

New Formula for Wage Loss Replacement Benefits



The newly revised T4001(E) *Employer's Guide: Payroll Deductions and Remittances* issued by the CRA on Nov. 19, 2012 contains very few changes. The most significant changes affecting payroll are the new rules for wage loss replacement plan (WLRP) payment deductions. Here's what's changing.

OVERVIEW OF THE CHANGE

What's Changing: WLRPs is an arrangement in which an employer provides benefits to employees—either directly or via an insurer. The change affects how to calculate source deductions on WLRP payments to employees.

Types of Benefits Affected: Benefits paid to employees under a WLRP typically include:

- Short-term disability (STD);
- Long-term disability (LTD); or
- Weekly indemnity (WI) benefits.

Which Plans Are Affected: A plan is considered a WLRP if all 5 of the following things are true:

1. It's a group plan covering more than a single employee;
2. The employer funds the plan, in whole or in part;
3. The plan's purpose is to indemnify, i.e., pay for, losses of employment income employees incur as a result of illness, accident or maternity;
4. Benefits are paid periodically and not in a lump-sum; and
5. Funds are accumulated normally in the hands of a trustee or trust account and calculated to ensure there's enough money to cover claims, a la an insurance plan.

THE CHANGES

The changes explained in the 4001(E) apply to different kinds of source deductions from WLRP payments:

Source Deductions for EI and CPP

The rules government when WLRP payments are subject to source deductions for EI

premiums and CPP contributions vary depending on who actually pays the benefits to employees:

Employer Pays: If the employer pays the WLRP benefits directly to the employee, EI/CPP deductions are required where the employer funds any part of the plan.

Third Party Pays: If the WLRP benefits are paid on the employer's behalf by a trustee or insurance company, EI/CPP deductions are required where the employer:

- Funds any part of the plan; AND
- Exercises a degree of control over the plan's terms; AND
- Determines eligibility for benefits.

Source Deductions for Income Tax

If WLRP benefits payments are subject to EI/CPP source deductions, income tax must also be withheld from the payment as well. The employer, trustee or insurance company must report these payments on the T4—as well as the income tax, CPP and EI deductions made on the payments.

If WLRP payments are *not* subject to EI/CPP source deductions, they're still subject to income tax. But no withholding from the actual benefit payment is required.

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- [7 Timesheet Traps to Avoid](#)
- [Know Laws of Your Province: Rules for Calculating Hours Worked in Each Part of Canada](#)