such as reinstatement payments pertaining to previous tax years.

The payroll deduction tables assume that the employee will be making the same regular pay period net taxable income in each of the pay periods during the year. The tax rate that is used to determine the federal and provincial income tax withholdings on the regular pay period net taxable income is based on the employee's estimated annual net taxable income, calculated as:

Pay period net taxable income x pay period frequency
= Estimated annual net taxable income

A non-regular bonus or vacation payment increases the employee's annual earnings, which increases the rate at which the employee should have been paying tax since the beginning of the year. As a result, when paying a bonus or vacation pay with no time taken, the bonus tax method must be used to accurately determine the tax withholdings.

There are two bonus tax calculation methods; one calculates the taxes on payments such as a once-a-year bonus or vacation with no time taken, and the second calculates the taxes on any subsequent payment requiring the bonus tax method that the employee receives in the same calendar year.

Bonus Tax Method – One Bonus in the Year

When the first bonus payment or payment of vacation with no time taken is paid in a year, the employer must calculate income taxes using the bonus tax method – one bonus in the year.

Exhibit 4-4

STEP	ACTION
1	Divide the irregular payment amount by the pay period frequency
2	Add the result of Step 1 to the employee's regular pay period net taxable income
3	Determine the federal and provincial income tax withholding on the Step 2 result
4	Determine the federal and provincial income tax withholding on the employee's regular pay period net taxable income
5	Subtract the Step 4 federal and provincial income taxes from the Step 3 federal and provincial income taxes
6	Multiply the Step 5 result by the pay period frequency to determine the federal and provincial income tax to withhold on the payment

Example:

Claudio Maroni works for Bellsmith Technologies in Alberta. Claudio is paid an annual salary of $48,750.00, or $1,875.00 on a bi-weekly basis. In February, Claudio received a $3,900.00 bonus for achieving the performance objectives for the previous year. The bonus was paid separately from Claudio's regular pay. Claudio's federal and provincial TD1 claim codes are 2.

STEP	ACTION		
1	Divide the payment amount by the pay period frequency $3,900.00 ÷ 26 $150.00		
2	Add result from Step 1 to the employee's regular pay period net taxable income Regular pay period net taxable income $1,875.00 Result of Step 1 + 150.00 $2,025.00		
		FEDERAL	**PROVINCIAL**
3	Determine federal and provincial income tax on Step 2 result of $2,025.00. Using Alberta tax tables, bi-weekly pay, claim code 2.	$306.85	$146.50
4	Determine federal and provincial income tax on employee's regular pay period net taxable income of $1,875.00. Using Alberta tax tables, bi-weekly pay, claim code 2.	$275.15	$131.35
5	Subtract the Step 4 federal and provincial income taxes from the Step 3 federal and provincial income taxes	$ 31.70	$ 15.15
6	Multiply the Step 5 result by pay period frequency Total federal and provincial tax on $3,900.00 bonus Total tax $824.20 + $393.90 = $1,218.10	x 26 $824.20	x 26 $393.90

Bonus Tax Method – More Than One Bonus in the Year

When more than one bonus, or a bonus and a vacation payment (with no time taken), is paid in a year, there are additional steps in the bonus tax calculation that take into account any previously paid bonuses or vacation payments (with no time taken) during the current year.

Exhibit 4-5

STEP	ACTION
1	Divide the current irregular payment by the pay period frequency
2	Divide the previously paid year-to-date irregular amounts by the pay period frequency
3	Add the total of Step 1 and Step 2
4	Add the total of Step 3 to the employee's regular pay period net taxable income
5	Add the total of Step 2 to the employee's regular pay period net taxable income
6	Determine the federal and provincial income tax withholding on the Step 4 result
7	Determine the federal and provincial income tax withholding on the Step 5 result
8	Subtract the Step 7 federal and provincial income taxes from the Step 6 federal and provincial income taxes
9	Multiply the Step 8 results by the pay period frequency to determine the federal and provincial income tax to withhold on the payment

Example:

Claudio Maroni, from our previous example, received a payout of accrued vacation when employment ended in May; previously a $3,900.00 bonus was paid in February. The vacation amount, $2,496.00, was paid on a separate payment from the regular salary. As the vacation pay with no time taken is also taxed using the bonus method, the method for calculating taxes on the vacation pay will be done using the more than one bonus payment in the year method.

Claudio's federal and provincial TD1 claim codes are 2.

STEP	ACTION	
1	Divide the current payment amount by the pay period frequency	
	$2,496.00 ÷ 26	$96.00
2	Divide the previously paid year-to-date amounts by the pay period frequency	
	$3,900.00 ÷ 26	$150.00
3	Add the total of Step 1 and Step 2	
	$96.00 + $150.00	$246.00
4	Add the result of Step 3 to the employee's regular pay period net taxable income	
	$246.00 + $1,875.00	$2,121.00

STEP	ACTION		
5	Add the result of Step 2 to the employee's regular pay period net taxable income $150.00 + $1,875.00	$2,025.00	
		FEDERAL	**PROVINCIAL**
6	Determine federal and provincial income tax on Step 4 result of $2,121.00 Using Alberta tax tables, bi-weekly pay, claim code 2.	$327.95	$157.00
7	Determine federal and provincial income tax on Step 5 result of $2,025.00 Using Alberta tax tables, bi-weekly pay, claim code 2.	$306.85	$146.50
8	Subtract the Step 4 federal and provincial income taxes from the Step 3 federal and provincial income taxes	$ 21.10	$ 10.50
9	Multiply the Step 5 result by pay period frequency Total federal and provincial tax on $3,900.00 bonus Total tax $548.60 + $273.00 = $821.60	x 26 $548.60	x 26 $273.00

Northwest Territories/Nunavut Payroll Tax

Both the Northwest Territories and Nunavut have a payroll tax that is calculated on an employee's gross remuneration. Gross remuneration includes all payments and the value of all benefits and allowances received by an individual from an office or employment as discussed in Chapter 2. The Northwest Territories and Nunavut payroll tax rate is 2%.

Example:

Laura Meek works for Standard Construction in Nunavut. A performance bonus of $1,500.00 is paid in January. The payroll tax on Laura's bonus is calculated as:

Gross Remuneration	= Earnings + cash allowances + total taxable benefits = $1,500.00 + $0.00 + $0.00 = $1,500.00
Payroll Tax	= Gross remuneration x annual payroll tax rate = $1,500.00 x 0.02 = $30.00

Net Pay Calculation Example

Ella Staynor is the Manager of Product Development for Dominion Glass, located in Lethbridge, Alberta and earns an annual salary of $62,592.00, paid monthly. Ella is responsible for the research labs at the company's three locations in the province and makes site visits once a month. Dominion gives Ella a monthly car allowance of $30.00 to cover the costs associated with using the car to make these visits.

Dominion offers a comprehensive benefits package to its employees; all benefits are 100% employer-paid. The non-cash taxable benefits included in the package are:

- group term life insurance coverage of three times the employee's salary

Ella has a claim code of 1 on the federal and provincial TD1 forms. The company's costs for the non-cash taxable benefits are:

- $130.83 per month for life insurance coverage

Each employee in Ella's department received a bonus for meeting their previous year's objectives. The bonuses were paid separately from the employees' regular pays. The department heads each received a $2,000.00 bonus; Ella, as manager, received a $5,000.00 bonus. Ella will not reach the annual maximums for CPP contributions or EI premiums with this payment.

To calculate the statutory withholdings on Ella's bonus, the net taxable income per pay period needs to be determined.

Regular earnings per pay period	$= \frac{\$62,592.00}{12}$
	= \$5,216.00
Taxable allowances per pay period	= \$30.00 (car allowance)
Taxable benefits per pay period	= \$130.83 (group term life insurance)
Net taxable income per pay period	= \$5,216.00 + 30.00 + 130.83 = \$5,376.83

Using the Payroll Calculation Template, Ella's net bonus payment is calculated as follows:

Step One: Determine Gross Earnings		
Gross Earnings (GE)	=	Bonus Earnings + taxable allowances + non-taxable allowances + cash taxable benefits
	=	\$5,000.00 + \$0.00 + \$0.00 + \$0.00
	=	\$5,000.00
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)	=	Bonus Earnings + taxable allowances + cash taxable benefits + non-cash taxable benefits
	=	\$5,000.00 + \$0.00 + \$0.00 + \$0.00
	=	\$5,000.00
C/QPP contribution	=	PE x annual C/QPP rate
	=	\$5,000.00 x 0.0570
	=	\$285.00
Step Four: Determine Employment Insurance (EI) premium		
Insurable Earnings (IE)	=	Bonus Earnings + taxable allowances + cash taxable benefits
	=	\$5,000.00 + \$0.00 + \$0.00 + \$0.00
	=	\$5,000.00

EI premium	=	IE x annual EI rate
	=	$5,000.00 x 0.0158
	=	$79.00

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

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

Step Six: Determine Federal Income Tax

Net Federal Taxable Income = Bonus Earnings + taxable allowances + cash taxable benefits + non-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

= $5,000.00 + $0.00 + $0.00 + $0.00 – $0.00

= $5,000.00

Federal income tax using the bonus tax method

1	Divide the payment amount by the pay period frequency $5,000.00 ÷ 12 = $416.67	
2	Add result from Step 1 to the employee's regular pay period net taxable income $416.67 + $5,376.83 = $5,793.50	
3	Determine federal income tax on Step 2 result of $5,793.50 Using Alberta tax tables, monthly pay, claim code 1.	$1,014.00
4	Determine federal income tax on employee's regular pay period net taxable income of $5,376.86. Using Alberta tax tables, monthly pay, claim code 1.	$ 905.85
5	Subtract the Step 4 federal and provincial income taxes from the Step 3 federal and provincial income taxes	$ 108.15
6	Multiply the Step 5 result by pay period frequency	x 12
	Federal income tax on bonus	$1,297.80

Step Seven: Determine Provincial Income Tax

Net Provincial Taxable Income (non-Quebec)	=	Bonus Earnings + taxable allowances + cash taxable benefits + non-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
	=	$5,000.00 + $0.00 + $0.00 + $0.00 – $0.00
	=	$5,000.00

Provincial income tax using the bonus tax method

1	Divide the payment amount by the pay period frequency $5,000.00 ÷ 12 = $416.67	
2	Add result from Step 1 to the employee's regular pay period net taxable income $416.67 + $5,376.83 = $5,793.50	
3	Determine provincial income tax on Step 2 result of $5,793.50 Using Alberta tax tables, monthly pay, claim code 1.	$475.75
4	Determine provincial income tax on employee's regular pay period net taxable income of $5,376.86. Using Alberta tax tables, monthly pay, claim code 1.	$432.10
5	Subtract the Step 4 federal and provincial income taxes from the Step 3 federal and provincial income taxes	$ 43.65
6	Multiply the Step 5 result by pay period frequency	x 12
	Provincial income tax on bonus	$523.80

Total income tax on $5,000 bonus payment $1,297.80 + $523.80 = $1,821.60

Step Eight: Total Deductions		
Total Deductions	+	C/QPP contributions
	+	EI premiums
	+	QPIP premiums
	+	Federal income tax
	+	Quebec provincial income tax
	+	Other deductions
		$ 285.00 (CPP)
		79.00 (EI)
		$1,821.60 (Federal and provincial income tax)
		$2,185.60
Step Nine: Net Pay		
Net Pay	=	Gross Earnings – Total Deductions
	=	$5,000.00 - $2,185.60
	=	$2,814.40

Content Review

- Three of the common types of non-regular employment income are retroactive earnings, bonus and incentive pay, and vacation pay when no vacation time is taken. All of these payments are made within the framework of an employee-employer relationship and are considered to be income from employment.
- Retroactive adjustments are required when the increase in wages is processed after the increase has been awarded, for example, where the paperwork authorizing the increase is late in coming.
- A retroactive increase is required when an increase in wages is awarded and the effective date is backdated, for example, where the signing of a new contract occurs after the expiry date of the old contract.
- A reinstatement payment is required when an employee who was terminated is later reinstated, with back pay, as a result of a court decision or union intervention.
- Retroactive earnings are considered employment income, subject to all statutory deductions.
- A bonus or incentive payment is a non-regular payment made to an employee and is considered employment income subject to all statutory deductions.
- If a non-regular payment is combined with the employee's regular salary or wages paid, the C/QPP contribution can be determined using the payroll deduction tables, the government-provided software or the manual calculation method, applying the pay period exemption.
- If a non-regular payment is paid separately from the regular salary or wages payment, the manual calculation method must be used, without applying the pay period exemption, as the exemption would have been applied when calculating the Canada/Québec Pension Plan contributions on the regular pay period pensionable earnings.
- As there is no exemption to consider when calculating Employment Insurance premiums, the payroll deduction tables, the software or the manual calculation method can be used for non-regular payments, whether they are paid together with, or separately from, a regular salary or wages paid.
- There is no pay period exemption for Québec Parental Insurance Plan premiums, so any of the approved methods can be used for non-regular payments, whether they are paid together with, or separately from, the employee's regular salary.
- For non-regular payments, the methods available to determine the income tax withholdings are the retroactive tax method and the bonus tax method.
- A retroactive adjustment or increase will increase the employee's annual earnings, which increases the rate at which the employee should have been paying tax since the effective date of the change in earnings. As a result, when paying a retroactive adjustment or increase, the retroactive tax method must be used to accurately determine the tax withholdings.

- When paying a bonus or vacation pay with no time taken, the bonus tax method must be used to accurately determine the tax withholdings.
- When more than one bonus, or vacation payment (with no time taken), is paid in a year, there are additional steps in the bonus tax calculation that take into account any previously paid bonuses or vacation payments (with no time taken) during the current year.
- Both the Northwest Territories and Nunavut have a payroll tax that is calculated on an employee's gross remuneration. The Northwest Territories and Nunavut payroll tax rate is 2%.

Review Questions

1. Match the earning with its description, by indicating the correct letter in the middle column.

TYPE		DESCRIPTION
Retroactive increase		a. A type of earning required when an increase in wages is processed after the increase has been awarded, for example, where the paperwork authorizing the increase is late in coming.
Bonus		b. A type of earning required when an increase in wages is awarded and the effective date is backdated, for example, where the signing of a new contract occurs after the expiry date of the old contract.
Retroactive adjustment		c. A non-regular payment made to an employee, over and above regular wages, in recognition for a job well done.

2. True or False. When calculating the Canada/Québec Pension Plan contribution on a non-regular payment, paid separately from the employee's regular salary or wages, the pay period exemption must be applied to the payment.

3. Calco Ind., a Québec employer, reviews the employees' salaries on an annual basis, with any changes being effective for the first pay of the year. The paperwork authorizing payroll to make the changes was received by the payroll manager in March, and the changes were input on the tenth pay of the year. Calco pays on a weekly basis.

   Albert Camus' increase was calculated to be $16.00 per pay; the previous weekly salary was $500.00. Albert's federal TD1 claim code is 2 and the Québec deduction code is B. Albert has a weekly group term life taxable benefit of $8.00, which includes the premium and the Quebec 9% tax on insurance premiums.

   Albert will receive the retroactive increase on the same pay as the regular salary. Calculate Albert's net pay.

Step One:
Step Two:
Step Three:
Step Four:

Step Five:
Step Six:

Step Seven:
Step Eight:
Step Nine:

4. Natalie Robinson works for Drury Builders in Spencerville, Alberta. Natalie is going to receive a $5,000.00 performance bonus on the next pay for meeting the previous year's objectives. The bonus is the first Natalie has received this year and will be paid on a separate cheque. Natalie claims code 1 on the federal and provincial TD1s. The regular bi-weekly salary is $1,538.26 and there is also a group term life insurance non-cash taxable benefit of $12.50 per pay. The annual maximums for CPP contributions or EI premiums will not be reached with this payment. Calculate Natalie's net bonus payment.

Step One:
Step Two:
Step Three:
Step Four:

Step Five:
Step Six:
Step Seven:

Step Eight:
Step Nine:

5. Natalie is receiving a second bonus. The bonus of $8,970.00 will be paid separately from the regular pay. The annual maximums for CPP contributions or EI premiums will not be reached with this payment. Calculate Natalie's net bonus payment.

Step One:
Step Two:
Step Three:
Step Four:
Step Five:

Step Six:
Step Seven:
Step Eight:

Step Nine:

Other Payments

Certain payments made outside of an employee-employer relationship are also subject to statutory deductions. In most cases, if there is no employee-employer relationship in existence, the payment would be considered neither pensionable nor insurable. In this material, we will look at directors' fees and death benefits along with their statutory withholding requirements.

For directors' fees, there can be a situation where an employee is also a member of the board of directors; the payroll practitioner must know the proper prescribed statutory deduction calculation method to apply, as the calculation methods differ if the director is also an employee.

Directors' Fees

Directors' fees are paid to individuals who serve as members of a board of directors. Most incorporated companies have a board of directors that oversees the operations of the company. These directors may or may not also be employees.

Directors' fees are considered:

- pensionable for C/QPP contributions
- not insurable for EI premiums (unless paid to a director of a crown corporation listed in Schedule III of the *Financial Administration Act*)
- insurable for QPIP premiums
- taxable income and may be subject to federal and provincial income taxes
- taxable for the Northwest Territories or Nunavut payroll taxes

Calculation of Statutory Withholdings

The federal and provincial governments prescribe the calculation methods that must be used to determine the statutory withholdings on directors' fees.

Canada/Québec Pension Plan

Directors' fees are considered pensionable earnings. However, no CPP contributions are withheld from a director who is:

- age 70 or older
- age 65 but under the age of 70, in receipt of Canada or Québec Pension Plan retirement pension and has filed an election to stop CPP contributions (form CPT30)

As well, if the director receives a C/QPP disability benefit, they would be exempt from contributions to either plan.
To calculate the C/QPP contribution on a director's fee, employers can use either the regular pay period deduction method or the manual calculation.

Example:

Claire McDonald is paid a quarterly director's fee of $3,000.00 that is subject to CPP contributions. To determine the contributions using the payroll deduction tables, determine the amount of fees paid on a monthly basis.

$$\text{Monthly fee} = \frac{\text{Quarterly Payment}}{\text{Number of months in a quarter}}$$

$$= \frac{\$3{,}000.00}{3}$$

$$= \$1{,}000.00$$

Using the monthly CPP tables in CRA guide T4032 lookup pensionable earnings of $1,000 to determine the CPP contribution.

Multiply the monthly contribution ($40.38) by the number of months in the quarter to determine the contribution on the quarterly fee.

$$\text{CPP contribution} = \begin{array}{r} \$\ 40.38 \\ \underline{x \qquad 3} \\ \$121.13 \end{array}$$

To calculate the CPP contribution manually, prorate the annual CPP exemption of $3,500.00 by the number of pay periods in the year (4 quarterly pay periods).

$$\text{CPP quarterly exemption} = \frac{\text{Annual CPP exemption}}{4}$$

$$= \frac{\$3{,}500.00}{4}$$

$$= \$875.00$$

CPP contribution = (Quarterly payment - quarterly exemption) x annual rate
= ($3,000.00 – $875.00) x 0.057
= $2,125.00 x 0.057
= $121.13

Employment Insurance

Directors' fees paid to directors in the private sector are not considered insurable earnings for EI purposes; no EI premiums are withheld from these payments.

Québec Parental Insurance Plan

Directors' fees paid in Québec are subject to QPIP premiums.

The QPIP premiums can be determined by using the regular pay period deduction method or the manual calculation method.

Example:

Claire McDonald is paid a quarterly director's fee of $3,000.00 for sitting on the board of directors of a Québec company.

The QPIP calculation is:

Québec Parental Insurance Plan	=	Insurable Earnings x annual QPIP rate
premium	=	$3,000.00 x 0.00494
	=	$14.82

Northwest Territories and Nunavut Payroll Tax

Directors' fees are subject to the Northwest Territories and Nunavut payroll tax of 2%.

Income Tax

The prescribed method for calculating income tax on directors' fees, if required, is to use the regular pay period deduction method.

Calculating Income Taxes on Directors' Fees

Directors' fees are considered non-regular payments; however, income tax withholdings, when applicable, are generally based on the regular pay period deduction method. The Director's fees paid to an employee of the organization are added to the director's regular salary and taxed using the regular pay period deduction method.

Income tax withholdings are not required when a non-employee director's annual fee is less than the amount claimed on their federal and provincial TD1s. If the total annual director's fees exceed the amount of the claim on the TD1s, income tax withholdings are calculated using the payroll deduction tables.

For non-employee directors, prorate the director's fee on a monthly basis and use the monthly payroll deductions table to determine the tax withholding on the prorated fee. Multiply that tax withholding by the number of months over which the fee was prorated.

Example:

Claire McDonald is paid quarterly director's fees of $6,600.00; the annual fees total $26,400.00. Claire is not an employee of the organization. The federal and Alberta TD1 claim codes are 1. As the total annual fees exceed the basic claim on the federal TD1 and the Alberta TD1AB, income tax deductions must be withheld.

To calculate income tax withholdings using the monthly payroll deduction tables, determine the amount of fees paid on a monthly basis.

Monthly director's fee = $\dfrac{\text{Quarterly Payment}}{\text{Number of months in the quarter}}$

Monthly director's fee = $\dfrac{\$6,600.00}{3}$

= $2,200.00

Look up the monthly payment of $2,200.00 in the payroll deductions table to determine the monthly federal and provincial income tax.

Federal tax on $2,200.00	$229.90
Provincial tax on $2,200.00	$104.80

Multiply the monthly income taxes by the number of months the payment was divided by to determine the total income tax withholdings to deduct from the quarterly payment.

Federal tax	$229.90
	x 3
	$689.70
Provincial tax	$104.80
	x 3
	$314.40
Total tax to withhold	$ 689.70
	+ 314.40
	$1,004.10

Death Benefits

A death benefit is a discretionary payment made by an employer on the death of an employee, in recognition of the employee's service. It is usually paid as a lump-sum amount to a beneficiary or the estate of the deceased employee. The payment may include any accumulated sick leave owing to the employee, but it would not include accumulated vacation pay owing.

Death benefits are an employer-paid benefits, not to be confused with a life insurance payment made by an insurance company through the employee's benefit plan.

Example:

Jerome Knowles passed away in September. The employer, Connolly Corporation, paid a death benefit of $14,000.00 to Jerome's widow in recognition of thirty-five years of service with the organization.

Calculation of Statutory Withholdings

The government prescribes the calculation methods that must be used to determine the statutory withholdings on death benefits.

Canada/Québec Pension Plan

As a death benefit is not considered income from employment, there are no withholding requirements for Canada/Québec Pension Plan (C/QPP) contributions.

Employment Insurance

Death benefits are not considered insurable earnings for EI purposes; no EI premiums are withheld from these payments.

Québec Parental Insurance Plan

Death benefits are not considered insurable earnings for QPIP purposes; there is no requirement to withhold QPIP premiums from these payments.

Northwest Territories and Nunavut Payroll Tax

The Northwest Territories and Nunavut payroll taxes are calculated on an employee's gross remuneration. Death benefits are not subject to the Northwest Territories and Nunavut payroll tax as they are not paid to an employee.

Income Tax

Death benefits are considered taxable, subject to federal and provincial income taxes. The prescribed method for calculating the income tax withholding on death benefits is the lump-sum tax method. The first $10,000.00 of a death benefit is exempt from tax. For example, if a $25,000.00 death benefit is paid, only $15,000.00 would be subject to tax at the lump-sum tax rates.

Lump-Sum Tax Method

Lump-sum payments are often made when there is no employee-employer relationship in place. To determine the income tax withholding on these payments, the lump-sum tax method is used. The tables below provide the tax rates for non-Québec and Québec jurisdictions. The tax rate to apply should be based on the total of all lump-sum payments that will be made in the taxation year.

Exhibit 4-6

LUMP-SUM PAYMENT (NON-QUEBEC)	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 4-7

LUMP-SUM PAYMENT (QUEBEC)	FEDERAL TAX RATE	QUEBEC 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%

As the lump-sum tax rates are minimal, the income tax withheld using this method may not satisfy the individual’s tax liability at the end of the year. At the individual’s request, additional taxes can be withheld.

Exhibit 4-8

STEP	ACTION
1	Subtract $10,000.00 from the death benefit being paid to determine the taxable amount
2	Look up the lump-sum tax rate on the amount from Step 1
3	Apply the tax rate from Step 2 to the amount from Step 1 to calculate the tax to withhold

Example:

Connolly Corporation, an Ontario employer, paid a $14,000.00 death benefit to the widow of their employee, Jerome Knowles who passed away in September.

STEP	ACTION
1	Subtract $10,000.00 from the death benefit being paid to determine the taxable amount Death benefit $14,000.00 Exemption - 10,000.00 Taxable amount $ 4,000.00
2	Look up the lump-sum tax rate on the amount from Step 1 The lump-sum tax rate to apply to a payment up to $5,000.00 is 10%.
3	Apply the tax rate from Step 2 to the taxable amount from Step 1 to calculate the tax to withhold Tax = $4,000.00 x 0.10 = $400.00 Net payment $14,000.00 - 400.00 $13,600.00

To calculate the applicable lump-sum taxes for Québec, the federal and Québec tax rates are used.

Example:

Magasins Joly, a Québec employer, paid a $19,000.00 death benefit to the estate of their employee, Susie Lebrun who passed away in January.

STEP	ACTION
1	Subtract $10,000.00 from the death benefit being paid to determine the taxable amount. Death benefit $19,000.00 Exemption - 10,000.00 Taxable amount $ 9,000.00
2	Look up the federal and Québec lump-sum tax rates on the amount from Step 1. The federal lump-sum tax rate to apply to a payment from $5,000.01 to $15,000.00 is 10%; the Québec tax rate is 20%.
3	Apply the tax rates from Step 2 to the amount from Step 1 to calculate the taxes to withhold. Federal tax = $9,000.00 x 0.10 = $900.00 Québec tax = $9,000.00 x 0.20 = $1,800.00 Net payment $19,000.00 - 900.00 (Federal income tax) - 1,800.00 (Provincial income tax) $16,300.00

Summary Chart

The following chart lists the types of non-regular payments discussed in this chapter and the appropriate statutory deductions.

Exhibit 4-9

PAYMENT	C/QPP	EI	QPIP	INCOME TAX	NORTHWEST TERRITORIES/ NUNAVUT PAYROLL TAX
Retroactive increase or adjustment	Yes Payroll Deductions Table or manual percentage method	Yes Payroll Deductions Table or manual percentage method	Yes Payroll Deductions Table or manual percentage method	Yes Retroactive tax method	Yes Manual percentage method
Reinstatement payment	Yes Payroll Deductions Table or manual percentage method	Yes Payroll Deductions Table or manual percentage method	Yes Payroll Deductions Table or manual percentage method	Yes Payroll Deductions Table	Yes Manual percentage method
Bonus	Yes Payroll Deductions Table or manual percentage method	Yes Payroll Deductions Table or manual percentage method	Yes Payroll Deductions Table or manual percentage method	Yes One bonus or more than one bonus a year method	Yes Manual percentage method
Vacation pay (no time taken)	Yes Payroll Deductions Table or manual percentage method	Yes Payroll Deductions Table or manual percentage method	Yes Payroll Deductions Table or manual percentage method	Yes One bonus or more than one bonus a year method	Yes Manual percentage method
Directors' fees	Yes Payroll Deductions Table or manual percentage method	No, if paid to a director of a private organization Yes, if paid to a director of a crown corporation	Yes Payroll Deductions Table or manual percentage method	Yes Payroll Deductions Table	Yes Manual percentage method
Death benefits	N/A	N/A	N/A	Yes Lump-sum tax method on payments in excess of $10,000.00	N/A

Net Pay Calculation Examples

Death Benefit

Chart Ind., located in Québec, is paying a $20,000.00 death benefit to the wife of an employee who passed away in February. The payment is neither pensionable, nor insurable, but is taxable using the lump-sum tax rates.

STEP	ACTION
1	Subtract $10,000.00 from the death benefit being paid to determine the taxable amount. Death benefit $ 20,000.00 Exemption - 10,000.00 Taxable amount $ 10,000.00
2	Look up the federal and Québec lump-sum tax rates on the amount from Step 1. The federal lump-sum tax rate to apply to a payment from $5,000.01 to $15,000.00 is 10%; the Québec tax rate is 20%.
3	Apply the tax rates from Step 2 to the amount from Step 1 to calculate the taxes to withhold. Federal tax = $10,000.00 x 0.10 = $1,000.00 Québec tax = $10,000.00 x 0.20 = $2,000.00 Net payment $20,000.00 - 1,000.00 (Federal income tax) - 2,000.00 (Québec income tax) $17,000.00

Directors' Fees

Chart Ind., a private sector organization located in Québec, pays members of their board of directors $9,000.00 every quarter. The directors are not employees of the company; all have claimed the basic amount, claim code 1, on their TD1s and the basic amount, deduction code A, on their TP-1015.3-Vs.

QPP contribution:

QPP quarterly exemption = $\frac{\text{Annual QPP exemption}}{4}$

= $\frac{\$3,500.00}{4}$

= $875.00

QPP contribution = (Quarterly payment - quarterly exemption) x annual rate

= ($9,000.00 – $875.00) x 0.0615

= $8,125.00 x 0.0615

= $499.69

EI premium:

Directors' fees are not insurable earnings for EI purposes unless paid to a director of a crown corporation; no EI premiums are withheld.

QPIP premium:

Québec Parental Insurance Plan premium

= Insurable Earnings x annual QPIP rate

= $9,000.00 x 0.00494

= $44.46

Federal and Provincial Income Tax:

Monthly director's fee = $\frac{\text{Quarterly Payment}}{\text{Number of months in the quarter}}$

Monthly director's fee = $\frac{\$9,000.00}{3}$

= $3,000.00

Look up the monthly payment of $3,000.00 in the payroll deductions table to determine the monthly federal and provincial income tax.

Federal income tax on $3,000.00	$315.80
Québec provincial income tax on $3,000.00	$424.48

Multiply the monthly income taxes by the number of months the payment was divided by to determine the total income tax withholdings to deduct from the quarterly payment.

Federal income tax	$315.80	
	x 3	
	$947.40	
Québec provincial income tax	$ 424.48	
	x 3	
	$1,273.44	
Total deductions	$ 499.69	(QPP)
	44.46	(QPIP)
	947.40	(Federal income tax)
	+1,273.44	(Québec provincial income tax)
	$2,764.99	
Net director's fee	$9,000.00	
	- 2,764.99	
	$6,235.01	

Content Review

- Directors' fees are paid to individuals who serve as members of a board of directors.
- Directors' fees are considered:
    - pensionable for C/QPP contributions
    - not insurable for EI premiums (unless paid to a director of a crown corporation)
    - insurable for QPIP premiums
    - taxable income and may be subject to federal and provincial income taxes
    - taxable for the Northwest Territories or Nunavut payroll taxes
- Directors' fees are considered non-regular payments; however, income tax withholdings, when applicable, are generally based on the regular pay period deduction method.
- Income tax withholdings are not required when a non-employee director's annual fee is less than the amount claimed on their federal and provincial TD1s.
- A death benefit is a discretionary payment made by an employer on the death of an employee, in recognition of the employee's service.
- Death benefits may include any accumulated sick leave owing to the employee, but would not include any accumulated vacation pay owing.
- Death benefits are not considered income from employment; they are not subject to Canada/Québec Pension Plan (C/QPP) contributions, Employment Insurance (EI) or Québec Parental Insurance Plan (QPIP) premiums, or the Northwest Territories/ Nunavut payroll taxes. They are, however, considered taxable, subject to federal and provincial income taxes.
- The first $10,000.00 of a death benefit is exempt from tax.
- The lump-sum tax method is the government-prescribed method for calculating income tax on death benefits.
- The lump-sum tax rate to apply should be based on the total of all lump-sum payments that will be made in the taxation year.

Review Questions

6. True or False. Directors' fees paid to directors in the private sector are subject to Employment Insurance premiums.

7. Death benefits are subject to:

   a. Canada/Québec Pension Plan contributions
   b. Employment Insurance premiums
   c. Québec Parental Insurance Plan premiums
   d. All of the above
   e. None of the above

8. True or False. Lump-sum tax rates are applied based on the amount of each individual payment during the taxation year.

9. Michelle Laframboise sits on the Board of Directors for a Québec organization and receives a quarterly director's fee of $9,300.00. Michelle's TD1 and TP-1015.3-V codes are 1 and A. Michelle is not an employee of the organization. Calculate the net payment.

10. One of the senior lawyers at Corneau & Corneau, a prominent Québec law firm, passed away after a brief illness. The company paid a death benefit to the former employee's spouse in the amount of $50,000.00.

    Calculate the net death benefit to be paid.

Chapter Review Questions and Answers

1. Match the earning with its description, by indicating the correct letter in the middle column.

TYPE		DESCRIPTION
Retroactive increase	**b**	a. A type of earning required when an increase in wages is processed after the increase has been awarded, for example, where the paperwork authorizing the increase is late in coming.
Bonus	**c**	b. A type of earning required when an increase in wages is awarded and the effective date is backdated, for example, where the signing of a new contract occurs after the expiry date of the old contract.
Retroactive adjustment	**a**	c. A non-regular payment made to an employee, over and above regular wages, in recognition for a job well done.

2. True or False. When calculating the Canada/Québec Pension Plan contribution on a non-regular payment, paid separately from the employee's regular salary or wages, the pay period exemption must be applied to the payment.

   False. If the non-regular payment is paid separately from the regular salary or wages payment, the manual calculation method must be used without applying the pay period exemption as the exemption would have been applied when calculating the C/QPP contributions on the regular pay period pensionable earnings.

3. Calco Ind., a Québec employer, reviews the employees' salaries on an annual basis, with any changes being effective for the first pay of the year. The paperwork authorizing payroll to make the changes was received by the payroll manager in March, and the changes were input on the tenth pay of the year. Calco pays on a weekly basis.

   Albert Camus' increase was calculated to be $16.00 per pay; the previous weekly salary was $500.00. Albert's federal TD1 claim code is 2 and the Québec deduction code is B. Albert has a weekly group term life taxable benefit of $8.00, which includes the premium and the Quebec 9% tax on insurance premiums.

   Albert will receive the retroactive increase on the same pay as the regular salary. Calculate Albert's net pay.

New weekly salary	**= $500.00 + 16.00**
	= $ 516.00
Retroactive increase	**= $16.00 x 9**
	= $ 144.00

Step One: Determine Gross Earnings		
Gross Earnings (GE)	=	**Earnings + taxable allowances + non-taxable allowances + cash taxable benefits**
	=	**($516.00 + $144.00) + $0.00 + $0.00 + $0.00**
	=	**$660.00**
Step Two: Determine Non-Cash or Near-Cash Taxable Benefits		
Taxable Benefits	=	**Non-cash taxable benefits + Near-cash taxable benefits**
	=	**$8.00 + $0.00**
	=	**$8.00**
Step Three: Determine Canada/Quebec Pension Plan (C/QPP) contribution		
Pensionable Earnings (PE)	=	**Earnings + taxable allowances + cash taxable benefits + non-cash taxable benefits + near-cash taxable benefits**
	=	**($516.00 + $144.00) + $0.00 + $0.00 + $8.00 + $0.00**
	=	**$668.00**
C/QPP contribution	=	**(PE – pay period exemption) x annual C/QPP rate**
	=	**($668.00 – $67.30) x 0.0615**
	=	**$36.94**
Step Four: Determine Employment Insurance (EI) premium		
Insurable Earnings (IE)	=	**Earnings + taxable allowances + cash taxable benefits**
	=	**($516.00 + $144.00) + $0.00 + $0.00**
	=	**$660.00**
	=	**IE x annual EI rate**
	=	**$660.00 x 0.0120**
	=	**$7.92**

Step Five: Determine Quebec Parental Insurance Plan (QPIP) premium		
Insurable Earnings (IE)	=	**Earnings + taxable allowances + cash taxable benefits**
	=	**($516.00 + $144.00) + $0.00 + $0.00**
	=	**$660.00**
	=	**IE x annual QPIP rate**
	=	**$660.00 x 0.00494**
	=	**$3.26**
Step Six: Determine Federal Income Tax		
Net Federal Taxable Income (new pay period amount)	=	**Earnings + 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**
	=	**$516.00 + $0.00 + $0.00 + $8.00 + $0.00 – $0.00**
	=	**$524.00**
		Using the federal tax tables for a Quebec employee, weekly pay period, claim code 2.
	=	**$44.30**

Determine the federal income tax on the employee's retroactive increase

1	**Determine federal income tax on the employee's new net federal taxable income of $524.00** **Using federal tables for a Quebec employee, weekly pay, claim code 2.**	**$44.30**
2	**Determine federal income tax on the employee's previous net federal taxable income of $508.00** **Using federal tables for a Quebec employee, weekly pay, claim code 2.**	**$42.30**
3	**Subtract the Step 2 federal income taxes from the Step 1 federal income taxes**	**$ 2.00**
4	**Multiply the Step 5 result by the lapsed pay periods**	**x 9**
	Federal income tax on retroactive increase	**$18.00**

Total federal income tax deduction	=	**Federal income tax on new net federal taxable income + federal income tax on retroactive increase**
	=	**$44.30 + $18.00**
	=	**$62.30**

Step Seven: Determine Provincial Income Tax

Net Provincial Taxable Income (Quebec) (new pay period amount)	=	**Earnings + taxable allowances + cash taxable benefits + non-cash taxable benefits + near-cash taxable benefits – authorized deductions** • **Employee contribution to an RPP** • **Contributions to an RRSP** • **Deduction for living in a prescribed zone** • **CRA authorized deductions**
	=	**$516.00 + $0.00 + $0.00 + $8.00 + $0.00 – $0.00**
	=	**$524.00**
		Using the Quebec tax tables, weekly pay, claim code B
	=	**$56.49**

Determine the federal income tax on the employee's retroactive increase

1	**Determine provincial income tax on the employee's new net provincial taxable income of $524.00**	
	Using the Quebec tax tables, weekly pay, claim code B.	**$56.49**
2	**Determine provincial income tax on the employee's new net provincial taxable income of $508.00**	
	Using the Quebec tax tables, weekly pay, claim code B.	**<u>$51.99</u>**
3	**Subtract the Step 2 provincial income taxes from the Step 1 provincial income taxes**	**$ 4.50**
4	**Multiply the Step 5 result by the lapsed pay periods**	**<u>x 9</u>**
	Provincial income tax on retroactive increase	**$40.50**

Total Quebec Provincial Income Tax	+	**Quebec income tax on new net provincial taxable income + Quebec income tax on retroactive increase**
	+	**$56.49 + $40.50**
	=	**$96.99**

Step Eight: Total Deductions		
Total Deductions	+	**C/QPP contributions**
	+	**EI premiums**
	+	**QPIP premiums**
	+	**Federal income tax**
	+	**Quebec provincial income tax**
	+	**Other deductions**
		$36.94 (QPP)
		7.92 (EI)
		3.26 (QPIP)
		62.30 (Federal income tax)
		96.99 (Quebec income tax)
		$207.41
Step Nine: Net Pay		
Net Pay	=	**Gross Earnings – Total Deductions**
	=	**$660.00 - $207.41**
	=	**$452.59**

4. Natalie Robinson works for Drury Builders in Spencerville, Alberta. Natalie is going to receive a $5,000.00 performance bonus on the next pay for meeting the previous year's objectives. The bonus is the first Natalie has received this year and will be paid on a separate cheque. Natalie claims code 1 on the federal and provincial TD1s. The regular bi-weekly salary is $1,538.26 and there is also a group term life insurance non-cash taxable benefit of $12.50 per pay. The annual maximums for CPP contributions or EI premiums will not be reached with this payment. Calculate Natalie's net bonus payment.

Earnings	**= $1,538.26**
Taxable allowances	**= $0.00**
Cash taxable benefits	**= $0.00**
Non-cash taxable benefits	**= $12.50 (group term life insurance)**
Regular pay period net taxable income	**= $1,538.26 + $0.00 + $0.00 + $12.50** **= $1,550.76**

Step One: Determine Gross Earnings		
Gross Earnings (GE)	=	**Bonus Earnings + taxable allowances + non-taxable allowances + cash taxable benefits**
	=	**$5,000.00 + $0.00 + $0.00 + $0.00**
	=	**$5,000.00**
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)	=	**Bonus Earnings + taxable allowances + cash taxable benefits + non-cash taxable benefits**
	=	**$5,000.00 + $0.00 + $0.00 + $0.00**
	=	**$5,000.00**
C/QPP contribution	=	**PE x annual C/QPP rate**
	=	**$5,000.00 x 0.0570**
	=	**$285.00**

Step Four: Determine Employment Insurance (EI) premium		
Insurable Earnings (IE)	=	**Bonus Earnings + taxable allowances + cash taxable benefits**
	=	**$5,000.00 + $0.00 + $0.00 + $0.00**
	=	**$5,000.00**
	=	**IE x annual EI rate**
	=	**$5,000.00 x 0.0158**
	=	**$79.00**
Step Five: Determine Quebec Parental Insurance Plan (QPIP) premium		
Insurable Earnings (IE)		**Not applicable Nathalie is an Alberta employee**

Step Six: Determine Federal Income Tax

Net Federal Taxable Income	=	**Bonus Earnings + taxable allowances + cash taxable benefits + non-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**
	=	**$5,000.00 + $0.00 + $0.00 +$ 0.00 – $0.00**
	=	**$5,000.00**

Determine federal income tax using the bonus tax method

1	**Divide the payment amount by the pay period frequency** **$5,000.00 ÷ 26 = $192.31**	
2	**Add result from Step 1 to the employee's regular pay period net taxable income** **$192.31 + $1,550.76 = $1,743.07**	
3	**Determine federal income tax on Step 2 result of $1,743.07** **Using Alberta tax tables, bi-weekly pay, claim code 1.**	**$ 252.95**
4	**Determine federal income tax on employee's regular pay period federal taxable income of $1,550.76.** **Using Alberta tax tables, bi-weekly pay, claim code 1.**	**$ 210.70**
5	**Subtract the Step 4 federal income tax from the Step 3 federal income tax**	**$ 42.25**
6	**Multiply the Step 5 result by pay period frequency**	**x 26**
	Federal income tax on bonus	**$1,098.50**

Step Seven: Determine Provincial Income Tax

Net Provincial Taxable Income (non-Quebec)	=	**Bonus Earnings + taxable allowances + cash taxable benefits + non-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**
	=	**\$5,000.00 + \$0.00 + \$0.00 + \$0.00 – \$0.00**
	=	**\$5,000.00**

Determine provincial income tax using the bonus tax method

1	**Divide the payment amount by the pay period frequency** **\$5,000.00 ÷ 26 = \$192.31**	
2	**Add result from Step 1 to the employee's regular pay period net taxable income** **\$192.31 + \$1,550.76 = \$1,743.07**	
3	**Determine provincial income tax on Step 2 result of \$1,743.07**	
	Using Alberta tax tables, bi-weekly pay, claim code 1.	**\$121.75**
4	**Determine provincial income tax on employee's regular pay period provincial taxable income of \$1,550.76**	
	Using Alberta tax tables, bi-weekly pay, claim code 1.	**\$101.60**
5	**Subtract the Step 4 provincial income tax from the Step 3 provincial income tax**	**\$ 20.15**
6	**Multiply the Step 5 result by pay period frequency**	**x 26**
	Provincial income tax on bonus	**\$523.90**

Total income tax on \$5,000 bonus payment \$1,098.50 + \$523.90 = \$1,622.40

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

\$285.00 (CPP)
79.00 (EI)
1,622.40 (Federal and provincial income tax)
\$1986.40

Step Nine: Net Pay		
Net Pay	=	**Gross Earnings – Total Deductions**
	=	**\$5,000.00 - \$1,986.40**
	=	**\$3,013.60**

5. Natalie is receiving a second bonus. The bonus of \$8,970.00 will be paid separately from the regular pay. the annual maximums for CPP contributions or EI premiums will not be reached with this payment. Calculate Natalie's net bonus payment.

Earnings	**= \$1,538.26**
Taxable allowances	**= \$0.00**
Cash taxable benefits	**= \$0.00**
Non-cash taxable benefits	**= \$12.50 (group term life insurance)**
Regular pay period net taxable income	**= \$1,538.26 + \$0.00 + \$0.00 +\$12.50** **= \$1,550.76**

Step One: Determine Gross Earnings		
Gross Earnings (GE)	=	**Bonus Earnings + taxable allowances + non-taxable allowances + cash taxable benefits**
	=	**\$8,970.00 + \$0.00 + \$0.00 + \$0.00**
	=	**\$8,970.00**
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)	=	**Bonus Earnings + taxable allowances + cash taxable benefits + non-cash taxable benefits**
	=	**\$8,970.00 + \$0.00 + \$0.00 + \$0.00**
	=	**\$8,970.00**
C/QPP contribution	=	**PE x annual C/QPP rate**
	=	**\$8,970.00 x 0.0570**
	=	**\$511.29**

Step Four: Determine Employment Insurance (EI) premium		
Insurable Earnings (IE)	=	**Bonus Earnings + taxable allowances + cash taxable benefits**
	=	**$8,970.00 + $0.00 + $0.00 + $0.00**
	=	**$8,970.00**
	=	**IE x annual EI rate**
	=	**$8,970.00 x 0.0158**
	=	**$141.73**
Step Five: Determine Quebec Parental Insurance Plan (QPIP) premium		
Insurable Earnings (IE)		**Not applicable Nathalie is an Alberta employee**
Step Six: Determine Federal Income Tax		
Net Federal Taxable Income	=	**Bonus Earnings + taxable allowances + cash taxable benefits + non-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**
	=	**$8,970.00 + $0.00 + $0.00 + $0.00 – $0.00**
	=	**$8,970.00**

Determine federal income tax using the bonus tax method

1. **Divide the payment amount by the pay period frequency**

   $8,970.00 ÷ 26 = $345.00

2. **Divide the previously paid year-to-date bonus amounts by pay period frequency**

   $5,000.00 ÷ 26 = $192.31

3. **Add results from Step 1 and Step 2**

   $345.00 + $192.31 = $537.31

4. **Add result from Step 3 to the employee's regular pay period net federal taxable income**

   $537.31 + $1,550.76 = $2,088.07

5	Add result from Step 2 to the employee's regular pay period net federal taxable income $192.31 + $1,550.76 = $1,743.07	
6	Determine federal income tax on Step 4 result of $2,088.07 Using Alberta tax tables, bi-weekly pay, claim code 1.	$ 327.75
7	Determine federal income tax on Step 5 result of $1,743.07. Using Alberta tax tables, bi-weekly pay, claim code 1.	$ 252.95
8	Subtract the Step 7 federal income tax from the Step 6 federal income tax	$ 74.80
9	Multiply the Step 8 result by pay period frequency	x 26
	Federal income tax on bonus	$1,944.80

Step Seven: Determine Provincial Income Tax

Net Provincial Taxable Income (non-Quebec) = Bonus Earnings + taxable allowances + cash taxable benefits + non-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

= $8,970.00 + $0.00 + $0.00 + $0.00 – $0.00

= $8,970.00

Determine provincial income tax using the bonus tax method

Step Eight: Total Deductions

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

$511.29 (CPP)
141.73 (EI)
2,895.10 (Federal and provincial income tax)
$3,548.12

Step Nine: Net Pay		
Net Pay	=	**Gross Earnings – Total Deductions**
	=	**$8,970.00 - $3,548.12**
	=	**$5,421.88**

6. True or False. Directors' fees paid to directors in the private sector are subject to Employment Insurance premiums.

   False. Directors' fees paid to directors in the private sector are not subject to Employment Insurance premiums.

7. Death benefits are subject to:

   a. Canada/Québec Pension Plan contributions
   b. Employment Insurance premiums
   c. Québec Parental Insurance Plan premiums
   d. All of the above
   e. None of the above

8. True or False. Lump-sum tax rates are applied based on the amount of each individual payment during the taxation year.

   False. The tax rate to apply should be based on the total of all lump-sum payments that will be made in the taxation year.

9. Michelle Laframboise sits on the Board of Directors for a Québec organization and receives a quarterly director's fee of $9,300.00. Michelle's TD1 and TP-1015.3-V codes are 1 and A. Michelle is not an employee of the organization. Calculate the net payment.

   QPP contribution:

   QPP quarterly exemption $= \dfrac{\textbf{Annual QPP exemption}}{\textbf{4}}$

   $= \dfrac{\textbf{\$3,500.00}}{\textbf{4}}$

   $=$ **$ 875.00**

QPP contribution	**=**	**(Quarterly payment - quarterly exemption) x annual rate**
	=	**($9,300.00 - $875.00) x 0.0615**
	=	**$8,425.00 x 0.0615**
	=	**$518.14**

EI premium:

Directors' fees are not insurable earnings for EI purposes; no EI premiums are withheld.

QPIP premium:

Québec Parental Insurance Plan premium	**=**	**Insurable Earnings x annual QPIP rate**
	=	**$9,300.00 x 0.00494**
	=	**$45.94**

Federal and Provincial Income Tax:

Monthly fee = $\dfrac{\textbf{Quarterly Payment}}{\textbf{Number of months in the quarter}}$

Monthly fee = $\dfrac{\$9{,}300.00}{3}$

= **$3,100.00**

Using the federal tax tables for a Québec employee, monthly pay period, net federal taxable income of $3,100.00, claim code 1

Federal tax **$333.65**

Using the Québec tax tables, monthly pay period, net Québec taxable income of $3,100.00, deduction code A

Québec tax **$451.48**

Multiply the monthly income taxes by the number of months the payment was divided by to determine the total income tax withholdings to deduct from the quarterly payment.

Federal tax	**$ 333.65**
	x 3
	$1,000.95
Québec tax	**$ 451.48**
	x 3
	$1,354.44

Total deductions	**$ 518.14 (QPP)**
	45.94 (QPIP)
	1,000.95 (Federal income tax)
	+ 1,354.44 (Québec income tax)
	$2,919.47
Net director's fee	**$9,300.00**
	- 2,919.47
	$6,380.53

10. One of the senior lawyers at Corneau & Corneau, a prominent Québec law firm, passed away after a brief illness. The company paid a death benefit to the former employee's spouse in the amount of $50,000.00.

    Calculate the net death benefit to be paid.

1	**Subtract $10,000.00 from the death benefit being paid to determine the taxable amount.** **Death benefit $50,000.00** **Exemption - 10,000.00** **Taxable amount $40,000.00**
2	**Look up the federal and Québec lump-sum tax rates on the amount from Step 1.** **The federal lump-sum tax rate to apply to a payment over $15,000.00 is 15%; the Québec tax rate is 20%.**
3	**Apply the tax rates from Step 2 to the amount from Step 1 to calculate the taxes to withhold.** **Federal tax = $40,000.00 x 0.15** **= $6,000.00** **Québec tax = $40,000.00 x 0.20** **= $8,000.00** **Net payment $50,000.00** **- 6,000.00 (Federal income tax)** **- 8,000.00 (Provincial income tax)** **$36,000.00**