HR Glossary: Termination Terminology



The terminology people in the payroll and HR profession use to describe different termination payments is often confused and tangled. Here's a glossary that sets out precise definitions:

Termination Payment: A generic term customarily to describe wages in lieu of notice, retiring allowances and other money payments to a terminated employee. The term "termination payment" does not come from a statute or regulation.

Wages in Lieu of Notice: A payment of a single sum of money that employers are required to make under the employment standards of their province (or federally) when they terminate an employee without cause and without notice.

Pay in Lieu of Notice: This term is a less precise substitute for "wages in lieu of notice" that you're better off not using. "Wages" is a more accurate designation because the money paid to the employee are, in fact, wages for each week of notice to which the employee is entitled.

Retiring Allowance: In this context, a retiring allowance means an amount "received in respect of a loss of an office or employment of a taxpayer, whether or not received as, on account or in lieu of a payment of damages." This is an official definition which comes from Sec. 248(1) of the *Income Tax Act* and it's broad enough to encompass not just severance payments but other amounts the employee wins against the employer in a lawsuit or civil proceeding.

Severance Pay (Statutory): In Ontario (*ESA*, Secs. 64-65) and under the *Canada Labour Code* (Sec. 235), severance pay means a sum required by law that an employer must make when it terminates an employee of stated seniority (ON: 5 years; Fed.: 12 months);

Severance Pay (Unofficial): An informal term used by people in the industry to describe a payment of money to a terminated employee. The industry term is broader than the legal definition because it covers not only the statutorily required payments in ON and federally, but voluntary payments that employers in any province agree to make to any employees they terminate. Some even lump wages in lieu of notice in with severance pay. That's a mistake because severance pay is considered a retiring allowance subject to different tax and payroll treatment than wages in lieu of notice.

Separation Payments: A legal term from Sec. 36(9) of the federal *EI Regulations* defined as "all earnings paid or payable by an EI claimant by reason of a layoff or

separation from an employment.” Separation payments, which under the regulatory definition would include both retiring allowances and wages in lieu of notice, are considered earnings that must be reported on the Record of Employment.