Wage Payments

written by vickyp | September 16, 2014

Content:

QUESTION

I found your story about recovering over-payments due to missed source deductions very useful. But can you explain how to remit and report those missed deductions once you recover them?

– Name withheld

ANSWER

Yes, we can.

EXPLANATION

For those of you who missed it, the original story talks about the implications of accidentally failing to make source deductions—specifically, how employers can get back the extra pay by withholding the missed deductions from subsequent payments to the employee.

The basic rules: You can't make subsequent deductions to recover missed withholding's for income tax. But you can do so to recover missed withholding's for CPP, EI, and provincially required deductions like QPP and QPIP in Québec and EHT in Ontario under 2 conditions:

1. You make the deduction within 12 months of your original failure to withhold; and
2. You recover missed deductions one paycheck at a time rather than all at once.

Example: UO Canada Ltd. fails to withhold $25 in EI premiums from an employee's paycheck over the course of 4 semi-monthly payments during 2014: Jan. 14, Jan. 31, Feb. 15 and Feb. 28. The mistake is discovered only on Jan. 18, *2015*, during preparation of the 2014 T4s.

At this point, the 12-month deadline has passed on the first missed source deduction which affected the Jan. 14, 2014 payment. But UO still has time to collect the $75 for the other 3 source deductions it missed in 2014.

Since missed deductions must be recovered one at a time, UO can get back the first $25 missed (from the Jan. 31, 2014 payment) on Jan. 31, 2015; it then has to wait until Feb. 15, 2015 to recover the $25 missed on Feb. 15, 2014; and, taking licence with the calendar for the sake of illustrating, if 2015 were a leap year (which it isn’t), the third $25 source deduction originally missed on Feb. 28, 2014, would have to be recovered on Feb. 28, 2015. But since that’s more than 12 months since the original failure to withhold, UO couldn’t get that money back.

<u>The Bottom Line</u>: Of the total $100 in EI deductions that UO Canada failed to withhold, the company can recover only $50 in subsequent deductions.

The Payroll Implications

Let’s stick with the example to pick up the analysis with the payroll implications. Even though it can recover only 50% of the withholding it missed, UO Canada is still on the hook to remit 100% of the money it should have deducted from the employee’s pay, plus the appropriate employer contributions. So how would the company remit and report these funds?

Preparing or Amending the T4

Here’s how the T4 should be completed or amended if it was already issued before the error was discovered, ***but*** before any Pensionable and Insurable Earnings Review (PIER) for the employee is received:

l**Box 14, Employment Income:** Insurable earning amounts for the full $100 not initially deducted must be added to the total reported on Box 14, if they’re not already included;

l **Box 18, Employee’s EI Premiums:** Similarly, UO would add the full amount of $100 not initially deducted to any other employee deductions taken for 2014;

l **Box 24, EI Insurable Earnings:** Just like with Box 14, UO would add the insurable earnings related to the full $100 of deductions not initially taken, to any insurable earnings otherwise reportable;

l**Box 55, Employee’s PPIP Premiums:** If Box 10 is QC, the comments with regard to Box 18 above would also apply to Box 55; and

l**Box 56, PPIP Insurable Earnings:** Similarly, if Box 10 is QC, the comments for Box 24 above would apply to Box 56.

Preparing the T4 Summary

If the T4 return hadn’t yet been filed, UO could use the filing of the T4 Summary as the process for remitting what’s required. Here’s how it would complete the T4 Summary to make the remittance:

l**Box 18, Employee’s EI Premiums:** The $100 not initially deducted should be included in this total;

l**Box 19, Employer’s EI Premiums:** UO would add to the amounts otherwise re-portable, an adjustment for the employer’s portion of the full $100 not initially deducted;

lBox 80, Total Deductions Reported: This box would then include adjustments for both the employee and employer portions of EI for the full $100; and

lBox 82, Remittances: UO would report only the amounts previously included with normal remittances for the 2014 tax year.

The Amount Enclosed box on the T4 Summary could then be used to remit both the employee and employer portions related to the full $100 not initially deducted. The reason for this remittance should then be documented as part of your working papers for the T4 return.

However, if the T4 return has already been filed, you'd make a separate remittance for these amounts. Include a short letter explaining what happened and do not include these amounts with your regular remittances for 2014.

If you have already received a PIER covering this employee, follow the instructions on the report for correcting the employee's insurable earnings and EI premiums owing. In essence, you must adjust the employee's PIER listing for the insurable earnings, employee and employer premiums related to the $100 not initially deducted. It would also be wise to submit a letter to the CRA explaining the reasons for the initial failure, together with a remittance for the additional employee and employer EI premiums related to the full $100.

_**Final Point:** Unfortunately, whether you correct these amounts on a T4, before a PIER is issued, or on the PIER itself, you may not be able to escape penalties and interest on the $100 not initially deducted. Thus, whether or not source deductions can be subsequently recovered for EI, CPP, QPP and QPIP, you may still be subject to penalties and interest on the full amount of the initial failure to deduct.