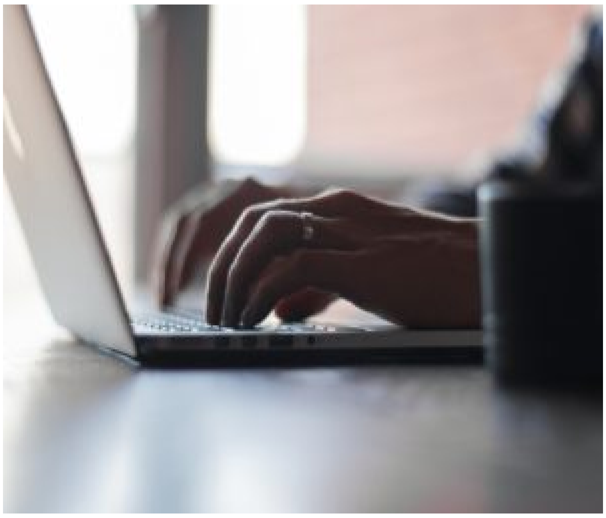
PIER Pressure: How Your T4 CPP Information Can Trigger CRA Review



Once employers file their T4s, the Canada Revenue Agency (CRA) compares the CPP and EI contributions listed in Boxes 16 and 24 to the contributions owing based on the pensionable and insurable earnings reported in Boxes 24 and 26. If there's a discrepancy between the CPP or EI contributions owing based on these earnings versus those reported on the T4 as deductions, the CRA issues what's known as a Pensionable and Insurable Earnings Review (PIER) report. (A report may also be issued if the Social Insurance Number (SIN) reported on the T4 isn't valid SIN or lists no SIN at all.)

PIER Problems

The vast majority of problems cited in a PIER report relate to CPP contributions rather than EI premiums. The reason for this stems from the difference between how the two figures are calculated.

The EI Calculation

EI premiums are a straight percentage of insurable earnings up to a fixed maximum annual earnings amount, which for 2018 were, respectively, 1.66% and $51,700, where Québec wasn't the province of employment. In 2018, the employee EI premium rate for Québec was 1.3% on the same maximum earnings of $51,700. This can create problems with EI contributions if an employee's province of employment changed from or to during the year.

Example
Kay Beck, an employee subject to Québec source deductions, transfers to Saskatchewan in August. She had $40,000 in insurable earnings in Québec before the transfer and another $20,000 after the transfer. Kay's total EI premiums for 2018 should be $714.22 or ($40,000 x 1.30%) + (($51,700 – $40,000) x 1.66%). Note that the annual cap is on the insurable earnings, not the employee premium. In Québec, Kay paid $520 in EI premiums. It would be a mistake to take EI in Saskatchewan up to the annual maximum for employees outside Québec, $858.22 in 2018.

The CPP Calculation

The difference between EI and CPP calculations is that CPP contributions are subject to the Basic Exemption. What’s not often understood is that this Basic Exemption has two different definitions: one that the employer must use during every period and one that applies only at year-end.

<u>Explanation</u>: The annual Basic Exemption is $3,500, a number that’s been fixed for many years. However, this number is prorated by month for employees who aren’t subject to CPP contributions for the whole tax year. This happens if between January and November in any given tax year:

- An employee turns 18;
- An employee turns 70;
- An employee opts in or out of CPP coverage between age 65 and 70;
- An employee dies;
- An employee receives a CPP or QPP disability pension; or
- Such a disability pension stops.

The reason the time range of trigger events runs from January to November is that the CPP coverage takes effect in the month after the trigger event occurs. As a result, trigger events that occur in December affect only the subsequent tax year.

Example
If an employee turns 18 on May 22, CPP contributions are only owing on any payments made on or after June 1. In this situation, the Year’s Basic Exemption for the employee is $2,041.67 or $3,500 / 12 x 7, May being the 5th month out of 12.

By contrast, *none* of these situations affect the pay period Basic Exemption amount which is based on the number of regular pay dates in the year. Thus, the pay period Basic Exemption amount is $134.61 if there are 26 regular pay dates in the year. $3,500 / 26 is $134.6153, which would normally be rounded to $134.62. However, there’s no rounding; instead, any part penny is dropped. As a result, the correct CPP basic exemption for a bi-weekly pay period is $134.6***1***.

In the above example, if there are 15 bi-weekly pay periods from June to December, the Basic Exemption applied on annual basis for that employee would be $2,019.15 ($134.61 x 15), not the $2,041.67 that the CRA would use on filing the T1 and in any PIER calculations.

Allocation of Pay Period Basic Exemption

Another factor behind PIER reports on CPP contributions are the rules on allocation of the pay period Basic Exemption. In this respect, pensionable earnings aren’t all the same. Instead, there are 3 different classes of pensionable earnings for CPP purposes:

1. Pensionable earnings where no Basic Exemption applies;
2. Pensionable earnings where the pay period Basic Exemption does apply; and
3. Pensionable earnings where the Basic Exemption is calculated based on the employee’s last paid date.

The latter situation applies where there’s no regular pay period. Example: For an employee paid solely by commission who only gets paid once the related client invoices are paid, the Basic Exemption would be $3,500 / 365 x the number of days since the last employee payment, with a minimum Basic Exemption of $67.30.

The difference between situations 2 and 3 above is based on either the nature of the earning or when it’s paid. Bonuses, for example, don’t qualify for any CPP Basic Exemption. By contrast, directors’ fees qualify for a pay period Basic Exemption, as long as that’s the only pensionable income paid,. The Basic Exemption for regular earnings depends on the pay period these were earned and the pay period in which they were paid. To qualify for any Basic Exemption, regular earnings must be both worked and paid in the same pay period, meaning paid on the regular pay date for that pay period.

Example
On May 3, Alec worked 5 hours of regular time at a straight time rate of $15. His normal pay date for this work was May 18. However, there was a disagreement over his time sheet and the employer didn’t pay these wages until the next pay period, June 1. Since these wages weren’t paid for work in that pay period, they’re not eligible for any Basic Exemption amount.

PIER-Related Consequences

These differences regarding the Basic Exemption may result in the CRA’s identifying CPP discrepancies on a PIER report. For example, one of the most common errors is allowing a CPP Basic Exemption on a second employee payment in a pay period. If the CRA finds such a discrepancy, you have 2 choices: i. Pay the amount owing; or ii. Give the CRA sufficient information enabling them to understand why the deductions taken were correct for the earnings reported.

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