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CANADA

A FREE GUIDE FOR CANADIAN EMPLOYERS

The Canadian Payroll Handbook

Hiring your first employee is a proud day — and the day you take on a set of duties with hard dates attached. This little book walks you through each one.

Your first hire turns you into a tax collector. Part of every paycheque was never your money: you hold it for the CRA and pass it along. The cheapest penalties in payroll are for filing forms late. The expensive ones are for holding on to that money too long.

The five duties that arrive with hire number one — do you know your dates?	
1	**Open a payroll account.** Before the first payday, not after. It is a free registration tied to your business number, and it tells the CRA to expect money from you. Miss this step and every later step lands late.
2	**Collect a TD1 from each hire.** Two short forms — federal and provincial — tell your payroll software how much tax to hold back from each cheque. No forms means default settings, and a surprised employee at tax time.
3	**Deduct from every cheque.** Income tax, CPP and EI come off the top, and you add an employer share of your own. The withheld part is trust money from the second you hold it.
4	**Remit by the middle of next month.** New employers usually send each month's deductions by the 15th of the month after payday. Your CRA letter confirms your own schedule — and it can speed up as you grow.
5	**File T4 slips by the end of February.** One slip per employee and a summary for the CRA, every single year — even with one employee, even if nothing changed.

Payroll rates and thresholds move every January, so this book teaches the machinery and skips the numbers on purpose. Check current figures at canada.ca, or let the free take-home pay and employee cost calculators at taxfilings.ca/tools do the math for you.

01 Before anyone gets paid

Register the payroll account

Add a payroll account to your business number online or by phone — it takes minutes and costs nothing. Do it when the offer is accepted, because your first remittance deadline is set by your first payday, not by when you got around to registering.

Get the TD1 forms signed

Every new employee completes two short TD1 forms, federal and provincial. They list personal credit amounts, and your software reads them to set how much tax comes off each cheque. Keep them on file, and ask for fresh ones when someone's life changes.

PRICE THE HIRE BEFORE THE OFFER

An employee costs more than the wage in the contract, because your employer share rides on top. Before you shake hands on a number, run it through the employee cost calculator at taxfilings.ca/tools and make sure the whole cost fits the budget.

02 The anatomy of a paycheque

What you hold back

Three deductions come off every cheque: income tax, the employee's CPP contribution and the employee's EI premium. Software does the arithmetic. From the moment you hold this money it belongs to the CRA — you are the courier, not the owner.

What you add on top

You match the employee's CPP dollar for dollar, and you pay an employer EI premium of 1.4 times the employee's share (confirm the current multiplier at canada.ca). This share never appears on the employee's stub, but it is a real cost of every job you create.

THE FIRST-YEAR TRAP

Withheld money sits in your bank account looking spendable. It is not — it is a bill already issued. Move it to a separate account the day payroll runs, and remittance day becomes a transfer instead of a scramble.

03 Your remittance calendar

Remitting is sending the CRA everything you deducted plus your employer share. New employers usually start as regular remitters: each month's deductions are due by the 15th of the following month. As payroll grows, the CRA can move you to a faster schedule — it tells you by letter, and the new dates are not optional.

> ONE DATE, SET ONCE, KEPT FOREVER
>
> Put the 15th of every month in your calendar today, with a warning a few days ahead. Re-check your schedule whenever payroll jumps — the payroll remittance checker at taxfilings.ca/tools shows how the schedules tighten as you grow.

> WHAT PUNCTUALITY PAYS
>
> Remit on time, every time, and you never pay a payroll penalty — the cheapest dollar in this whole book. A spotless record can also earn a small employer a quarterly schedule: four remittances a year instead of twelve, for nothing but reliability.

04 Taxable benefits, in plain words

The rule of thumb: when the business pays for something personal, the value usually belongs on the paycheque as income. Cash and near-cash perks are almost always taxable; tools genuinely needed for the job usually are not. Check any perk at canada.ca before you promise it — that is far easier than unwinding it later.

- [ ] Company vehicle: personal driving is a benefit — a mileage log is what separates business use from personal
- [ ] Gift cards: near-cash, so almost always taxable no matter how small the card
- [ ] Employer-paid parking: often a benefit at a regular workplace — look up the current exceptions
- [ ] Cheap or free loans: the interest you did not charge is the benefit
- [ ] Some premiums: employer-paid life insurance is the classic taxable example

05 Employee or contractor? Facts beat labels

MYTH	FACT
"We both signed a contractor agreement, so that settles it."	The CRA weighs the working relationship: who controls the work, who owns the tools, who carries the chance of profit or loss, and whether the worker can send a substitute. Paper does not outrank facts.
"Part-timers and family members do not need to be on payroll."	Hours and last names change nothing. If the relationship works like employment, it is payroll from the first cheque.

Genuinely unsure about a worker? You can ask the CRA for a ruling on their status before the arrangement hardens. Ask early — before a whole team is built on the wrong footing.

06 T4 season: the February routine

Each February you turn the year's payroll into T4 slips — one per person you paid — plus a T4 Summary for the CRA, due by the last day of February. The job is quick when the year's records already balance, and miserable when they do not.

- [ ] Reconcile first: remittances sent must equal deductions held plus your employer share
- [ ] Everyone gets a slip: including anyone who quit or was let go mid-year
- [ ] Summary equals slips: the totals have to agree before anything is filed
- [ ] Shortfalls fixed now: a gap you find in February costs less than one the CRA finds in May
- [ ] Fresh TD1s: January is the natural moment to collect updated forms

07 The payroll self-check

Count only the answers that are true right now.

1. My payroll account was open before my first payday.	YES / NO
2. A signed federal and provincial TD1 sits on file for every employee.	YES / NO
3. I know my remitter schedule, and its dates live in my calendar.	YES / NO
4. Withheld money is kept apart from operating cash, or remitted quickly.	YES / NO
5. I could defend every contractor I pay as genuinely not an employee.	YES / NO
6. Every perk with personal value is on the paycheque, or has been checked.	YES / NO
7. Last year's T4 totals matched my remittances to the dollar.	YES / NO

6–7 · Green
Your payroll would sail through a CRA look. Keep the calendar alive.

3–5 · Yellow
Close the remittance and TD1 gaps first — that is where penalties start.

0–2 · Red
Pause before the next payday and set up the basics. One afternoon now beats years of untangling.

08 Your first-month plan

Week 1
Register the payroll account and collect signed TD1 forms from everyone you pay.

Week 2
Pick payroll software, enter the TD1 details, and set a repeating reminder for your remittance date.

Week 3
Run a test paycheque and compare the result with the take-home pay calculator at taxfilings.ca/tools.

Week 4
Open a separate account for withheld money, and file your CRA remitter letter where you can find it.

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Editorial policy. Every guide is researched against primary sources — the Income Tax Act, CRA publications and CPA Canada materials — fact-checked by Udit Gupta, and updated when the rules change.

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