Year-End Payroll Process: The 5 Steps to Avoiding PIER Assessments

As you prepare your year-end payroll filings, remember that the CRA will evaluate your T4 slips using a process known as the Pensionable and Insurable Earnings Review (PIER). If the PIER detects any shortcomings in CPP or EI contributions, the CRA may issue an assessment. If you're a payroll manager, this is a scenario you want to avoid with all your heart. This article lays out the five things you need to do to achieve that objective.

What's At Stake

Although an assessment from the CRA is never a good thing, PIER assessments are particularly troubling because they apply to both the employee and employer portions of any CPP or EI deficiencies. Assessments for the employer portion of erroneous CPP/EI calculations are par for the course. But employers normally don't expect to have to pay the employee portion as well since this portion is usually deducted at source. With PIER assessments, this is a distinct possibility.

Adding insult to injury, because of the restrictions on recovering overpayments resulting from failure to withhold, employers may be unable to recover the employee portion of the PIER assessment from employees.

The 5 Phases of Prevention

The best way to avoid receiving CRA PIER assessments is to make sure your T4s and RL-1 returns show the right CPP and QPP values, in the right boxes. Ensuring accuracy is a 5-phase process:

Phase 1: Make Sure You List CPP & QPP Information in the Right T4 & RL-1 Boxes

If an employee is CPP- or QPP- exempt for the entire period:

- Leave T4 boxes 16, 17 and 26 blank;
- Put "X" in the CPP/QPP portion of box 28;
- Leave box B of the RL-1 blank; and
- Enter zero in box G.

If CPP or QPP pensionable earnings are equal to or greater than YMPE (year's maximum pensionable earnings), which for 2016 is $54,900:

- Enter CPP/QPP deductions in box 16 or 17 of the T4;
- Leave box 26 and the CPP/QPP portion of box 28 blank;
- Enter QPP deductions on RL-1 box B;
- Enter CPP deductions in the center of the slip with the note "CPP Contribution";
- Leave box G blank.

If you have to submit multiple slips for the same employee, e.g., where an employee worked under more than one CPP contribution rate during the tax year, follow these supplemental directions. If either: i. T4 box 14 earnings don't equal CPP/QPP pensionable earnings, or ii. the sum of RL-1 boxes A, Q and U don't equal QPP pensionable earnings:

- Enter CPP/QPP deductions in box 16 or 17 of the T4;
- Enter CPP/QPP pensionable earnings in box 26;
- Leave the CPP/QPP portion of box 28 blank;
- Enter QPP deductions in RL-1 box B;
- Enter CPP deductions in the center of the slip with the note "CPP Contribution";
- Enter QPP pensionable earnings in box G.

In all other cases:

- Enter CPP/QPP deductions in box 16 or 17 of the T4;
- Leave box 26 and the CPP/QPP portion of box 28 blank;
- Enter QPP deductions in RL-1 box B;
- Enter CPP deductions in the center of the slip with the note "CPP Contribution";
- Leave box G blank.

Phase 2: Verify Accuracy of CPP & QPP Values

Having determined the boxes to fill out, you must next ensure that the CPP/QPP numbers you actually list in those boxes are accurate by following these seven steps:

- **Step 1:** Use gross taxable income in T4 box 14 and/or the sum of RL-1 boxes A, Q and U as taxable income for year;
- **Step 2:** List any variances between taxable income and pensionable earnings, e.g., because employee received CPP or QPP benefits during the year;
- **Step 3:** Subtract from pensionable earnings any **Step 2** variances that aren't pensionable and add any variances that are pensionable. Ensure that pensionable earnings don't exceed YMPE;
- **Step 4:** Calculate the basic exemption for the number of pay periods in which pensionable earnings were paid, prorated if necessary, for any months when the employee was CPP- or QPP-exempt.
- **Step 5:** Calculate contributory earnings, i.e., pensionable earnings (from **Step 3)** – basic exemption (from **Step 4**);
- **Step 6:** Calculate required contributions, i.e., contributory earnings (from **Step 5**) X the CPP contribution rate for the year—which is fixed by law at 4.95%;
- **Step 7:** Compare year-to-date CPP contributions deducted as per your T4 to required contributions in **Step 6**.

Phase 3: Make Sure You List EI & QPIP Information in the Right T4 & RL-1 Boxes

During phases 3 and 4, you apply the same basic approach you followed with respect to CPP and QPP information in phases 1 and 2 to ensure the accurate listing of EI and QPIP information:

If an employee is EI-or QPI- exempt for the entire period:

- If the employee is EI-exempt, leaveT4 boxes 18 and 24 blank;
- Put “X” in: i. EI portion of box 28 if the employee is EI-exempt; and/or, ii. QPIP portion if the employee is QPIP-exempt;
- Leave box C of the RL-1 blank if the employee is EI-exempt;
- Leave box H blank if the employee is QPI- exempt;
- Enter zero in box I if the employee is QPIP-exempt.

If EI or QPIP insurable earnings are equal to or greater than maximum insurable earnings for the year:

- Enter EI deductions in T4 box 18 and RL-1 box C;
- Leave T4 box 24 and the EI/QPIP portions of box 28 blank;
- Enter QPIP deductions in T4 box 55 and RL-1 box H;
- Enter QPIP insurable earnings in T4 box 56 if insurable earnings were less than maximum; otherwise, leave the box blank;
- Enter QPIP insurable earnings in RL-1 box I if insurable earnings were less than maximum; otherwise enter maximum QPIP insurable earnings.

If box 14 earnings of the T4 don’t equal EI/QPIP insurable earnings or RL-1 box A earnings don’t equal QPIP insurable earnings:

- Enter EI deductions in T4 box 18 and RL-1 box C;
- Enter EI insurable earnings in T4 box 24;
- Enter QPIP deductions in box 55 of the T4 and box H of the RL-1;
- Enter QPIP insurable earnings in T4 box 56 and RL-1 box I;
- Leave EI and QPIP portions of T4 box 28 blank.

In all other cases:

- Enter EI deductions in box 18 of the T4 and box C of the RL-1;
- Leave T4 boxes 24 and 56 blank;
- Enter QPIP deductions in T4 box 55 and RL-1 box H;
- Enter QPIP insurable earnings in RL-1 box I;
- Leave EI and QPIP portions of T4 box 28 blank.

Phase 4: Verify Accuracy of EI & QPIP Values

Next, verify that the EI and QPIP numbers you actually list are accurate by following these six steps:

- **Step 1:** Use gross taxable income in T4 box 14 and/or RL-1 box A as taxable income for the tax year (or other period covered by the slip);
- **Step 2:** List any variances between taxable income (in **Step** 1) and EI or QPIP insurable earnings e.g., because the employment is EI- or QPIP-exempt;
- **Step 3:** To calculate insurable earnings, subtract any **Step 2** variances that aren’t insurable and add any **Step 2** variances that are insurable but not taxable. Ensure that insurable earnings don’t exceed the 2016 insurable

earnings maximum for 2016 ($50,800 for EI, $71,500 for QPIP);
- **Step 4:** Determine the appropriate employee premium rate, which for the 2016 tax year are as follows:
  - For EI where Québec is not the province of employment: 1.88% (for both 2009 and 2010);
  - For EI where Québec is the province of employment: 1.52%;
  - For QPIP: 0.548%;
- **Step 5:** Multiply insurable earnings (from **Step 3)** X employee premium rate (from **Step 4**);
- **Step 6:** Compare the result from **Step 5** to applicable EI or QPIP premium values in your trial T4 or RL-1.

Phase 5: Correct Any Over- or Under-Deductions

The final phase of the process is to correct any deduction errors you identify during phases 1 to 4. How you do that depends on when you discover the error and whether the error is an over- or under-deduction. Let's go through all the possibilities:

<u>If You Discover the Error BEFORE Filing the Slip:</u>

If the error Is an under-deduction:

- Adjust the T4 and/or RL-1 to ensure that it shows the correct EI, CPP, QPP or QPIP source deduction before filing;
- Pay any amount owing by the time you file (even if you can't recover the money from the employees themselves);
- If paying by cheque, include an accompanying letter listing the tax year and CRA BN or MRQ number.

If the error Is an over-deduction:

- Adjust the T4 to show correct deduction unless you can't refund the over-deduction to the employee;
- With regard to QPP and QPIP, report actual deductions taken and apply for refund—**do not** report lower contributions on RL-1.

<u>If You Discover the Error AFTER Filing the Slip but BEFORE the PIER Assessment</u>

For both over- and under-deductions:

- Issue an amended T4 or RL-1 listing the deduction you should have taken;
- If you file by paper, include an accompanying letter explaining the reasons for the amendment;
- File an amended RLZ-1 Summary to the MRQ if the deduction involves QPP or QPIP;
- Remit both employee and employer portions of under-deductions to the CRA and MRQ;
- If you've over-deducted, apply to the CRA for a refund using Form PD24 and/or apply to the MRQ for a refund by sending a letter of explanation.

<u>If You Discover the Error AFTER the PIER Assessment</u>

- Follow the instructions on the PIER assessment for remitting payment;
- If you think the assessment is inaccurate, follow the instructions in the

PIER assessment for disputing the discrepancy.