



Payroll ALERT

The Authoritative Newsletter for Payroll Information

PROVINCIAL HEALTH CARE LEVIES – CHARTS

Is your business subject to a provincial health tax levy?

Federal Budget update on page 2.

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Presently there are four jurisdictions in Canada, which impose a payroll tax on employers with respect to provincial health care. These jurisdictions include Manitoba, Newfoundland and Labrador, Ontario and Quebec. As such, employers with payrolls in these jurisdictions may be subject to the payroll tax although some jurisdictions legislate, an annual payroll exemption before the tax applies.

In Manitoba, annual payrolls of \$1M or less are exempt from the levy. Annual Manitoba payrolls between \$1M and \$2M are subject to tax at a rate of 4.30% on the amount exceeding \$1M, while annual Manitoba payrolls exceeding \$2M are subject to tax at a rate of 2.15% on the entire Manitoba payroll.

Employers with annual Newfoundland and Labrador payrolls exceeding \$500,000 are subject to a 2% levy of total taxable remuneration.

In Ontario, the first \$400,000 of payroll is exempt from EHT. Not all types of industries qualify for the \$400,000 exemption. The EHT rate for payrolls exceeding \$400,000 is 1.95%.

In Quebec, if total worldwide payroll exceeds \$5M the QHSF rate is 4.26%. Total worldwide payroll of \$1M or less is subject to QHSF at a rate of 2.7%. Payrolls between \$1M and \$5M must determine the applicable QHSF rate based on a formula. The formula and variable definitions can be found in the *Guide for Employers Source deductions and contributions TP-1015, G-V*.

A summary of various earnings, benefits and allowances and whether or not they are subject to the provincial health care tax or levy is provided on pages 6 and 7. Generally speaking, most jurisdictions' legislation provides a statement to the effect that income as defined by sections 5, 6 and 7 of the *Income Tax Act (ITA)* is subject to the payroll tax. From this, it is inferred that usually all amounts included on a T4 slip in box 14 (employment income), or on the RI-1 slip in box A

are subject to the tax, while amounts on a T4A slip are not.

However, we know that there are other types of payments not reflected on a T4 slip that in some jurisdictions are subject to the tax. Therefore, for your convenience, we have taken these broad categories and have summarized the various earnings, benefits and allowances into a chart indicating whether the amount is subject or not. While every effort has been made to classify the earnings accurately, employers are reminded they should defer to the actual legislation for any necessary clarifications.

The following notes relate to the charts on pages six (6) and seven (7) of this issue.

A “✓” in the column indicates the earning/benefit or allowance is subject to the levy. An “✗” means the earning/benefit or allowance is not subject to the tax or levy. Where there is no “✓” or “✗” it means that either the earning type is not addressed in legislation or there is no clear indication in the legislation. For these items, employers should consult with the Ministry of Finance for the particular jurisdiction in question.

Note: Amounts in the remuneration type column are amounts paid by an employer – not a third party. These items are also considered taxable and reportable payments under the *Income Tax Act (ITA)*.

*Ontario EHT – *Information Bulletin 296 – Remuneration*, includes the following definition for Disability.

- A disability benefit paid directly by an employer to an employee is included in the income of the employer, and is, therefore, remuneration subject to EHT. Similarly, when a disability benefit is paid by a third party administrator, acting as an agent of the employer under the terms of an admin-

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FEDERAL GOVERNMENT UPDATES

Finance

Federal Finance Minister, John Manley, delivered his first budget February 18. It contained a number of proposals that will, once passed, some of which will impact payroll operations this year as well as in 2004. A summary of these changes are outlined below.

Retirement Savings Measures – RRSPs and RPPs

The RRSP limit for individuals increases to \$14,500 for 2003, \$15,500 for 2004, \$16,500 for 2005, \$18,000 for 2006 and is to be indexed commencing in 2007.

The limits for employer provided retirement savings under RPPs are also increasing as follows:

- Money purchase limits will increase to \$15,500 for 2003, \$16,500 for 2004 and \$18,000 for 2005.
- Defined benefit provisions will see an increase in the maximum pension limit from \$1,722 per year of service in 2003 to \$1,833 for 2004, \$2,000 for 2005. As a result the maximum PA under a defined benefit provision in 2003 remains at \$14,900 [(\$1,722 X 9) - \$600]. In 2004, and 2005 the maximum PA under a defined benefit increases to \$15,900 [(\$1,833 X 9) - \$600] and \$17,400 [(\$2,000 X 9) - \$600], respectively.
- The DPSP limit (one-half of the money purchase limit) increases to \$7,750 for 2003, \$8,250 for 2004 and \$9,000 for 2005.
- Starting in 2006 both the RPP and DPSP limits will be indexed to average wage growth.

According to the budget document, the Government will review and consult with respect to Tax Pre-Paid Savings Plans (TPSP). The Government plan to assess whether these types of plans could be a useful and appropriate mechanism to provide for additional savings opportunities. TPSPs are savings vehicles that, like RRSPs, increase the after-tax return to saving compared to saving in unregistered plans. TPSPs, however, are structured differently than RRSPs. In a TPSP, no deduction is provided on contributions (in this sense, the income tax on contributions is “pre-paid”) but the investment income in the plan and withdrawals are not subject to income tax. Important issues that will be taken into consideration include the effect on savings behaviour, the impact on government revenues, and whether such plans could be effectively administered.

Automobile Benefit and Expense Provisions – Standby Charge

In an attempt to improve the application of the standby charge for employer provided automobiles, the budget includes a proposal to provide a reduced Standby Charge (pro-rated calculation) where the employee uses the vehicle primarily for business use. The criteria is that the vehicle be primarily used for business (50% of the time or greater) **and** the vehicle must also be driven less than 1,667 kilometres per month (20,004 km per year) for personal use.

This change is effective for 2003 and subsequent taxation years.

Currently a reduced standby charge applies where business use is 90% or greater and personal kms are less than 12,000 in the year (less than 1000 per month). In some circumstances this results in an excessive benefit where the employee’s personal use is limited but greater than 12,000 km annually.

Further budget proposals include changes and amendments to the definition of an automobile.

Watch next month’s issue for some practical examples illustrating the above change as well as details on the automobile definition changes.

Personal Income Tax Relief in 2004 – through the five-year tax reduction plan

The government’s five-year tax reduction plan introduced in the 1998 budget contained tax decreases which under the current budget plan will be included in legislation. These measures provide tax relief in 2004 as follows:

- the basic personal amount (TD1) is at least \$8,000 (currently \$7,756);
- the spousal amount is at least \$6,800 (currently \$6,586);
- raise the second income bracket on which tax is calculated to at least \$35,000 (currently \$32,183);
- raise the third income bracket on which tax is calculated to at least \$70,000 (currently \$64,368); and
- raise the fourth income bracket on which tax is calculated to at least \$113,804 (currently \$104,648).

EI Premium Decrease

Legislation will be introduced setting the 2004 EI premium rate for employees at 1.98 % of insurable earnings. Further, the employer will also benefit from a lower employee rate. In 2004 employees earning \$39,000 (current maximum insurable earnings) or more will pay \$772.20 in EI premiums, down from the current year’s maximum premiums of \$819.00. Employers will contribute up to a maximum of approximately \$1,081.08 per employee (\$39,000 X 2.77% or \$772.20 X 1.4) unless a reduced EI premium rate applies. For employers, a savings of \$65.52 over current year rates.

As a result of pre-budget consultations with various Stakeholders, the Government will consult on a permanent EI rate-setting regime for 2005 and subsequent years. The following will form the basis for these consultations:

- premium rates should be set transparently;
- premium rates should be set on the basis of independent expert advice;
- expected premium revenues should correspond to expected program costs;
- premium rate setting should mitigate the impact on the business cycle; and

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FEDERAL GOVERNMENT UPDATES

(Continued from page 2)

- premium rates should be relatively stable over time.

Submissions will be accepted until June 30, 2003 with the intent that legislation to implement the results of the consultations will be introduced in time to have the new rate-setting regime in place for 2005.

EI Benefits – Compassionate Family Care Leave Benefit

On January 4, 2004, the Government will implement an employment insurance compassionate family care leave benefit. The six-weeks of EI benefits will be made available to individuals who meet the eligibility requirements for EI special benefits (maternity, sickness and parental) and have served the two-week waiting period. The EI compassionate family care leave benefit is to care for a gravely ill or dying child, parent or spouse and in order to provide flexibility for varying family needs, eligible family members will be able to share the benefit.

Additionally the Government will propose legislative changes so that permanent employees governed by the *Canada Labour Code* (federally regulated employers) can benefit from the new leave provision by making sure that their jobs are protected during the leave period.

Note: EI benefits are federal while requirements to grant employees with unpaid leave / time off (except for Canada Labour Code employees) is governed by provincial employment / labour standards, or through company policy.

Personal Tax Issues

The budget provides tax relief for low-income families. This will be done by increasing the National Child Benefit supplement component of the Canada Child Tax Benefit (CCTB) by an annual amount of \$150 per child in July 2003, \$185 in July 2005 and \$185 in July 2006. With these increases, the maximum CCTB benefit is projected to reach \$3,243 for the first child in 2007. This will bring the estimated annual support delivered through the CCTB to over \$10 billion in 2007—an increase of over 100 per cent since 1996. This budget also introduces a new Child Disability Benefit, which provides up to \$1,600 annually to low and modest income families with a disabled child.

Watch next months issue for additional budget proposals to harmonize interest, penalty and re-

lated administrative and enforcement provisions of the Excise Tax Act (non-GST), and Income Tax Act.

We will continue to monitor all of the above provisions and update readers accordingly.

HRDC Update

HRDC's report as it relates to the Government On Line (GOL) initiative is available from HRDC's web site (www.hrdc-drhc.gc.ca/dept/reports/golged/hrdc_gol.shtml). The report provides the public with an update to the variety of projects and initiatives underway within HRDC, which will benefit not only the business community but individual Canadians as well. Below is a brief overview of the areas specifically related to the payroll community.

The ROE Web project will definitely be of interest to employers. ROE Web is a suite of applications enabling government-to-business transactions over the Internet. The ROE is a fundamental piece of information for determining an individual's eligibility for Employment Insurance (EI) benefits. The goal of the ROE Web is to provide a fully automated and electronic process to gather ROE information from employers and reduce the paper burden for all.

In 2002, the ROE Web was piloted with ten medium to large employers and produced high levels of employer satisfaction. The service is currently being enhanced with an interim solution using the Government of Canada's Secure Channel. As early as 2003 and into 2004, employers will be able to transmit ROE data securely using the Internet. Currently under development is a "business to business" solution for large payroll service providers which will enable automatic transmission of ROE data directly to HRDC.

For the longer term, the Canada Customs and Revenue Agency (CCRA) are exploring the potential for employers to send earnings and payroll information electronically to a single point of contact for the federal government. In this regard associations, payroll service providers, and large companies are being consulted.

While we will continue to keep readers informed of developments related to the ROE Web project employers should visit HRDC's web site regularly for updates www.hrdc-drhc.gc.ca.

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The budget proposes many payroll related changes.

RRSP / RPP limits rise and the EI rate decreases in 2004.

"Are you paying provincial health care levies and taxes on the correct earnings and benefits? Find the answers on pages six and seven."

Privacy is the hot topic for 2003 – Are you following the legislation?

What is the Canadian Government doing towards improving the way they do business with you?

PROVINCIAL HEALTH CARE LEVIES –

(Continued from page 1)

istrative services only (ASO) arrangement, the benefit paid is also subject to EHT. However, disability benefits not subject to EHT include:

- those paid by an insurance company, under the terms of an insurance contract between the employer and the insurer and
- those paid by an independent third party trustee, where there is no employer-employee relationship between the trustee and recipient.

Manitoba Health and Post Secondary Education Tax Levy – *Bulletin NO HE 002 Remuneration*, definition is similar to Ontario's for disability benefits:

- insurance benefits paid to employees where the employer makes contributions to a self-funded plan and/or assumes all risks and obligations regarding the payment of benefits are included in remuneration subject.
- disability benefits paid by an insurance provider where the plan is not self-funded by the employer – are not subject to the levy.

**Although not clearly addressed in legislation, the interpretation is that clergy allowances/board and lodging, regardless of qualifying for a deduction, are subject to the payroll tax by virtue of inclusion in income through section 6 of the *Income Tax Act*.



INTERESTING WEB SITES – PRIVACY

Most employers are aware that the topic privacy and protection of personal information will have a definite impact on their operations in the coming year. In fact, 2004 marks the official effective date of the *Personal Information Protection And Electronic Documents Act* (PIPED) for all private sector employers in all jurisdictions in Canada, unless the province in which the employer operates has enacted similar legislation.

If you are not watching this issue closely, you should begin. Stay informed by regularly visiting the Privacy Commissioner of Canada's web site which provides a complete listing along with linkages to Provincial / Territorial Privacy Laws, Oversight Offices and Government Organizations. Visit www.privcom.gc.ca/information/comms_e.asp.



FEDERAL GOVERNMENT UPDATES

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CCRA Update

Along with HRDC, the CCRA is also very much involved in the Government of Canada's On Line (GOL) initiative. Visit www.gol-ged.gc.ca/rpt/rpt_e.asp for information on all of the Canadian government's on line initiatives. Like HRDC, the CCRA has their own report titled *Future Directions*, and is available from www.ccra-adrc.gc.ca/eservices/gol/menu-e.html. Highlights of the report are detailed below.

The CCRA, as part of the redesign of their Web site, will develop a secure "My Account" page, which will be available in 2003, for Canadians to get information about their

personal tax account or benefit entitlements.

Small employers will have the option of receiving the PD7A Remittance Form for payroll source, Canada Pension Plan, and employment insurance deductions through the bill presentment option offered by many Canadian financial institutions.

CCRA's longer term plans include expansion of the CCRA's efforts with other government departments to simplify and integrate processes such as the T4 information return and slips and the HRDC Record of Employment.

The CCRA is also working towards providing clients with a Web-based application, giving them access to all types of rulings.



PROVINCIAL GOVERNMENT UPDATES

The annual budget process is beginning and provinces continue to announce changes affecting our payroll operations. A summary of the various items impacting operations appears below.

Alberta

The Legislative Assembly reconvenes Feb. 18, 2003. According to information posted on the web site, the Legislature intends to introduce privacy legislation in the spring session.

Personal Information Protection Act (Government Services) – This act will help protect the personal information held by all organizations or companies not currently subject to the Freedom of Information and Protection of Privacy Act. An Alberta act would take the place of the federal *Personal Information Protection and Electronic Documents Act* scheduled to take effect January 1, 2004 unless provinces enact substantially similar legislation.

British Columbia

Finance

The budget delivered February 18, 2003 contained no payroll-related changes.

Workers' Compensation

The board has introduced new due dates for annual payroll reports. If you were required to pay your premiums on a quarterly basis in 2002, your Employer Payroll and Contract Labour Report and payment, if required, is **due on February 28 this year**, not March 15 as in the past. If you report annually, due dates are staggered from March 1 to 15, so be sure to check the due date on your report.

The board makes available to employers **online reporting and remitting**. The secure service allows employers to report payroll and pay premiums, design a payment plan meeting employer needs and manage the account. There are restrictions on enrollment dates as follows:

- To enroll for 2003, you must do so by **February 28** if your premiums **exceeded \$1,500** in 2002, or by **April 15** if your premiums were **\$1,500 or less**.

In addition the board makes available the ability to report client payrolls online. Also a secure service that has been designed for ac-

countants, bookkeepers and other service providers who deal with the WCB on behalf of a number of different clients. Service providers can submit payroll reports for all clients in a single online session. Simply enter the payroll figures for each client and the application performs the calculations automatically. For details on these exciting online services, visit www.worksafebc.com/online_services/register_for_coverage/default.asp.

New Brunswick

Employment Standards – Bill 27 *Amendments to the Employment Standards Act* was read for a third time on January 16, 2003. The bill introduces minimum call in pay in the province as well as minor amendments reducing paper burden and improving enforcement and administration of the *Act*. Officially known as “minimum reporting wage”, the amendment once passed provides an employee three hours pay at minimum wage when the employee reports for work as required by the employer. We will update readers once the bill receives royal assent.

Northwest Territories

Finance delivered the budget on February 13, 2003, with no payroll-related changes to report.

Nova Scotia

Finance is currently in pre-budget consultations with an expected budget release in April. In a pre-budget speech the finance minister advised residents to expect lower taxes. We will provide an update following the budget release.

Nunavut

The Sixth Session of the First Legislative Assembly reconvenes on March 4, 2003.

Ontario

Finance is in pre-budget consultations across the province and recently released a backgrounder reminding residents how the province intends to keep Ontario taxes competitive in 2004. Personal tax reduction information below is simply a reminder of the content from the 2002 budget.

- cut first personal income tax rate to 5.65%
- cut middle personal income tax rate to 8.85%
- eliminate 20% surtax for taxpayers who only pay the first tier surtax.



Many provinces are in pre-budget consultations.

BC WCB offers new online services.

PROVINCIAL HEALTH CARE LEVIES – CHARTS

Remuneration Type	Manitoba Health and Post Secondary Education Levy	Newfoundland and Labrador Health and Post Secondary Education Tax (HAPSET)	Ontario Employer Health Tax (EHT)	Quebec Health Services Fund (QHSF)
Regular pay, salary, wages	✓	✓	✓	✓
Overtime	✓	✓	✓	✓
Vacation Pay	✓	✓	✓	✓
Statutory/Public Holiday Pay	✓	✓	✓	✓
Shift Premium	✓	✓	✓	✓
Call In/On Call	✓	✓	✓	✓
Bonus	✓	✓	✓	✓
Commission	✓	✓	✓	✓
Incentive	✓	✓	✓	✓
Retroactive Pay, Increase or Adjustment	✓	✓	✓	✓
Gratuities	✓	✓	✓	✓ Including allocated tips
Sick Pay	✓	✓	✓	✓
Disability Benefits*	✓		✓	
Honorariums	✓	✓	✓	✓
Maternity, Parental or Workers Compensation Top-ups	✓	✓	✓	✓
Profit Sharing (contributions to) including amounts reported on a T4PS	✓	✓	✓	✓
Salary Deferral Arrangements	✓	✓	✓	✓
Employee Trusts (contributions to)	✓	✓	✓	✓
Directors Fees	✓	✓	✓	✓
Legislated Lieu of Notice Pay	✓	✓	✓	✓

PROVINCIAL HEALTH CARE LEVIES – CHARTS

Remuneration Type	Manitoba Health and Post Secondary Education Levy	Newfoundland and Labrador Health and Post Secondary Education Tax (HAPSET)	Ontario Employer Health Tax (EHT)	Quebec Health Services Fund (QHSF)
Retiring Allowance/ Severance Pay (T4A or RL-1 box O income)	✗	✗	✗	✗
Pay advances	✓	✓	✓	✓
Payments to Clergy including Housing Allowance	✓**	✓**	✓	✓**
Taxable Allowances including Car, Clothing, Meal, or any allowance required to be included in income.	✓	✓	✓	✓
Taxable benefits (too numerous to list—any benefit required to be included in income as defined by the <i>ITA and the QTA</i>)	✓	✓	✓	✓
Employer paid premiums or contributions for benefit programs (excludes RRSP contributions which are subject) etc.	✗	✗	✗	✗
Pension, superannuation, annuity	✗	✗	✗	✗
Death Benefits (Discretionary payment by an employer – T4A/RL-1 Box O)	✗	✗	✗	✗
Scholarships and bursaries (T4A/RL-1 Box O)	✗	✗	✗	✗
Research Grants (T4A/RL-1 Box O)	✗	✗	✗	✗



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Payroll ALERT

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YOUR QUESTIONS ANSWERED

Last month's Q & A contained erroneous information on the preparation of a T4 slip for continuance of Canada Pension Plan (CPP) contributions for an employee working outside Canada.

No entry in box 14 "Employment Income" is necessary on the T4 slip. *The only entries required are the Canadian equivalent pensionable earnings in box 26 and the corresponding CPP contributions in box 16 of the T4 slip. We apologize for any inconvenience caused.*

Q. On the topic of stock options, we receive stock options through our US parent company and we understand the Canadian employer is responsible for reporting the applicable stock option benefit in Canadian currency. What average exchange rate is used to determine the applicable benefit? Do we use the exchange rate on the date the options were granted or do we use the rate on the date when the options are exercised?

A. A non-resident corporation may grant options directly to its Canadian subsidiary's employees. Because the non-resident corporation is the payer of the benefit, they are responsible for withholding tax and reporting the stock option benefit.

If however, the Canadian subsidiary reimburses the non-resident corporation for the amounts paid to its employees, the CCRA deems the Canadian subsidiary to be the payer and the withholding (tax and CPP) and reporting obligations rests with the Canadian subsidiary.

The benefit is computed by taking the fair market value (FMV) of the shares converted to Canadian dollars. The exchange

rate in effect at the date that the options are granted must be used. Exchange rate information may be obtained from the Bank of Canada.

Q. Our organization is new to stock option benefit reporting and would like clarification on definitions for exercise, fair market value, grant an option and specified value.

A. The CCRA provides the following definitions related to stock option benefits.

Exercise

The term is used to describe the actual purchase of the security offered in the security option agreement.

Fair market value

The fair market value is the value of the security or the option as the case may be, at a particular time.

Grant an option

The right given by an employer or a person related to an employer to an individual to buy a stated number of shares of a corporation or units of a mutual fund trust at a given price.

Specified value

In most cases, the specified value is the fair market value (FMV) of the security at the time the option is granted. Where there have been exchanges of options or the security has been subject to stock splits or consolidations, the specified value is the initial FMV adjusted to take into account such events.



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