Payroll Trap to Avoid: Mingling Past & Current Year Source Deductions

As you start your year-end payroll process for 2015, keep your antenna tuned to a common pitfall involving current year remittances that can mess up your balances, undermine the accuracy of your calculations and result in filing delays and even CRA penalties.

The Balancing Process

The year-end process involves taking all of the data generated by all payroll cycles during the year from 3 different sources:

1. Monthly statement of accounts from the CRA, i.e., PD7A or PD7A[TM]; (or MRQ, i.e., TPZ-1015 if Québec is the province of employment);
2. Your company's payroll register YTD; and
3. Your company's general ledger (GL).

You need to add everything up and ensure all the numbers balance using a triangulating process comparing figures from the payroll register YTD against both monthly CRA (or MRQ) statements and the GL.

The Trap

You must balance remittance amounts on *current* accounts to CRA. Accordingly, these accounts should include *current* source deductions only, i.e., payroll remittances relating to the current tax year. The problem is that there may be situations when CRA demands you to remit payments in connection with a *previous* tax year. It's important that you keep any of these remittances relating to previous years must segregated from current source deductions. If you treat a previous year deduction as a current source deduction, the totals in your register and GL won't balance with CRA's statements at year-end.

Example

On March 19, 2015, Company A receives an assessment relating to CPP/EI contributions—a PIER assessment notifying you that it miscalculated the remittances for employee Dee Duckshin in 2014, and that it owes CRA $2,300. The company remits the full amount on April 4, 2015. Even though this amount was remitted in 2015, it is in connection with a 2014 tax liability. So if Company A treats it as a 2015 remittance in its register and GL, its records won't match the CRA statements at year end.

The Solution

Make sure you pay and track CRA remittances for remittances related to previous tax years separately from regular source deductions for the current tax year. For a PIER report, CRA will send you a separate remittance form for any amounts it is demanding. Keep these forms separate from the PD7As.