After the Axe Falls: How to Report Termination Payments on the T4 and T4A

Although typically paid in a lump-sum, monies paid to employees upon termination represent the amalgamation of termination notice, severance and other individual sums, each of which may be subject to different source deduction and reporting requirements. Of course, it's up to payroll to sort this all out by, among other things, separating amounts that to date have been reportable on a T4 from amounts reportable on a T4A.

T4 Reporting Requirements

Any notice paid to employees up to the minimum amount the particular employee is entitled to under the employment standards law is termed "wages in lieu of notice." Any excess over this minimum is treated as a "retiring allowance."

Under CRA reporting rules, retiring allowances must be reported on a T4 rather than a T4A. The information must be included in the "Other Information" area of the T4 slip. The following codes are used to report the information:

- **Code 26:** Eligible retiring allowances;
- **Code 27:** Non-eligible retiring allowances;
- **Footnote code 14:** Status Indian (exempt income), eligible retiring allowances; and
- **Footnote code 14:** Status Indian (exempt income), non-eligible retiring allowances.

None of the amounts reported on the T4 using these codes should be included anywhere else on the T4. For example, nothing reported under codes 26 or 27 should be included in either EI insurable earnings in T4 box 24 or in CPP/QPP pensionable earnings in T4 box 26.

Until 2011, an employee terminated during the year who was paid a retiring allowance had to be given both a T4 (for any employment income prior to termination) and a T4A for any retiring allowance. Under the current requirements, only a T4 is required. This is similar to how retiring allowances are reported to the MRQ on a RL-1.

T4A Reporting Requirements

Shifting of retiring allowance reporting from the T4A to T4 doesn't apply to all forms of termination payments. Employers still have to report the following payments on a T4A:

- Box 18, Lump sum payments, including withdrawals from a private pension plan, registered or otherwise, or from a deferred profit sharing plan; and
- Box 28, Other Income, such as death benefits and taxable benefits paid to former employees.