# How to Report Retiring Allowances of Terminated Employees on the T4

### The Payroll Challenges of Retiring Allowances

Employers typically have to make certain payments to the employees they terminate, especially when termination is without cause. Such payments—commonly referred to as payments on separation, settlement amounts and severance—must be paid in a lump-sum. The challenge for payroll is that the lump sum amount is the amalgamation of individual payments, each of which may be subject to different source deduction and reporting requirements. And it's up to payroll to sort out all of these payments to ensure accurate source deductions and T4 reporting.

### What Retiring Allowances Are—And Are Not

There are 2 key terms payroll needs to understand to comply with the T4 reporting rules:

- **Wages in lieu of notice:** Any notice paid to employees up to the minimum amount the particular employee is entitled to under the employment standards law of the particular jurisdiction; and
- **Retiring allowance:** Any excess over the required minimum wages in lieu of notice.

Retiring allowances include:

- Payments for unused sick-leave credits on termination; and
- Amounts employees receive when their employment is terminated, even if the amount is for damages (wrongful dismissal when the employee doesn't return to work).

As noted, retiring allowances don't include wages in lieu of notice. Nor do they include:

- Salary, wages, bonuses, overtime and legal fees;
- A superannuation or pension benefit;
- Amounts an individual receives as a result of an employee's death (these payments may be treated as death benefits);
- A benefit derived from certain counselling services;
- Payments for accumulated vacation leave not taken before retirement; or
- Damages for violations or alleged violations of discrimination laws, to the

extent these amounts aren’t taxable.

### CRA T4 Reporting Requirements

Under CRA reporting rules, retiring allowances must be reported on the “Other Information” area of the T4 slip using the following codes:

- **Code 66:** Eligible retiring allowances;
- **Code 67:** Non-eligible retiring allowances;
- **Code 68:** Status Indian (exempt income), eligible retiring allowances; and
- **Code 69:** Status Indian (exempt income), non-eligible retiring allowances.

Don’t include any of the amounts you report on the “Other Information” area of the T4 using these codes as employment income in box 14, EI insurable earnings in box 24, CPP/QPP pensionable earnings in box 26 or any other part of the T4. Nor should you report retiring allowances in the T4A.

### Termination Payments to Report on the T4A

Until 2011, wages in lieu of notice were reported on the T4 and retiring allowances on the T4A. Although the CRA simplified the rules by requiring reporting of both amounts on the T4, employers still have to report certain termination-related payments on the T4A, including:

- Box 018, Lump sum payments, including withdrawals from a private pension plan, registered or otherwise, or from a deferred profit sharing plan; and
- Box 028, Other Income, such as death benefits and taxable benefits paid to former employees.