Question: We have employees retiring this year, and we will be paying out any unused, accumulated sick pay credits. How do we treat these monies?

Answer: A payment made on termination that represents accumulated sick pay credits qualifies as a retiring allowance and is subject to specific rules for tax treatment and year-end reporting. A retiring allowance is not subject to CPP/QPP contributions, EI or QPIP deductions. Retiring allowances are taxable using the lump sum tax rates, provided that the employee is not transferring any amount directly to a registered pension fund or RRSP.

In addition, a certain amount of the retiring allowance may be transferred tax free into a registered pension fund or RRSP in which the individual is the annuitant. This calculated amount is in addition to an individual's personal RRSP deduction limit. The formula for calculating the amount eligible for transfer is set out in s. 60(j.1) of the federal Income Tax Act and is as follows:

- $2,000 for each calendar year (or portion) before 1996 during which the employee was employed, and
- $1,500 for each calendar year (or portion) before 1989 that the employee did not belong to a company pension plan, pension fund or deferred profit-sharing plan, or belonged to a plan, but the employer's portion was not vested in the employee when the employer paid the retiring allowance. The $1,500 amount can be prorated according to the percentage of vesting.

Employees may transfer the non-eligible portion of a retiring allowance to an RRSP if they verify that they will not exceed their personal RRSP deduction limit. The onus is on individuals to ensure they will not exceed this limit. A letter of authority from the CRA is not required. This does not change non-eligible amounts to eligible amounts.

Note: The non-eligible amounts may also be transferred to a spousal or common-law partner's RRSP, provided that the employee has a sufficient available RRSP deduction limit.

At the end of the year, the eligible amount of the retiring allowance is reported on the T4 in the "Other Information" area using code 66 and the non-eligible amount is reported using code 67. Do not include the retiring allowance in box (14) on the T4.

For Quebec, the entire amount of the retiring allowance is reported in box O of the RL-1. Enter code RJ in the code box (case O).

Question: We have agreed to pay a terminating employee a lump-sum payment equivalent to 18 months of salary, or about $180,000. All benefits will be maintained for an 18-month period, including membership in the company's registered pension plan. For the purposes of statutory deductions, how should we treat this payment and where would it be reported at year end? Also, does this payment qualify as a retiring allowance?

Answer: This money does not qualify as a retiring allowance since the individual's continued participation in the company's registered pension plan is indicative of an ongoing employer-employee relationship. For source deduction and reporting purposes, the payment is considered a salary continuance.

If the lump-sum payment is being paid with the regular pay, regular deductions for CPP/QPP would apply. If paid separately, the fixed contribution percentage rate is applied for CPP/QPP (the 2015 CPP rate is 4.95% and the QPP rate is 5.25%), provided that the employee has not reached the maximum CPP/QPP contribution for the year ($2,479.95 for CPP and $2,630.25 for QPP for 2015).

To calculate the EI premium, multiply the payment by the applicable current fixed percentage rate (for 2015, 1.88% for employees outside of Quebec and 1.54% for employees in Quebec), provided that the employee has not reached the annual maximum for insurable earnings ($49,500 for 2015). If the employee is in Quebec, you must also deduct the QPIP premium. Multiply the payment by the current fixed percentage rate (0.559% for 2015), provided that the employee has not reached the annual maximum for insurable earnings ($70,000 for 2015).

To calculate the income tax deduction, use the manual tax calculation.

At year end, report this payment in box 14 of the employee's T4. For Quebec, also report the payment in box A of the employee's RL-1.

Question: Can an employee request to have his or her vacation pay and/or banked overtime transferred to a Registered Retirement Savings Plan (RRSP)? If so, do we deduct income tax?

Answer: Yes, an employee can request to have banked overtime and/or vacation pay transferred to an RRSP or registered pension plan with no tax withholding.

An employer, upon request from an employee, is permitted to transfer any type of remuneration tax free to the employee's RRSP, provided that the amount being transferred will not exceed the employee's RRSP deduction limit. It must be the employer who makes the contribution. In other words, the employer cannot pay the money to the employee and then have the employee make the transfer.

The onus is on the individual to ensure that the amount transferred does not exceed his or her RRSP deduction limit. An employer must have "reasonable grounds" to believe that the employee can deduct the contribution for the year. The CRA considers that the employer has "reasonable grounds" to believe the employee can deduct the contribution if the employer has written confirmation from the employee that the contribution can be deducted for the year, or a copy of the employee's RRSP deduction limit statement, which the CRA sent to the individual along with the individual's Notice of Assessment. The employer does not need a letter of authority from the CRA to make the transfer.

Although the amount to be transferred is not subject to income tax deductions, the employer must still deduct CPP/QPP contributions and EI and QPIP premiums, provided that the employee has not reached the annual maximum contribution limits.