Trap to Avoid: Failing to Properly Define Tax Year

The challenge posed by the year-end payroll balancing process is to ensure that your remittance amounts for the year match up. More precisely, you need to verify that your payroll register year-to-dates (YTD), which record the dollar amounts processed in payroll for the year, match the CRA's records of the total payments it has received from you during the year. The register YTD must also line up with the remittances and earnings shown on your company's general ledger (GL).

The Trap

The balancing process involves comparing two sets of numbers over the course of a single defined time period. If your numbers don't balance, you can't issue your T4s unless and until you identify and fix the problem. One of the common mistakes that can result in imbalances is inadvertently balancing numbers from different time periods. For payroll to balance, the numbers you're comparing must be drawn from precisely the same time period, i.e., the same tax year.

The Solution

Make sure you include figures from the right payroll in the 2015 tax year. This might seem like an obvious point. Unfortunately, it's not always easy to identify and apply a common tax year definition when doing the year-end balance. There are several key dates in a pay cycle. Every pay period covers a range of work days; there's also the pay date; and a remittance date. To balance payroll, you need to use the pay date to define the tax year.

Example

Things are especially apt to go wrong when dealing with year-end pay cycles that start in December and run into January and the 2016 tax year. To illustrate, let's use the example of two different payroll cycles:

PAY CYCLE 1	PAY CYCLE 2
Pay Period: Dec. 1 to 14, 2015 **Pay Date: Dec. 18, 2015** **Remittance Date: Jan. 11, 2016**	**Pay Period:** Dec. 15 to 28, 2015 **Pay Date:** Jan. 4, 2016 **Remittance Date:** Jan. 25, 2016

Assume that Company A, which uses the accrual method to flow data from the payroll register to the GL and CRA; and Company B uses the cash method:

- **Company A** would recognize the expenses and liabilities incurred during Cycle 1 and 2 in the 2015 tax year since that’s when they were accrued;
- **Company B** would recognize the expenses and liabilities of Cycle 1 in 2015 and from Cycle 2 in 2016 based on the pay dates.