

Setting Up a New Payroll in Canada™



The National Payroll Institute's mission statement is Payroll Leadership through Advocacy and Education. The Institute is committed to providing the payroll-related services payroll professionals and their employers need to ensure compliance with over 200 legislative requirements that impact payroll.

Our Payroll Best Practices Guidelines provide general information about selected issues concerning payroll legislative and compliance issues and/or employment and taxation laws. It is not legal advice and should not be relied upon as a substitute for a review of your specific situation with legal counsel. Every effort has been made to provide accurate information; however, we advise you to seek legal counsel and advice (from a qualified lawyer) regarding your specific situation. Legal obligations will vary according to the facts and circumstances, as well as the jurisdiction.

All references to legislative requirements are current at the time of publication; however, government legislation shall prevail if there are any discrepancies between the guidelines and government statutes or regulations.

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INTRODUCTION

As the authoritative source of Canadian payroll knowledge, one of the objectives of the National Payroll Institute (NPI) is to publish guidelines that can be referenced as Payroll Best Practice Guidelines for payroll practitioners and their employers.

A challenge for many payroll practitioners is having their employers understand that payroll is mission critical, and requires in-depth knowledge and skills to ensure compliance.

The Payroll Best Practices Guidelines can assist organizations with preparing for a payroll audit. They can also provide benchmarking tools for designing and/or implementing Payroll Best Practices.

These guidelines were created by a task force of NPI staff and subject matter expert payroll practitioners, ensuring both the accuracy of the information and the practicality of its application, based on real-life experiences within various organizations.

The National Payroll Institute would like to thank the subject matter experts for their participation on the task force and their contributions to these guidelines.

NPI members should direct any legislative questions on these guidelines to:



National Payroll Institute's Payroll InfoLine
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KEYWORD SEARCH AND HYPERLINKS

When viewing any of the National Payroll Institute's guidelines online, readers can search for keywords appearing within the document. For example, if information is required on a certain word or phrase, type the word or phrase in the search window (activated by pressing the "Control" and "F" keys simultaneously on most applications).

These guidelines contain hyperlinks within the document itself. All government forms, guides and websites discussed within the guidelines can also be accessed using these hyperlinks, which were active at the time of publication.

There is a quiz at the end of the document to test your knowledge. You can also take the quiz online by visiting the guidelines section of our website, payroll.ca → [Resources](#) → [Payroll Guidelines](#)

SETTING UP A NEW PAYROLL IN CANADA PAYROLL BEST PRACTICES GUIDELINES

Business owners who hire employees to work for them in Canada are required to set up a payroll. Ensuring that payroll processes have been established in a manner that is compliant with legislation reduces the risk of an employer incurring fines and penalties for failure to withhold, remit and report statutory deductions and employer payroll taxes.

Setting Up a New Payroll in Canada is intended for use as a Payroll Best Practices Guideline. It will assist new employers in registering their businesses with the federal government, and various provincial and territorial agencies, as well as provide help with:

- Choosing a payroll system.
- Determining pay frequency and method of compensation.
- Creating payroll policies and procedures.
- Hiring and paying employees.
- Remittance and reporting requirements.

Note:

These guidelines provide general information about selected issues concerning payroll legislative and compliance issues, and/or employment and taxation laws. It is not legal advice and should not be relied upon as a substitute for legal counsel. Every effort has been made to provide accurate information; however, we advise you to seek legal counsel and advice from a qualified lawyer regarding your specific situation. Legal obligations vary according to the facts and circumstances, as well as the jurisdiction.

GETTING STARTED

Each organization that conducts business in Canada must register with the Canada Revenue Agency (CRA). If you conduct business in the province of Quebec, you must also register with Revenu Québec (RQ). The CRA considers you to be an employer if:

- you pay salaries, wages (including advances), bonuses, vacation pay, or tips to your employees; or
- you provide certain taxable **benefits**, such as an automobile or allowances, to your employees.

An individual is an employee if the worker and the payer have an employer-employee relationship. This relationship is referred to as employment under a contract of service. More information can be found in the **Employee-Employer Relationship** section of this guide.

REGISTERING WITH THE CANADA REVENUE AGENCY

BUSINESS NUMBER

A business number (BN) is a unique number that allows the CRA to identify a business (or other organization, such as a charity) for tax matters related to business in Canada. It is also used by the federal, provincial and municipal governments to identify the business. Each business requires one BN for its legal entity. A legal entity is defined as a sole proprietor, partnership, corporation, trust or other organization.

The BN has 15 digits: nine unique numbers to identify the business, plus two letters and four numbers to identify the program and each account. The four major program accounts registered by the CRA are:

The Four Major Program Accounts	
RT	Goods and services tax/harmonized sales tax (GST/HST)
RP	Payroll
RM	Import-Export
RC	Corporation income tax

Examples of BN accounts	
Account type	Account number
Business Number (BN)	12345 6789
GST/HST program account	12345 6789 RT 0001
Payroll program account 1	12345 6789 RP 0001
Payroll program account 2	12345 6789 RP 0002
Import/Export program account	12345 6789 RM 0001
Corporation income tax	12345 6789 RC 0001

PAYROLL PROGRAM ACCOUNT NUMBER

Employers must register for a payroll program account before the first remittance due date. A payroll program account is an account number assigned to either an employer, a trustee or a payer of other amounts related to employment to identify them when dealing with the CRA.

This 15-character payroll program account number contains the following:

- the 9-digit BN;
- 2 letters for the type of account (for payroll program the letters are “RP”); and
- 4 numbers for the specific account reference.

Depending on the type of business you have, you may need to register other types of program accounts. The 9-digit registration number will not change, but other letters will be added to the BN.

If you are a **new remitter**, your first remittance due date is the 15th day of the month following the month in which you began withholding deductions from your employee’s pay.

OPENING A PAYROLL PROGRAM ACCOUNT

If you already have a BN, you only need to add a payroll program account to your existing BN. If you do not have a BN, you will need to register for a BN and a payroll program account. You can register online, or by phone. Click [here](#) to choose the method that is most convenient for you.

Once you have registered, the CRA will send you a letter confirming your BN, the program accounts registered and a summary of the information you provided.

Once you have your payroll program account, you can start hiring employees and calculating deductions.

REGISTERING WITH REVENU QUÉBEC

If you operate your business in Quebec, you have to register an account with Revenu Québec (RQ). To register your payroll, import/export or corporation income tax accounts, you will be asked to provide your CRA business number.

An employer is required to withhold and remit Quebec statutory withholdings if any employees:

- report to work at the employer’s establishment in Quebec; or
- do not report to an establishment but are paid through a Quebec establishment.

There are two methods of registering for an account:

1. Use the *Registering for Revenu Québec* online service
2. File the *Application for Registration* (form LM-1-V)

For more information on registering your business in Quebec and hours of service, visit [Revenu Québec](#), or call toll-free at **1-800-567-4692**.

BUSINESS CONSENT FORMS

The business number account information is confidential. Both the CRA and RQ need your consent to deal with a representative for business account related matters. As a business owner, partner, director, trustee or officer of a business, you can authorize representatives, including your employees, an accountant, a bookkeeper, a lawyer, a payroll service provider or a firm, to act on your behalf. You can **authorize representatives** through the CRA's and RQ's electronic services in one of two ways:

1. **Authorizing a representative online**
2. Representatives submitting an authorization request online

All online services can be done with the CRA through My Business Account (MyBA) or Represent a Client (RaC) and with the RQ through My Account for Business clicSÉQUR – Entreprises.

To authorize a representative for access by phone and mail with the CRA, the following form can be used and must be signed by a person with proper authority for the business, for example, the owner or a director:

- CRA form AUT-01 Authorize a Representative for Access by Phone and Mail will identify the individual the organization wishes to provide access to. Access may be to all tax program account or limited to specific program accounts.
- **RQ form MR-69-V Power of Attorney, Authorization to Communicate Information or Revocation**

OPENING A PAYROLL BANK ACCOUNT

It is recommended that a separate bank account be established for payroll processing. This ensures that monies for payroll costs are kept apart from other business expenses. The CRA and RQ both specifically state that once an employer has withheld payroll source deductions from employees, these amounts are to be held in trust until the government remittance is due.

Also, if employees are being paid by physical cheque, the employer may want to keep these payments separate from other accounts payable transactions to ensure privacy and confidentiality.

REGISTERING FOR PROVINCIAL/TERRITORIAL HEALTH TAXES AND LEVIES

Medical and hospital costs are a provincial responsibility. Each province and territory has a hospital plan covering its residents. Plans are funded in a variety of ways, monthly such as premiums, employer levies or through general tax revenue.

The following chart outlines those provinces that charge a premium or impose a payroll tax.

Province	Plan	Funded by	Paid by
British Columbia	Medical Services Plan (MSP) Note: MSP discontinued effective December 31, 2019	Premiums based on coverage type	Employee or Employer ¹
British Columbia	Employer Health Tax (EHT)	Payroll tax	Employer
Manitoba	Health and Post Secondary Education Tax (HAPSET)	Payroll tax	Employer
Newfoundland and Labrador	Health and Post Secondary Education Tax (HAPSET)	Payroll tax	Employer
Northwest Territories	Payroll Tax	Payroll tax	Employee
Nunavut	Payroll Tax	Payroll tax	Employee
Ontario	Employer Health Tax (EHT)	Payroll tax	Employer
Quebec	Health Services Fund (HSF)	Payroll tax	Employer

¹ if the employer pays the BC MSP premium, it must be treated as a taxable benefit for the employee.

Employers are responsible for registering an account with the provincial or territorial government agency that oversees these programs. Details on registration and remittance requirements are available from each of these agencies.

See the [Useful Links](#) section for contact information for each of these jurisdictions.

REGISTERING WITH WORKERS' COMPENSATION

Workers' compensation (WC) is a provincial/territorial government insurance plan designed to provide income to and pay expenses incurred by, employees absent from work due to work-related injuries or certain industrial diseases. The Workers' Compensation Board (WCB), or some named variation, within each province/territory, administers the plan and is funded by employers who pay annual assessments into a general accident fund.

Employers must contact the board in each jurisdiction in which they have employees performing services to determine if coverage is required, based on the type of work being performed. Some categories of employees may be exempt from mandatory coverage. Each board establishes its own rules on industry classifications, and while one board may consider a class of employees exempt, another may require mandatory coverage.

Once registered, the WCB will assign a premium rate based on the type of work employees of the organization perform. Premiums are calculated as a rate per \$100 of assessable earnings.

For example:

Employee's assessable earnings in the pay period \$1,000

WCB premiums rate \$0.85

Premium due: $\$1,000 \div 100 \times \$0.85 = \$8.50$

Employers are responsible for tracking earnings that are considered assessable by the applicable WCB and remitting premiums based on those earnings paid to employees.

See the **Useful Links** section for contact information for each WC board in Canada.

See **Appendix 1** for a listing of WCB assessable earnings.

APPLYING FOR A REDUCED EMPLOYMENT INSURANCE PREMIUM RATE

Some employers provide a wage-loss replacement plan for short-term disability to their employees. If the plan meets certain standards established by the *Employment Insurance Regulations*, the employer's Employment Insurance (EI) premiums could be paid at a reduced rate (less than 1.4 times the employee's premiums).

To qualify for a premium reduction, an employer must maintain a plan that provides short-term disability or wage-loss replacement benefits that meet certain standards. The employer's disability plan must provide the employee with a benefit equal to or greater than the sick benefits paid by EI.

The employer must also share at least 5/12th of the savings with the employees covered by the plan.

The legislation does not specify how employers must share 5/12ths of their savings. However, employers must be prepared to satisfy Service Canada they have met this obligation. Some examples of acceptable sharing arrangements include:

- A mutual agreement between employers and employees;
- A cash rebate (in which case this money is fully pensionable, insurable and taxable); and
- Increased or new employee benefits, such as a dental plan, group term life insurance, payment to employees' benevolent fund or association, lowering prices in the staff cafeteria, more holidays or time off, etc.

For more details or to apply for a reduced employer EI rate, visit the Service Canada website at <http://www.servicecanada.gc.ca/eng/cs/prp/030.shtml>

HIRING EMPLOYEES

There are many things an employer must consider when hiring employees. These include the legal requirements under employment standards legislation, how employees will be paid, and whether or not to include benefits in the compensation package.

EMPLOYEE-EMPLOYER RELATIONSHIP

Before paying workers, it must be determined if there is an employee-employer relationship. When an individual is classified as an employee, the employer is responsible for withholding and remitting payroll source deductions and filing T4 and RL-1 slips at year-end.

When an independent contractor provides a service for a fee, they can be paid as a vendor and no tax withholding is required. T4A and RL-1 slips should be prepared to report fees for services.

Refer to **Employee or Self-Employed Payroll Best Practices Guidelines** for additional details on establishing the employee-employer relationship.

EMPLOYMENT STANDARDS

Each province and territory in Canada has legislation that outlines the basic minimum employment standards both employers and employees must follow. Federally regulated employers (e.g., banks, airlines) are covered by the *Canada Labour Code, part III*.

New employers must familiarize themselves with the various acts and regulations that apply to their employees.

Examples of provisions under employment standards include:

- Minimum wage
- Minimum and maximum hours of work
- Overtime requirements
- Statutory holiday entitlement
- Job-protected leaves (e.g., maternity, parental, compassionate care)
- Annual vacation entitlement
- Notice of termination

Each jurisdiction has specific exemptions from the general standards of the Act for certain occupations. Exemptions are based on the type of work an employee performs, not the method in which they are paid. For instance, some occupations are exempt from overtime regulations, but compensating an employee with an annual salary does not automatically exempt their right to overtime premiums for excess hours worked.

Employees cannot waive their right to the basic entitlements provided under legislation. For instance, a start-up company offering stock options or future payments in lieu of wages for work performed would, in most cases, be in violation of employment standards and could be fined or penalized for non-compliance.

Some jurisdictions require that employers post and/or make available electronically an employment standards poster in the workplace. The province of Ontario requires employers to provide all new employees with a copy of the poster, in paper or electronically, within 30 days of the date of hire.

UNIONIZATION

Approximately 15% of private sector employers in Canada employ unionized workers. A workplace may become unionized if an employee or group of employees contacts a union to represent them. When this occurs, the following process will take place:

1. A union organizer will distribute union cards to employees and request signatures indicating their desire to be represented by the union.
2. If the required percentage of employees signs the cards, the union can apply to the Labour Relations Board for a vote.
3. A secret ballot vote is held, in which all employees are entitled to vote.
4. If the majority vote “Yes,” the union can be certified to act as the bargaining agent.

In a unionized workplace, all employees in the bargaining unit are employed under the collective agreement signed by the employer and the union. According to the Supreme Court of Canada, individual negotiation or employment agreements are not permitted in a unionized setting; precedence is given to the collective agreement. Therefore, the union is the sole bargaining representative of the employees.

METHODS OF COMPENSATION

While there is legislation that provides for a minimum wage based on hours worked, the method in which employees are paid is at the discretion of the employer. The more common methods of compensation are as follows:

Type	Description	Most Common Uses
Salary	Annual salary is paid in equal installments based on pay frequency. For example, an annual salary of \$52,000 is paid as \$2,000 bi-weekly.	To pay employees with a regular full-time standard work schedule.
Hourly	A rate per hour of work performed. Requires a method of tracking and collecting time and attendance information each pay period.	To pay employees based solely on scheduled hours of work completed and when work schedules are irregular (part time and casual).
Commission	An amount paid to an employee based on sales. Employees may be paid 100% commission or some combination of salary/hourly and commission.	To pay employees who sell goods and services or negotiate contracts on behalf of the organization.
Piecework	An amount paid based on employees' output in completing specific tasks. For example, \$3 for each basket of apples picked.	To pay employees in the following sectors: agriculture, truck driving, writing, editing, craftwork and cable installation.

Some employers may also include a bonus or incentive plan in addition to regular base compensation. This is a variable form of compensation where payments are determined based on certain goals or benchmarks being accomplished. The plan may be based on organizational profits, individual or team performance or some combination of these results.

HOURS OF WORK

An employer must determine the core operating hours. For some, this may be the common business hours of Monday to Friday 9-5, while other operations may run 24/7, with multiple shifts.

When scheduling employees, the employer should be mindful of hours of work legislation. Each jurisdiction determines a maximum number of hours per day and/or week an employee may be scheduled to work. Some acts make provisions for alternative arrangements, such as extended weekly hours, averaging agreements and compressed workweeks. These types of arrangements typically require approval by the Director of Employment Standards in the applicable jurisdiction.

Regardless of the method of compensation, hours of work must be recorded for all employees to ensure compliance with employment standards and for Record of Employment (ROE) purposes. A method of tracking time and attendance for employees paid hourly will be required. This can be a manually prepared timesheet or an automated time and attendance system. Full-time, salaried employees may have standard weekly hours with exception reporting only.

See **Appendix 4** for a comprehensive chart summarizing the legislation related to the maximum hours, averaging of hours and compressed workweeks.

BENEFIT PLANS

In addition to salary and wages, many employers include indirect compensation in the form of benefits as part of the total rewards package they offer employees. The employer's objective in offering benefits is to attract, motivate and retain talented employees.

The employer must balance the needs of its employees against the costs associated with offering benefits when designing total rewards programs. The benefits may be designed to address the following:

- Safety and security – insurance (life, AD&D, medical & dental, wage loss), retirement plans
- Social needs – employee assistance programs
- Self-actualization – education and job-related training
- Physiological needs – wellness programs
- Self-esteem – performance rewards
- Flexibility – alternative work arrangements (flex time, work at home or job sharing)

Some benefits an employer offers are considered taxable, and the fair market value must be included in an employee's income.

Refer to CRA guide T4130 and Revenu Quebec guide IN-253-V for details.

DOCUMENTING POLICIES AND PROCEDURES

Documented policies and procedures provide many benefits to an organization, such as mitigating the risk of non-compliance with various employment laws as well as ensuring employees are treated fairly and consistently.

A **policy** is a rule that tells employees what to do or sets the expectation for performance. When writing a policy, it must be documented in clear, concise simple language so anyone reading it will understand. If a policy is ambiguous, it can be left open to interpretation, resulting in unwanted behaviours. The policy should also indicate under whose authority it has been put in place. Some are at the discretion of the employer, while others ensure compliance with government legislation.

Once well written policies have been created, changes are infrequent. Discretionary policies under the employer's authority may be modified at the company's discretion, or if the organization changes such as a merger or unionization. A policy that is under the authority of government legislation will need to be amended if that particular legislation changes.

A **procedure** is a series of steps to be followed to carry out a policy. These must also be written in clear language, including all the required steps and make no assumptions about what the person performing the task may, or should, already know. Updates and amendments to procedures will occur more frequently as the organization evolves. This may be due to technological developments, changes in the demographics of the workforce or corporate restructuring, among other things.

Payroll topics for which the employer may want to write policies and procedures include:

- Regular pay procedures (pay frequency, pay dates and pay statements)
- Hours of work and overtime (standard workweek, approval of overtime hours)
- Vacation (eligibility, requesting leave)
- Statutory holidays observed (eligibility for a paid holiday)
- Other leaves paid or unpaid (e.g., maternity, parental, sick, jury duty, personal days)
- Pay advances (allowed / not allowed)
- Benefit plan eligibility and coverage (e.g., medical and dental, retirement savings)

See [Appendix 2](#) for a sample policy and procedure.

SETTING UP THE PAYROLL

PAYROLL ANALYSIS

Determining the volume and complexity of the payroll transactions the employer requires will assist in choosing the best method for processing payroll. This is done through a payroll needs analysis, which considers the number of employees to be paid, the frequency of payments, the method(s) of compensation and the types of deductions.

Based on your organization's needs, complexity and geographic location, you have several options to process your Canadian payroll, such as:

- Processing your payroll in-house by choosing an off the shelf payroll software or a payroll software provider
- Outsourcing your payroll to a third-party payroll service provider
- Choosing a more robust payroll or HRIS/ERP system

The employer should consider the “must have” requirements and the “nice to have” options being sought in a payroll solution. This information will be used to create a request for proposal (RFP) to send out to potential vendors. A sample RFP is available in [Appendix 3](#).

EARNINGS, TAXABLE BENEFITS AND DEDUCTION CODES

The required earnings and taxable benefit codes will depend mostly on the nature of the payroll being processed. Generally, the following earning codes will be set up, as these are the types of earnings that an employer may be required to pay based on legislation:

- Regular wages
- Overtime
- Statutory holiday pay
- Vacation pay
- Pay in lieu of notice
- Retiring allowance (eligible and non-eligible)

In addition to these, an employer will require earnings based on the company's policies or collective agreements. Examples of other types of earnings under these agreements are sick pay, bonus, shift premiums, retroactive pay, and commissions.

The employer may also provide cash allowances (e.g., car, travel, clothing); and taxable non-cash benefits, such as employer-paid insurance premiums (e.g., life, AD&D), registered retirement savings plan (RRSP) matching contributions, gifts and awards, parking and stock options, among others.

Deductions typically fall into one of four categories:

Statutory Deductions:

Deductions required by legislation under the authority of the CRA or Revenu Québec:

- **Canada Pension Plan and/or Quebec Pension Plan (C/QPP)**
- Employment Insurance (EI)
- Quebec Parental Insurance Plan (QPIP)
- Federal and provincial income tax
- Nunavut and Northwest Territories Payroll Tax

Legal Deductions:

Deductions required by law, such as:

- Garnishments
- Family maintenance
- Union dues

Compulsory Deductions:

Based on company policy, employees may be required to contribute to plans such as:

- Registered pension plan (RPP) or deferred profit sharing plan (DPSP)
- Group insurance plans (health and dental, short- and long-term disability)

Voluntary Deductions:

An employer may offer programs that employees may choose to participate in through payroll deductions, such as charitable donations, social committees and RRSPs.

PAYROLL SCHEDULE

An employer must establish a regular pay frequency and pay date. Each jurisdiction has legislation regarding the timing and frequency of payments. The chart below summarizes these rules:

Pay Frequency	Permitted by
Weekly	All jurisdictions
Bi-weekly	All jurisdictions
Semi-monthly	All jurisdictions
Monthly	<i>Canada Labour Code</i> , part III; Alberta; Northwest Territories; Nunavut; Ontario

A Payroll Best Practice is to prepare a schedule before processing your first payroll of the next year to forecast the number of pay dates to expect. This will determine if there is an extra pay period in the year, allowing you to apply the correct C/QPP exemption each pay; and review earnings, deductions and benefits that may be scheduled to run each pay period.

Note:

When setting up legal deductions such as garnishment, you need to ensure that you do not exceed the garnishment order limit. It is recommended that you set up a limit to ensure this does not happen. In most cases, deductions must be withheld in the following order of priority:

1. Statutory deductions (C/QPP, EI, QPIP, income tax and NT/NU payroll tax);
2. Legal deductions (garnishments, support deduction notices, third-party demands, and requirements to pay);
3. Union deductions;
4. Company compulsory deductions (group benefit plan premiums); and
5. Voluntary deductions (charitable donations, social clubs).

Federal and provincial legislation requires Quebec employers to treat employees differently. The order of deductions for Quebec employees is as follows:

1. EI premiums;
2. Federal income tax;
3. QPP;
4. QPIP premiums;
5. Union dues (if applicable); and
6. Quebec provincial income tax.

PAY STATEMENTS

Employees must be provided with a statement of earnings and deductions each pay period, on or before the actual payment date. The information reported on an employee's pay statement must comply with the employment/labour standards legislation of the jurisdiction where the work is performed.

Delivery of pay statements may be in paper or electronic format. The delivery method must protect the privacy of employees, as statements contain confidential information. If statements are delivered electronically, the employee must be able to print a hard copy of the statement when required.

Please refer to our [Pay Statement Payroll Best Practices Guidelines](#) for complete details on required information for each jurisdiction.

ADDING EMPLOYEES

When setting up a payroll, the employer needs to collect critical employee profile data including:

- Legal name (as it appears on the Social Insurance Number card/document)
- Address
- Date of birth
- Social Insurance Number
- Personal taxation (TD1 exemptions, tax waivers, etc.)
- Basic salary or wage information
- Department or cost centre details
- Position
- Benefit information (and dependants), if applicable
- Pension information, if applicable

There are a variety of ways this information may be entered or uploaded into the payroll system, depending on the type of software the employer is implementing.

- Data may be collected from the employee via paper forms in a commencement package, which will then be manually keyed into the system by the payroll or Human Resources (HR) administrator.
- A self-service application or intranet site would allow the employee to enter their personal information, which is then automatically fed into the payroll system.
- Electronic forms may be created, which the employee completes online. The data can then be uploaded into the payroll system.

REPORTS

Having the capability to create ad hoc reports is a benefit to any system and ensures that accurate information is available in real time. This allows for specific reports to be created every pay period automatically as well as on demand to capture additional information as needed. Reports an employer may want to include are:

Human Resources Reports

- New Hire – with specific details
- Wage Rate Change
- Leave of Absence – sick, bereavement, workers' compensation
- Position/Department Changes
- Audit – name changes, address changes
- Performance Management

Payroll Reports

- Detailed Payroll Register – showing all wages, hours, deductions, employer costs: current and year-to-date amounts
- Audit Report – employee direct deposit changes, TD1 changes, position/department changes
- Total Summary Report of gross wages, deductions and employer costs
- Ad hoc reporting for specific deductions, employer costs for benefits and pension, union dues
- General Ledger – of labour distribution in soft copy for management review as well as a summary to be loaded directly into the GL system

TESTING

Once the configuration of the payroll system has been completed, a testing process must be done to ensure the accuracy of the set-up.

Every system code that has been set up should be tested. The purpose of this is to ensure the following:

- Each code is paying or deducting correctly as set up.
- If deductions are based on a percentage of earnings, they calculate correctly on the right earning codes.
- If there is a union contract in place, deductions required under the collective agreement are accurate.
- Statutory deductions are calculated on all required earning and taxable benefit codes.
- Time and attendance systems should be tested to ensure that all the applicable rules of work are set up correctly, according to applicable employment standards or collective agreement rules.

After your testing is complete, it is recommended to obtain proper sign-off/authorization on all testing modules of your new payroll system and ensure there is a separation of duties.

GOVERNMENT REMITTANCES

A key responsibility of employers is to deduct statutory withholdings from employee earnings and remit these amounts along with the employer match or share. There are several different methods an employer may choose to pay their remittances to the government. These include:

- Payment by cheque
- Funds transfer through a Canadian financial institution
- Electronically by registering for online government account services
- Through a third-party service provider

CANADA REVENUE AGENCY

Employers are required to remit the following amounts to the federal government:

- Employee CPP contributions plus employer matching CPP contributions
- Employee EI premiums plus employer EI premiums
- Federal income tax
- Provincial/Territorial income tax (for all jurisdictions except Quebec)

The frequency at which remittances must be made is determined by the average monthly remittance of the employer. Larger employers are required to remit more often. New employers are typically assigned a monthly remittance frequency, but under certain circumstances may be permitted to remit quarterly.

For a current list of remittance types and the due dates for payment, see the CRA's website at the following link: <http://www.cra-arc.gc.ca/tx/bsnss/tpcs/pyrll/pymnts/vrw-eng.html>

REVENU QUÉBEC

Employers are required to remit the following amounts to the Quebec government:

- Employee QPP contributions plus employer matching QPP contribution
- Employee QPIP premiums plus employer QPIP premiums
- Quebec income tax
- Employer Health Service Fund contribution
- Quebec workers' compensation (CSST) premiums

Revenu Québec uses the same schedule as the federal government, with one additional remittance frequency type of annual for very small employers.

For a current list of remittance due dates, see Revenu Québec's website at the following link: <https://www.revenuquebec.ca/en/businesses/source-deductions-contributions/remitting-source-deductions-and-employer-contributions/frequency-of-remittances/>

RECORD OF EMPLOYMENT (ROE)

The ROE is a form employers are required to complete, electronically or on paper, when an employee in insurable employment stops working or has an interruption of insurable earnings. When an employee applies for EI benefits from Service Canada, the agent will use the ROE form to determine:

- eligibility for benefits
- the amount of the benefit; and
- the duration of the benefit

While paper ROE forms are acceptable, employers are encouraged to use an electronic ROE reporting method. There are three ways to submit ROEs electronically:

- Upload ROEs from payroll to ROE Web using compatible payroll software;
- Manually enter data online through Service Canada's website; and
- Submit ROEs through Secure Automated Transfer (SAT), which is performed on your behalf by a payroll service provider using bulk transfer technology.

ROE Web Assistant is a separate guided completion process, which contains the same rules and validations as the ROE Web online form. The Assistant was designed to help users who are not familiar with ROE Web or who issue a small number of ROEs a year transition to issuing their ROEs electronically.

The ROE Web Assistant contains enhanced help and automated features and uses plain language that moves away from the ROE terminology. For example, instead of using the ROE block numbers, the ROE Web Assistant uses the names of the fields.

Service Canada has a comprehensive guide available to assist employers in completing and submitting the ROE, both in paper or electronic format:

<https://www.canada.ca/en/employment-social-development/programs/ei/ei-list/reports/roe-guide.html>

RECORD RETENTION

Record retention refers to a period documents should be kept, or retained, either in paper or electronic formats. At the end of the retention period, the documents may be destroyed. This process is often referred to as records management.

Each government agency has established its own rules for record retention for documents relating to an organization's payroll processes.

CANADA REVENUE AGENCY

Records of an employee's gross earnings, CPP contributions, EI premiums and income tax (payroll register) must be kept for six completed taxation years plus the current year. Records of tax slips and remittances paid to the Receiver General for the same period must also be retained.

Approval must be obtained from the CRA to destroy the records any earlier. The employer should complete a **T137—Request for Destruction of Records** if the records are to be destroyed earlier.

Refer to the CRA's publications, **RC4409—Keeping Records and Books**, **IC78-10R5-Records Retention/Destruction** and **IC05-1R1—Electronic Record Keeping** for greater detail.

REVENU QUÉBEC

Records of an employee's gross earnings, QPP contributions, QPIP earnings and premiums and provincial income tax (payroll register) must be kept for six completed taxation years plus the current year. Records of tax slips and remittances paid to RQ for the same period must also be kept. Approval must be obtained from RQ to destroy the records any earlier.

EMPLOYMENT/LABOUR STANDARDS

Each province sets its own rules. Records must be kept from one to five years depending on the jurisdiction. Written permission is required for destruction any earlier.

EMPLOYMENT/LABOUR STANDARDS	
Canada Labour Code, <i>Part III</i>	36 months after work is performed and after termination
Alberta	3 years from date record made
British Columbia	4 years after the records were created
Manitoba – general	3 years from date record made
New Brunswick	36 months after work is performed
Newfoundland and Labrador	4 years from the date of last entry
Northwest Territories/Nunavut	2 years from date record made
Nova Scotia	3 years after work is performed
Ontario	3 years after work is performed
Prince Edward Island	36 months after work is performed
Quebec	3 years after work is performed
Saskatchewan	5 years after termination of employment
Yukon	12 months after the work is performed

PENSION RECORDS

Although existing legislation under the CRA or the *Provincial Pension and Benefits Standards Acts* (PBSAs) does not define a specific retention period for pension records, a common practice is to ensure that any records affecting a plan member's calculation of benefits, pension adjustments (PA), past service pension adjustments (PSPA), or pension adjustment reversals (PAR) are kept indefinitely.

SUMMARY

When setting up a new payroll in Canada; organizations must adhere to various levels of federal, provincial and territorial legislation. Depending on the scope and complexity of your new payroll, we recommend rigorous testing during the implementation phase to ensure compliance. Regardless of which system you choose, you must ensure that you comply to mitigate any risk of fines or penalties.

FEEDBACK

The National Payroll Institute appreciates your comments and welcomes your suggestions as we seek to continually improve our member resources. Please direct any feedback on these guidelines to:

Janet Grossett, CPM
Manager, Compliance Services and Programs
The National Payroll Institute
Email: guidelines@payroll.ca

TEST YOUR KNOWLEDGE

Please read each scenario and select the best response. (The answers are provided and explained on the next page.)

1. *True or False?* An individual is an employee if the employment relationship can be classified as a contract of service.

2. Which of the following is not a provision under employment standards?
 - a. Minimum wage
 - b. Overtime requirements
 - c. Core operating hours
 - d. Job protected leaves
 - e. Annual vacation entitlement

3. Which of the following are required to be remitted to the federal government?
 - a. Employee CPP contributions plus employer matching CPP contributions
 - b. Employee EI premiums plus Employer EI premiums
 - c. Federal Income Tax
 - d. Provincial/Territorial Income Tax (for all jurisdictions except Quebec)
 - e. All of the above

4. *True or False?* James operates a coffee shop in British Columbia and can establish a monthly pay frequency for his employees.

5. All of the following are earnings codes except:
 - a. Overtime
 - b. Statutory holiday pay
 - c. Vacation pay
 - d. Employer RRSP contributions
 - e. Retiring allowance

ANSWERS

1. True or False? An individual is an employee if the employment relationship can be classified as a contract of service.

True. CRA's guide RC4110 – Employee or Self Employed – makes a distinction between a “contract of service” (employee) and a “contract for service” (contract worker). Please refer to the National Payroll Institute's Employee or Self-Employed Best Practices Guidelines for further information.

2. Which of the following is not a provision under employment standards?
- Minimum wage
 - Overtime requirements
 - Core operating hours
 - Job protected leaves
 - Annual vacation entitlement

The correct answer is C. Core operating hours are determined by the employer.

3. Which of the following are required to be remitted to the federal government?
- Employee CPP contributions plus employer matching CPP contributions
 - Employee EI premiums plus Employer EI premiums
 - Federal Income Tax
 - Provincial/Territorial Income Tax (for all jurisdictions except Quebec)
 - All of the above

The correct answer is E – all of the above. New employers are typically assigned a monthly remittance frequency during the first year of operation.

4. True or False? James operates a coffee shop in British Columbia and can establish a monthly pay frequency for his employees.

False. Monthly pay frequencies are permitted by Employment Standards in Alberta, Northwest Territories, Nunavut or Ontario. Monthly cycles are also permitted for those employees covered by the Canada Labour Code Part III.

5. All of the following are earnings codes except:

- a. Overtime
- b. Statutory holiday pay
- c. Vacation pay
- d. Employer RRSP contributions
- e. Retiring allowance

The correct answer is D. Employer contributions to an employee RRSP plan are considered to be a taxable benefit.

USEFUL WEB LINKS

CANADA REVENUE AGENCY

Employers' Guide – Payroll Deductions and Remittances (T4001):

<https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/t4001.html>

Employers' Guide – Taxable Benefits and Allowances (T4130):

<https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/t4130.html>

Employers' Guide – Filing the T4 Slip and Summary (RC4120):

<https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/rc4120.html>

WORKERS' COMPENSATION

Alberta: www.wcb.ab.ca/

British Columbia: www.worksafebc.com/

Manitoba: www.wcb.mb.ca/

New Brunswick: www.worksafenb.ca

Newfoundland and Labrador: workplacenl.ca/

Northwest Territories\Nunavut: www.wsc.nt.ca/

Nova Scotia: www.wcb.ns.ca/wcbns/index_e.aspx?ArticleID=715

Ontario: www.wsib.ca/en

Prince Edward Island: www.wcb.pe.ca/

Quebec (CSST): www.csst.qc.ca/

Saskatchewan: www.wcb.sask.com/

Yukon: www.wcb.yk.ca/

SERVICE CANADA

Social Insurance Number: <http://www.servicecanada.gc.ca/eng/sc/sin/index.shtml>

How to Complete the Record of Employment Form: <https://www.canada.ca/en/employment-social-development/programs/ei/ei-list/reports/roe-guide.html>

Steps to register for Record of Employment on the Web (ROE Web):

<https://www.canada.ca/en/employment-social-development/programs/ei/ei-list/ei-roe/register-roe.html#:~:text=Steps%20to%20register%20for%20Record%20of%20Employment%20on,Revenue%20Agency%20%28CRA%29%20business%20number.%20More%20items...%20>

REVENU QUÉBEC

Guide for Employers: Source Deductions and Contributions (TP-1015.G-V): <https://www.revenuquebec.ca/en/online-services/forms-and-publications/current-details/tp-1015.g-v/>

Taxable Benefits (IN-253-V):

<https://www.revenuquebec.ca/en/online-services/forms-and-publications/current-details/in-253-v/>

Guide to Filing RL-1 Slip: Employment and Other Income (RL-1.G-V):

<https://www.revenuquebec.ca/en/online-services/forms-and-publications/current-details/rl-1.g-v/>

Contribution Related to Labour Standards:

<https://www.revenuquebec.ca/fr/entreprises/retenues-et-cotisations/calculer-les-retenues-a-la-source-et-vos-cotisations-employeur/cotisation-relative-aux-normes-du-travail/>

Contribution to the Workforce Skills Development and Recognition Fund: <https://www.revenuquebec.ca/en/businesses/source-deductions-and-employer-contributions/calculating-source-deductions-and-employer-contributions/contribution-to-the-workforce-skills-development-and-recognition-fund/>

PROVINCIAL & TERRITORIAL HEALTH TAXES/LEVIES

British Columbia Employer Health Tax:

<https://www2.gov.bc.ca/gov/content/taxes/employer-health-tax>

Manitoba Health and Post Secondary Education Tax Levy:

<http://www.gov.mb.ca/finance/taxation/taxes/payroll.html>

Newfoundland and Labrador Health and Post Secondary Education Tax Levy:

[Health and Post Secondary Education Tax \(Payroll Tax\) - Finance \(gov.nl.ca\)](#)

Northwest Territories Payroll Tax: <http://www.fin.gov.nt.ca/services/payroll-tax>

Nunavut Payroll Tax: <http://www.gov.nu.ca/finance/information/payroll-taxes>

Ontario Employer Health Tax: <http://www.fin.gov.on.ca/en/tax/eht/>

Quebec Health Services Fund:

<https://www.revenuquebec.ca/en/businesses/source-deductions-contributions/calculating-source-deductions-and-employer-contributions/contribution-to-the-health-services-fund//>

APPENDIX 1

WCB ASSESSABLE EARNINGS CHART

Assessable Earnings	
Type of earning	Included as an assessable earning in:
Regular wages and salaries	All jurisdictions
Bonuses (all types)	All jurisdictions
Call-in pay, shift premium, overtime, standby	All jurisdictions
Commissions	All jurisdictions if employment income
Directors' fees	British Columbia, New Brunswick, Newfoundland and Labrador, Nova Scotia, Saskatchewan and Yukon
Employer-paid sick pay	All jurisdictions except Nova Scotia and Yukon. First three months in Saskatchewan. First 13 continuous weeks in Newfoundland and Labrador. First 105 days in Quebec
Gifts/awards (non-cash) if taxable	All jurisdictions except British Columbia and New Brunswick
Gifts/awards (in cash)	All jurisdictions
Gratuities	All jurisdictions
Pay in lieu of notice	All jurisdictions except British Columbia, Quebec and Yukon
Retro payments	All jurisdictions
Statutory holiday pay	All jurisdictions
Taxable cash allowances	All jurisdictions except New Brunswick
Taxable benefits	All jurisdictions with the following exceptions: New Brunswick, only those benefits considered as cash (unrestricted employer RRSP contributions) are assessable. PEI excludes employer-paid group life and AD&D premiums and employer RRSP contributions.
Vacation pay	All jurisdictions
Retiring allowance/severance	No jurisdictions
Salary continuance as termination pay	Alberta, Newfoundland & Labrador, Northwest Territories, Nunavut, Ontario ¹ , Quebec, Saskatchewan and Yukon

¹ Payments in the year employment ended are insurable, payments made in the following year are not insurable.

APPENDIX 2

SAMPLE POLICY AND PROCEDURE

Sample policy	
Policy Area: Payroll	Effective Date: January 1, 2024
Title of Policy: Payroll Direct Deposit	Number: PY-045
Policy contact: Payroll Supervisor	Page Number: 1 of 1
Purpose	The approved method of delivering employee bi-weekly net pay.
Details	<p>It is the policy of <i>[ORGANIZATION NAME]</i> that all employees be required to use direct deposit to receive payroll-related payments.</p> <p>Electronic deposits can be made to chequing or savings accounts at any financial institution in Canada.</p> <p>Direct deposit will remain in effect until a written change request is received from the employee.</p>
Who policy applies to	All employees, full time and part time, regardless of hire date, salary or wage status.

Sample procedure	
Procedure Area: Payroll	Effective Date: January 1, 2019
Title of Policy: Payroll Direct Deposit	Number: PR-045
Procedure contact: Payroll Administrator	Page Number: 1 of 1
Purpose	The procedure required for an employee to establish or change direct deposit of bi-weekly net pay
How to	<p>Obtain a direct deposit form. New employees will be given the form as part of the commencement package. Forms can also be obtained from the payroll department.</p> <ol style="list-style-type: none"> 1. Complete all mandatory fields - identified with a *. 2. Attach a void cheque. 3. Submit to payroll five working days before the effective payment date.
Responsibility of	Employee

APPENDIX 3

SAMPLE REQUEST FOR PROPOSAL

Statement of Purpose

This Request for Proposals (RPF) is in response to ABC Corporation's needs and contains specific requirements to be met by the vendor's proposed solution. The objective of this project is to select and implement a new Payroll/Human Resources Information System (HRIS) to address ABC Corporation's current and future Payroll and Human Resources requirements.

Background Information

ABC Corporation is a diversified company with operations in commercial real estate and hotels. With its head office in (City, Province), ABC Corporation owns and operates 3.2 million square feet of commercial real estate and fifteen hotels in eight Canadian provinces.

ABC currently employs approximately 1,000 employees. The workforce is made up of both union and non-union employees, with full-time, part-time or casual status. There are three unique collective agreements in place with additional agreements expected to be signed in the next six months.

ABC Corporation remains a company in strong growth mode; therefore, the Payroll/HRIS system chosen must have the ability to grow with the organization.

Confidentiality

This RFP, plus any other documents released, the information provided or discussions as part of the selection process, are strictly confidential and should not be divulged to anyone who is not directly involved in the preparation of the response. No information shall be allowed to any third party unless specific written authorization is obtained from ABC Corporation.

Scope of Work

The ABC project team must work closely with the chosen vendor to proactively identify and develop solutions for the present and future needs of the organization, without sacrificing the fundamentals of Payroll and Human Resources business processes within ABC Corporation.

The successful vendor will be responsible for the full implementation of this new system, incorporating current policies and procedures into the system, and providing onsite training to the appropriate end users.

Proposal Submission

The awarding of a contract resulting from this RFP will be based upon the vendor whose offer will be the most advantageous to ABC Corporation in terms of functionality, flexibility, cost and other factors as specified elsewhere in this RFP.

Please submit your response in the following format:

Section A: Executive Summary

Section B: Company Overview

Section C: Product Overview, including Functional and Technology Requirements

Please complete the chart in Appendix A.

Section D: Project Management Approach and Timeframe

Section E: Pricing

Please include itemized pricing including all costs associated with software license fees, implementation and consulting charges, hosting, maintenance and support.

Section F: Contracts and Agreements

Please indicate the nature of contracts and agreements, including sample contracts, payment terms, and guarantees against system non-performance, penalty clauses and any other vendor constraints.

Section G: References

Please provide three (3) current corporate references, including company name, contact name, title, address, telephone number and client relationship synopsis.

Please forward your responses electronically no later than 5:00 p.m. on *(insert date)*.

ABC Corporation reserves the right to:

- Reject any and all offers, and discontinue this RFP process without obligation or liability to any potential vendor;
- Accept other than the lowest price offer; and,
- Award a contract based on initial offers received, without discussions or requests for best and final offers.

Process Schedule

Please note the following proposed timeframe for the complete implementation of a new Payroll/HRIS system for ABC Corporation:

- RFP Distributed to Selected Vendors February 18, 202?
- Proposal Due Date February 29, 202?
- Target Date for Review of Proposals March 10, 202?
- Vendor Short List Discussion Week of March 19, 202?
- Onsite Product Demonstrations March 31 – April 11, 202?
- Reference Checks – Onsite April 21 – April 30, 202?
- Final Vendor Selection Week of May 12, 202?
- Anticipated Commencement of Work May 20, 202?
- Anticipated Go-Live November 1, 202?

** Exceptions may apply, based on availability*

Contacts

If you have any questions or comments regarding the aforementioned information, please feel free to contact:

Mary Smith
Payroll Analyst
ABC Corporation

Provide contact information for 1-3 project team members, starting with the primary decision maker.

Product Overview	
Complete Integrated Solution (HR/PR)	
Payroll Product	
HRMS Product	
Time and Attendance	
ASP Hosted	
Delivery	
System Integration	
The ability for Third-Party Interfaces	
Work Flow Automation	
Definable Password Security Policies	
Reporting Features	
Security Report Generation	
Security Capabilities	
Ability to Future Date Transactions	
Centralized Employee Reporting	
Centralized Employee Database	
Automatic Report Distribution	
Manager Self Service	
Employee Self Service	
Worker's Comp & OH&S Management	
Attendance Tracking	
Training & Development Tracking	
Grievance Tracking	
Recruitment Product	
Ability to Import Historical Data	
GL Interface	
Customizable Default Shifts	
Benefits Administration	
Mass Salary Change Administration	
Unlimited Earnings Codes	
Unlimited Deduction Codes	
Ability to Use Multiple Pay Rates	
Vendor Stability	
Complex Payroll Experience	
Customer Support/Service	
Technical Support	
Technical Helpline Response Time	
Other Pertinent Information	

APPENDIX 4

MAXIMUM HOURS, AVERAGING HOURS AND COMPRESSED WORKWEEK

Jurisdiction	Maximum Averaging Period	Maximum hours allowed	Overtime payable	ESA Approval Required
Federal (CLC part III)	As per the agreement	48 per week	Weekly if average hours exceed 40	Yes
Alberta	N/A	N/A	November 1, 2022 no longer permitted	N/A
British Columbia	4 weeks	12 per day	Daily on hours over 12 per day (double time rule applies) Weekly if average hours exceed 40	No
Manitoba	12 weeks	12 per day 60 per week	Daily on hours over 12 per day Weekly if average weekly exceeds 40	No
New Brunswick	Not addressed	No limit	Normal overtime rules apply	N/A
Newfoundland and Labrador	Not addressed	40 per week	Normal overtime rules apply	N/A
Northwest Territories	As per the agreement	10 per day 60 per week	Daily on hours over 10 per day Weekly if average weekly exceeds 40	Yes
Nova Scotia	As per the agreement	Not specified	Weekly if average weekly exceeds 48	No
Nunavut	As per the agreement	10 per day 60 per week	Daily on hours over 10 per day Weekly if average weekly exceeds 40	Yes
Ontario	4 weeks	Not specified	Weekly if average weekly exceeds 44	No
Prince Edward Island	Not addressed	48 per week	Normal overtime rules apply	N/A
Quebec	As per the agreement	50 per week	Weekly if average weekly exceeds 40	Yes
Saskatchewan	4 weeks	12 per day	Daily on hours over 12 per day Weekly if average weekly exceeds 40	Yes
Yukon	As per the agreement	12 hours per day	Daily on hours over 12 per day Weekly if average weekly exceeds 40	Yes

APPENDIX 5

Glossary

Advance on earnings: An advance on earnings is a special payment that may require an organization to deduct Canada Pension Plan/Quebec Pension Plan, Employment Insurance, or income tax.
Allowances: Payments for use or anticipated use of the employee's personal property; subsidies for extraordinary expenses made necessary by the kind of employment; or maintenance of employer-supplied clothes and equipment. Whether or not they are taxable depends on the type of allowance and the reason an employee receives it.
Authorization for hire: This document authorizes the payroll department to start paying an employee.
Banking overtime: Practice of allowing employees to defer the payment of overtime, or the taking of an equivalent time off, until a later date within a regulated period.
Benefits: Services provided by the employer, often in the form of insurance plans, social services, etc., which may be paid for in whole or in part by the employer and which may be taxable.
Bi-weekly: Occurring every two weeks.
Bonus: Amount paid to an employee over and above the usual earnings, normally at the discretion of the employer. Bonuses are usually based on some measure of performance either by the employee, the division or the company as a whole.
Business Number (BN): Numbering system used by the Canada Revenue Agency that simplifies and streamlines the way businesses deal with the federal government. It is based on the idea of one business, one number.
Canada Pension Plan (CPP): Almost all individuals who work in Canada contribute to the CPP. The CPP provides pensions and benefits when contributors retire, become disabled, or die.
Canada Revenue Agency (CRA): The CRA administers tax laws for the Government of Canada, and most provinces and territories, as well as various social and economic benefit and incentive programs delivered through the tax system.
Casual employee: Person hired to do a job on a non-regular basis, normally paid an hourly or whole job rate, and not normally eligible for the organization's benefit plan.
Collective agreement: Formal, legally binding document that details the terms and conditions of employment between the employer (or a group of employers) and their employees who are members of a union.
Commencement package: Pre-assembled group of documents to be completed jointly by the employer and the new employee at the commencement of employment. The package usually contains such documents as authorization for hiring, commencement form, federal and provincial TD1s (TP-1015.3-V, if applicable), benefit application forms and union deduction authorization, as well as information, policies and applications for other company-provided services.
Commission: An amount paid to an employee who either negotiates contracts or sells the employer's goods or services. The calculation of the payment is at the discretion of the employer but is generally based on a percentage or fixed dollar amount per sale.

Glossary

Company-compulsory deductions: Deductions required by company policy as a condition of employment. Although these deductions are mandatory, a company still requires the employee's written permission before making any of the deductions.

Compressed workweek: Week in which the number of working days per week is reduced and the number of hours worked per day is increased.

Condition of employment: An organization's policy or union agreement may make it necessary for a prospective employee to agree to certain benefits, deductions or conditions before employment is confirmed. For example, signing a union card, authorizing a medical premium deduction or supplying a bank account for direct deposit may be a condition of employment.

Contribution Related to Labour Standards: As a rule, Quebec employers are required to contribute to the financing of the labour standards equal to a prescribed rate of the total remuneration subject to the contribution that they paid to their employees for the year.

Deductions at source: Deductions the organization takes off the employees' "source" of income, i.e., their pay, such as Canada Pension Plan/Quebec Pension Plan (CPP/QPP) contributions, Employment Insurance (EI) premiums, Quebec Parental Insurance Plan (QPIP) premiums, income tax and payroll tax. Employers must remit these deductions, along with their share of CPP/QPP contributions, EI premiums and QPIP premiums to the appropriate government body.

Deferred profit sharing plan (DPSP): Plan through which an employer shares a portion of the company's profits with some or all of its employees at a later date.

E-PD7A—Statement of Account for Current Source Deductions: E-PD7A is an electronic service that lets you receive and view your Statement of Account for Current Source Deductions online. The E-PD7A replaces the paper version of the PD7A and the PD7A(TM).

Earnings (payroll): Dollar amounts the employer pays an employee for the work they perform.

Effective date of employment; hire date; start date: The date on which the employee commences employment with the employer.

Employee: Person who is hired to perform a function under direct or indirect supervision and is remunerated for the work done.

Employer: Individual or organization who hires an employee.

Employer Health Tax (EHT) Ontario: Tax paid by all employers who have a permanent establishment in Ontario and who have employees who report for work or are paid from the Ontario permanent establishment. The EHT is calculated mainly on the total Ontario employment income reported in Box 14 of an Ontario T4.

Employer Health Tax (EHT) British Columbia (BC): Tax paid by all employers who have a permanent establishment in BC and who have employees who report for work or are paid from the BC permanent establishment. The EHT is calculated on all BC remuneration. Remuneration includes all payments, benefits and allowances that are subject to federal income tax as defined in sections 5, 6, and 7 of the Income Tax Act. Very broad term. So generally but not inclusive of the amounts included in Box 14 of the T4 slip and some T4A earnings.

Glossary

Employment Insurance (EI): Social insurance program administered by Service Canada that provides financial assistance to temporarily unemployed employees. The plan also provides benefits for employees on sick, maternity, parental or compassionate leave for employees outside Quebec; Revenu Québec has a program that offers maternity, paternity, and parental benefits. Employers and employees contribute to the plan.

Employment Insurance (EI) Premium Reduction Program: Some employers provide a wage loss replacement plan for short-term disability to their employees. If the plan meets certain standards established by the EI Regulations, the employer's EI premiums could be paid at a reduced rate (less than 1.4 times the employee's premiums). To benefit from a reduced employer premium rate, the employer has to register with EI Premium Reduction Program, which is administered by Service Canada.

Employment/labour standards: Employment standards are covered under federal or provincial/territorial legislation, which sets the minimum standards for certain aspects of employment. Areas covered include hours of work, leaves, minimum age, minimum wage, records retention, statement of wages, statutory holidays, terminations, the timing of payments, vacation time and pay. Each jurisdiction (federal, provincial or territorial) act is unique in detail, but most cover the same topics.

Full-time employee: A person who works a full schedule as defined by the company receives the benefits for full-time employees and is covered by employment laws.

Garnishment order: Court order requiring an employer to deduct monies from an employee's pay to pay a debt to a third party.

Gross earnings: All the amounts paid to an employee plus any taxable allowances, cash taxable benefits and/or expense reimbursements.

Gross taxable income: All the taxable earnings and allowances being paid to the employee, plus the value of any cash and non-cash taxable benefits.

Health Services Fund (HSF): Employer contribution remitted to Revenu Québec from each employer who has a permanent establishment in Quebec. The HSF is based on the total of the remuneration subject to the contribution that employers paid to their employees. Certain employers may, under certain conditions, be exempted from the contribution to the HSF.

Hourly employee: Employee hired by the hour who receives remuneration based on an hourly rate.

International Financial Reporting Standards (IFRS): Global accounting standards that require transparent and comparable information in financial statements and other financial reporting.

Income tax: Amount which must be deducted from an employee's earnings before payment is made to the employee. The deduction is mandatory by federal and provincial law, and the rates are changed annually (sometimes semi-annually) by legislation.

Insurable earnings: Earnings that are considered insurable under the *Employment Insurance Act*.

Insurable employment: Insurable employment refers to types of employment on which earnings are deemed insurable. Generally, this means all employment in Canada and certain employment outside Canada, under a contract of service.

Glossary

Interruption of earnings: An interruption of earnings occurs when an employee has had within the last 52 weeks or since the last ROE, or is anticipated to have, seven consecutive calendar days without work or insurable earnings from the employer; or has a salary that falls below 60% of regular weekly earnings because of illness, injury, quarantine, pregnancy, the need to care for a newborn or a child placed for adoption, or the need to provide care or support of a family member who is gravely ill with a significant risk of death.

Just cause: Just cause is behaviour that repudiates the employment contract, e.g., willful disobedience or misconduct or neglect of duty that has not been condoned by the employer.

Layoff; temporary layoff: The interruption of employment due to shortage of work or as a result of a labour dispute.

Locked in: Accumulated pension benefits that can only be used to purchase retirement income as specified by applicable pension legislation and cannot be withdrawn in cash.

Lump-sum payment: Generally, a single payment by an employer to an employee, rather than periodic payments.

Manitoba Health and Post Secondary Education Tax: Tax paid by employers based on the company's total annual Manitoba remuneration above an exempt amount.

Monthly: A period that is one month in length, regardless of the number of days in the month, commencing on any day of the month and ending on the preceding day of the following month.

Net pay; take-home pay: Employee's gross earnings less deductions, in other words, the amount of money the employee receives.

Newfoundland and Labrador Health and Post Secondary Education Tax: A tax paid by employers based on the company's total Newfoundland and Labrador payrolls over a set exempt amount.

Northwest Territories/Nunavut Payroll Tax: Tax on employee remuneration imposed by the Northwest Territories and Nunavut.

Notice period: Period that an employee is put on notice of termination. The length of time depends on the employee's length of service and jurisdiction of employment.

Overtime: Time worked beyond the normal working hours in a day or a week. The legislation sets the minimum requirements for the calculation of overtime payments.

Paid vacation: Period of annual leave that is paid by the employer.

Part-time employee: Employees whose assigned hours of work are fewer than the scheduled standard weekly hours of work.

Payment in lieu of notice: Amount paid to an employee whose employment has been terminated without notice, instead of having the employee work the notice period.

Pay period: Recurring length of time over which earnings are calculated and employees are paid.

Pay statement: Document listing the employee's earnings, deductions and net pay. Employment/labour standards legislation in each jurisdiction details the information that must be reported on the pay statement.

Pay week: Seven consecutive days or any one of two or more such consecutive periods, the last of which ends on the employer's payroll ending date.

Glossary

Payroll; payroll department: Payroll can have several meanings, including a list of persons to be paid and the amount due to each; the department that administers the payroll; the total number of people employed by an organization; the total of amounts paid to employees; and the money paid out.

Payroll Deductions Formulas for Computer Programs (T4127): Canada Revenue Agency publication. For the most recent version, see the Canada Revenue Agency's website: [T4127](#).

Payroll Deductions Online Calculator (PDOC): Online Canada Revenue Agency tool used to calculate payroll deductions for any pay period, province (except Quebec) and territory.

Payroll Deductions Tables (T4032): Canada Revenue Agency publication. For the most recent version, see the Canada Revenue Agency's website: [T4032](#).

Payroll software: A computer program used to process payroll; considered an in-house system, it is usually purchased from a third party.

Pension; annuity: Regular payment made to an individual in consideration of past services. It is normally retirement income or compensation for a disability.

Payroll service provider; payroll service bureau: Organization that provides payroll services on a contract basis. It provides hardware, software and staff for processing payroll.

Pension adjustment (PA): Value of the benefits an employee earned in a tax year under his or her employer's Registered Pension Plan, Deferred Profit-Sharing Plan, and possibly, unregistered retirement plans or arrangements.

Pensionable earnings: Earnings on which Canada Pension Plan/ Quebec Pension Plan contributions are calculated.

Pensionable employment: Types of employment on which earnings are deemed to be eligible for calculating Canada Pension Plan / Quebec Pension Plan contributions For more information: T4001—Employers' Guide – Payroll Deductions and Remittances.

Piece work: Unit of production for which an employee is paid a fixed rate.

Position: Aggregation of duties and responsibilities which are, or can be, discharged by one individual at a particular location in an organizational structure.

Provincial health care premium: Premium or any portion thereof, due from a resident of a province under the province's hospitalization and/or medical care insurance plan. Only applicable in British Columbia.

Quebec Parental Insurance Plan (QPIP): Social program providing for the payment of benefits to a Quebec resident who takes maternity, paternity, adoption or parental leave during which he or she has an interruption of earnings. This program marked the first time in history that a portion of the Employment Insurance program had been transferred over to provincial jurisdiction.

Quebec Pension Plan (QPP): Compulsory public insurance plan for workers in Quebec aged 18 and over whose annual employment income is greater than \$3,500. Its purpose is to provide persons who work or have worked in Quebec and their families with basic financial protection in the event of retirement, death or disability.

Glossary

Record of Employment (ROE): Provides information on employment history. It is the single most important document used by employees in establishing a claim for Employment Insurance (EI) benefits. Service Canada uses the information on the ROE to determine whether a person is eligible to receive EI benefits, what the benefit amount will be, and for how long the benefits will be paid.

Records retention; keeping records: Process of keeping documents in either paper or electronic format as part of a records management program. By law, employers must keep business records for six years from the end of the last tax year to which they apply.

Registered pension plan (RPP): Arrangement by an employer or a union to provide pensions to retired employees in the form of periodic payments. The *Income Tax Act* provides deductions in respect of both employee and employer contributions. Contributions and investment earnings are tax-exempt until benefits commence to be paid.

Registered retirement savings plan (RRSP): Retirement savings plan where the contributions and interest earned on the funds are tax exempt until they are withdrawn from the plan.

Regular employee: Person who works full-time during the regularly scheduled hours, as defined by the organization.

Reimbursement: Payment made to an employee for work-related amounts paid by the employee from their funds.

Relevé 1 – Employment and Other Income (RL-1): Revenu Québec forms used to report remuneration paid to employees reporting to work at an establishment of the employer located in Quebec (or employees who do not report at an establishment of the employer, but are paid from an employer's establishment located in Quebec).

Requirement to pay: One of the methods the Canada Revenue Agency uses to collect debts from those who do not voluntarily pay the amounts they owe.

Retiring allowance: Amount paid to officers or employees when or after they retire from an office or employment, in recognition of long service or for the loss of office or employment.

Retroactive pay; back pay: Delayed payment of part of the wages earned during a particular period, the delay being caused by a negotiated retroactive wage increase or a collective agreement or company policy change.

Revenu Québec: Department of the Government of Quebec that administers and receives remittances for Quebec provincial tax, Quebec Pension Plan contributions, Quebec Parental Insurance Plan premiums, Commission de la santé et de la sécurité du travail premiums, health services fund contributions and various employer taxes.

RLZ-1.S-V—Summary of Source Deductions and Employer Contributions: Revenu Québec form used to reconcile the duties reported for the year with source deductions of income tax and contributions payable.

Salary; remuneration: Earnings paid to an employee based on a fixed amount per period, regardless of hours worked or production accomplished.

Salary continuance: As part of a termination settlement, an employee continues to receive a regular paycheque less all regular statutory withholdings and continues to be entitled to employee benefits for a certain period.

Glossary

Service Canada: Federal agency that administers services such as Employment Insurance programs, Canada Pension Plan benefits, Old Age Security and Guaranteed Income Supplement programs, Social Insurance Numbers, passports and the Wage Earner Protection Program.

Severance pay: Amount an employer pays to an employee at the time of an employer-initiated termination of employment. Employers regulated by either the *Canada Labour Code* or *Ontario Employment Standards Act* may be required to pay mandatory severance.

Social Insurance Number (SIN): Unique nine-digit number provided by Service Canada. All employees must provide their employer with their SIN within three days of employment.

Statistics Canada: Federal government agency that collects, analyzes and reports information about wages and the number of persons employed.

Statutory deductions: Deductions that must be taken from an employee's pay as required by federal or provincial laws. These deductions take priority over all other payroll deductions.

Statutory holiday; public holiday; general holiday: Legislated paid days off work that an employer must grant to employees.

T4SUM—Summary of Remuneration Paid: Canada Revenue Agency form. For the most recent version and completion instructions, see the Canada Revenue Agency's website: [Guide to file T4 and summary](#).

T4 Statement of Remuneration Paid (slip): Employers must complete T4 slips for all individuals who received remuneration from them during the year if they had to deduct CPP/QPP contributions, EI premiums, QPIP premiums, or income tax from the remuneration; or if the remuneration was more than \$500. If employers provide employees with taxable group term life insurance benefits, they always have to prepare T4 slips, even if the total of all remuneration paid in the calendar year is \$500 or less.

Tax credits: Amount of money that a taxpayer can subtract from the amount of tax that they owe to the government.

Taxable benefit: Benefit paid in whole or part by the employer and considered taxable under the *Federal Income Tax Act* or *Quebec Taxation Act*.

Taxable earnings; income: Earnings on which income tax must be deducted; generally, all Canadian earnings are taxable after a minimum amount; exceptions are noted in T4001—Employers' Guide – Payroll Deductions and Remittances (Canada Revenue Agency) and TP-105.G-V—Guide for Employers: Source Deductions and Contributions (Revenu Québec).

TD1—Personal Tax Credits Return (federal and provincial/territorial): Canada Revenue Agency and provincial/territorial form every employee should complete and submit to payroll. The form is the employee's claim for tax credits and also provides payroll with required personal information.

TD1X—Statement of Commission Income and Expenses for Payroll Tax Deductions: Canada Revenue Agency form. For the most recent version and completion instructions, see the Canada Revenue Agency's website: [TD1X](#).

TP-1015.3-V—Source Deductions Return: Revenu Québec return that must be remitted by an individual to his or her employer or payer so that the latter can determine the source deduction code.

Glossary

Union dues: Amounts for membership, levied by a union, which are deducted from payroll according to a schedule established in the collective agreement.

Vacation pay: Amount paid according to employment/labour standards legislation, an employment contract or a collective agreement that is earned/accrued during the vacation entitlement year. Vacation pay is calculated as a percentage or fraction of vacationable earnings.

Vested: The point at which an employee becomes entitled to employer contributions made to a company pension or other benefit plan on the employee's behalf.

Voluntary deduction: Payroll deduction requested by and requiring written permission from an employee.

Wage loss replacement plan (WLRP): Arrangement between an employer and employees, or an employer and a group or association of employees. A WLRP may provide short-term disability, long-term disability or weekly indemnity benefits. The benefits may be paid by the employer, or by an insurance carrier or other independent organization.

Wages: See “salary.”

WebRas: Revenu Quebec online tool used to calculate employee source deductions of Quebec income tax, QPP contributions and QPIP premiums, and employer contributions/premiums to the QPP, HSF and QPIP.

WinRAS: Revenu Québec desktop program used to calculate employee source deductions of Quebec income tax, QPP contributions and QPIP premiums, and employer contributions/premiums to the QPP, HSF and QPIP.

Work permit: Document that allows non-Canadians to work in Canada temporarily. Sometimes the permit specifies one employer.

Workers' compensation boards (WCBs): Provincially/territorially-enacted bodies that provide benefits to employees upon injury, disability or death while performing the duties of the employer; workers' compensation premiums are paid entirely by the employer.

Workforce Skills Development and Recognition Fund (WSDRF): Quebec employers with annual Quebec payroll over \$2,000,000 are subject to a 1% training tax. This tax may be offset by actual expenses incurred to provide training to employees in Quebec.

APPENDIX 6

Setting up a New Payroll in Canada - Checklist

Select	Item	Action to be taken	Done
	Business Number	Register with Canada Revenue Agency for Payroll Account Number(s)	
		Register with Revenue Quebec for NEQ Number (s)	
		Obtain Business Consent forms	
	Bank Account	Open a Payroll Bank Account	
	Workers Compensation	Register with the appropriate Workers Compensation agency(s).	
	Health Taxes and Levies	Register with the appropriate provincial/territorial agency(s).	
	Determine employee status	Hire employees	
	Set Up The Payroll	Determine the best method for processing payroll (in-house or outsourcing).	
		Choose your in-house software or service provider.	
		Determine required earnings, taxable benefits and deduction codes.	
		Choose pay frequency	
		Design pay statements and choose the method of delivery.	
		Determine reporting requirements i.e. General Ledger, ad-hoc reports, HR reports	
		Test the payroll process to ensure accuracy	
		Run parallel runs (if necessary)	
		Obtain sign off on payroll testing environment	
		Implement payroll in a live environment	
		Establish proper signing off procedures for new hires, payroll changes (separation of duties).	
		Hiring Employees	Check legal requirements under Employment Standards
	Determine hours of work.		
	Determine which benefit plans to offer employees.		
		Document policies and procedures.	
	Remittances	Set up a remittance schedule for all remittance types.	
	Record Retention	Establish a record retention system.	

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