How Many Pay Periods Are in the Tax Year?

Marquette Price is a computer programmer who designs interactive learning games for a Montreal software company. He gets paid by direct deposit on a bi-weekly basis. Each bi-weekly pay period starts on a Monday and ends on a Sunday. Pay day is normally a Friday. But the first Friday in 2016 falls on January 1, New Year's Day. Under Québec employment standards, pay for that day must be given to employees on the day prior, December 31, 2015. The pay period that would normally be paid on January 1, 2016 runs from Monday, December 14 to Sunday, December, 27, 2015, inclusive.

QUESTION

How many pay periods does Marquette have in tax years 2015 and 2016?

1. 26 pay periods in both years, based on when pay period ending dates fall in the calendar year.
2. 26 pay periods in both years, based on when first days of pay periods fall in the calendar year.
3. 27 pay periods in 2015 and 26 periods in 2016, based on payment made on Thursday, December 31, 2015.
4. 26 pay periods in 2015 and 27 in 2016, based on payment made on Friday, January 1, 2016.

ANSWER

2016. **Because Marquette must be paid on December 31, 2015, he has 27 pay periods in 2015 and 26 in 2016.**

EXPLANATION

For purposes of source deductions, tax years are defined on a calendar year basis. Thus, for payroll, January 1 and December 31 are the first and last days of the tax year. Pay periods are defined by the range of days in the period and by when the period is paid. It's the later of these two that determines the number of pay periods in a tax year. The count of pay periods is based on pay days rather than the days contained in each period. That's because employment income is subject to source deduction on a "cash basis" where income is recognized for tax purposes when it's received rather than when it's earned or the related work is performed.

In our example, the change in Marquette's pay date from January 1, 2016 to December 31, 2015, shifts the corresponding pay period from the 2016 to the 2015 tax year. That means Marquette will have 27 pay dates, or pay periods, in 2015 and 26 in 2016.

WHY WRONG ANSWERS ARE WRONG

A is wrong because pay period ending dates, or the last day in each pay period, aren’t used to determine which pay periods fall in which tax year.

B is wrong for the same reason. The span of days covered by a pay period isn’t relevant in deciding which tax year the period belongs to.

D is wrong because under Québec employment standards law, where a pay day otherwise falls on a statutory holiday, pay must be given on the working day prior. No other jurisdiction has such a requirement.