6 Payroll Year-End Balancing Pitfalls to Avoid



Common mistakes can cause your payroll register/GL not to balance with the CRA figures.

Forget Christmas shopping. Is there anything more stressful than balancing payroll at year-end? Unless and until all the numbers balance, you can't issue your T4s for the year. And if you don't file your T4s on time, you run the risk of late penalties. And if you rush the filing and make an error—even if the error is innocent—you could be socked with additional penalties for failure to file. Such delays and mistakes won't win you any goodwill among employees who must refile returns or experience a delay in refunds as a result. Here are 6 common year-end filing pitfalls to avoid. Go to the HR Insider website for a Checklist you can use to organize your year-end payroll balancing and filing process.

1. Including Source Deductions Not Relating to Current Tax Year

Pitfall: There may be situations when the CRA demands you to remit payments in connection with a previous tax year. Treating these remittances as a current source deduction, will throw off the totals so that your own payroll register and general ledger doesn't balance with the CRA's statements at year-end.

Example: On March 18, 2022, you receive an assessment relating to CPP/EI contributions—a PIER assessment notifying you that it miscalculated the remittances for an employee in 2021, and that you owe $2,300. You remit the full amount on April 4, 2022. Although it was remitted in 2022, that money relates to a 2021 tax liability. So, if you treat it as a 2022 remittance in your register and GL, your records won't match the CRA statements at year end.

Solution: Keep remittances that relate to other tax years segregated from current source deductions, regardless of when remit them. For a PIER report, CRA will send you a separate remittance form for any amounts it is demanding. Keep these forms separate from the PD7As.

2. Failing to Adjust for Register Changes YTD

Pitfall: Sometimes it's necessary to adjust an employee's pay after you've already made a payment and corresponding remittance to CRA, for example, by voiding a pay cheque and issuing a new one after discovering an overpayment. If payroll fails to carry forward these adjustments in pay in both source deduction remittances and the GL, your year-end numbers won't balance.

Solution: When you adjust an employee's payment after a pay cheque has been reissued, be sure to:

- Ensure the corrected gross and net amounts are reflected in the payroll system year-to-date (YTD);
- Reprint the payroll register for the period so that you have an updated document reflecting the change;
- Document the change on your GL; and
- Adjust your CRA remittances accordingly.

3. Improperly Defining the Tax Year

Pitfall: The balancing process involves comparing two sets of numbers over the course of a single defined time period, namely the tax year. If your figures come from different tax years, you'll be comparing apples to oranges and the numbers won't balance. While this might seem obvious, it's not always easy to keep to a common tax year definition when doing the year-end balance.

Solution: Be sure to include figures from the right payroll in the particular tax year. Keep in mind that there are several key dates in a pay cycle. Every pay period covers a range of workdays; there's also the pay date; and a remittance date. To balance payroll, you must use the pay date to define the tax year. To illustrate, consider this scenario in which 2 companies both use the same pay cycles:

Pay Cycle 1:

- Pay Period: Dec. 1 – 14, 2022
- Pay Date: Dec. 19, 2022
- Remittance Date: Jan. 10, 2023

Pay Cycle 2:

- Pay Period: Dec. 15 – 28, 2022
- Pay Date: Jan 2, 2023
- Remittance Date: Jan. 25, 2023

Company A uses the accrual method and would thus recognize the expenses and liabilities incurred during Cycles 1 and 2 in the 2022 tax year; because Company B uses the cash method, it would recognize the expenses and liabilities of Cycle 1 in 2022 and from Cycle 2 in 2023. In balancing its payroll, Company A would have to ensure it gets its tax years right:

- **Wrong:** 2022 for both cycles because the pay period start dates are both in 2022;
- **Wrong:** 2022 for both cycles because the pay period end dates are both in 2022;
- **Wrong:** 2023 for both cycles because the remittance dates are both in 2023;
- **Right:** 2022 for pay cycle 1 because the pay date for that cycle is in 2022, and 2023 for pay cycle 2 because the pay date for that cycle is in 2023.

4. Not Including Pay of Ex-Employees

Pitfall: The default in some payroll systems includes only current employees in the register YTD and fails to account for former employees, even though they're still in the payroll system and must be accounted for at year's end. In this situation, the register YTD amounts won't account for all employees during the year.

Solution: You must account for any and every employee who received payment from you during the tax year when balancing your register YTD and GL against the CRA's monthly statements, even the employees that no longer work at the company. Make sure that the register you get from your payroll

system is accounting for former employees. To determine if former employees are being omitted, you can:

- Compare the count of people paid in a year to the one in the register YTD, assuming your system allows for easy access to that information, as opposed to one that includes only the YTDs for employees with current pay; and
- Check the list of employee names on the register YTD to see if it lists any employees that you know are no longer at your company .

5. Purging Ex-Employees Before Completing Your T4s

Pitfall: Another variation on the above theme is purging your former employees from the master file before doing your T4s. This is apt to occur if your payroll system allows for manually purging information.

Solution: Don't purge former employees until after you've completed your T4s. Better yet, don't purge them at all. Just come up with some way to mark them as archived or otherwise hidden, so you don't see them unless you want to.

6. Failing to Account for Missing December Payroll Figures

Pitfall: When you do T4 balancing in January, you may not yet have received your statements from CRA covering the end of December. If you don't recognize this, you may think you're looking at numbers for the whole year and your numbers won't match up with CRA's.

Example: You may not see the balance for the last December payroll remittance, due Jan. 10, until early February. By then you will have already started the process of preparing your T4s.

Solution: Be aware of and adjust for the information you haven't yet received from CRA. When you do get the missing information from CRA, remember to go back and double-check your figures from earlier.