



## **EMPLOYEE PAYROLL DEDUCTIONS**

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Just like a car that cannot operate without an engine, a business cannot operate without employees. There are only so many hours within a day that owners can allocate to their business. Whether they are too busy with other commitments or simply that their business is growing, they need individuals to operate their organization. Some individuals remain only for a few hours while others develop a long-term loyal relationship with their employers.

When an organization hires employees, they are considered as employers who are required to withhold payroll deductions from the pay cheques of their employees in trust for the Receiver General of Canada and remit these amounts through a business number that is assigned by Canada Customs and Revenue Agency (CCRA).

Individuals who are classified as “employees” are required to contribute to an Employment Insurance Fund (EI) and Canada Pension Fund (CPP) subject to certain types of employment and payments. Federal and provincial taxes are also deducted from the employee’s remuneration.

In 2002, the maximum employee contribution for Canada Pension Plan (CPP) is \$1,673.20 at the rate of 4.7%. Employers must also contribute an equal amount of CPP that was deducted from the employee’s remuneration to CCRA. Similarly with EI, employers must deduct EI premiums and contribute their portion of 1.4 times the employee’s premium for the pay period. The maximum annual employee premium is currently \$ 858.00 at a premium rate of 2.20%. Employers should stop deducting EI and CPP premiums from the employees when they have reached their maximum annual insurable earnings of \$ 39,000 and pensionable earning of \$39,100 respectively. Federal and provincial tax are also deducted from the employee’s remuneration depending on the claim codes that the employee has filed on his or her personal tax credits return. No contribution is required on behalf of employers regarding federal and provincial income tax.

Payroll deductions are due on the 15<sup>th</sup> of the following month. So for example, employer’s portion of premiums and deductions withheld from employee wages in June are due by the 15<sup>th</sup> of July. Payroll deductions tables or tables on diskette can be obtained from CCRA free of charge. At the end of the calendar year, employers must report these income and deductions on a T4 slip to each employee and a T4 Summary to CCRA which is due by the end of February of the following calendar year. Penalties and interest can be imposed if there is a failure to deduct or remit CPP, EI and tax amounts.

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