Understanding payroll deductions

What are payroll deductions?

In Canada, your employer makes certain deductions from your salary before giving it to you. Some of these payroll deductions, such as income taxes, go towards funding public systems, while others may be used to provide you with financial assistance at certain stages of life, such as during periods of unemployment, parental leave, or retirement. Your pay stub or salary slip should include details of the payroll deductions that have been made by your employer.

What is a pay stub or salary slip?

A pay stub, also known as a salary slip, is a record of your employment earnings. In Canada, permanent employees receive a pay stub for each payment period, whether you get paid, bi-weekly, or monthly.

For every payroll payment you receive, the accompanying pay stub will show you how that amount was calculated, including payroll deductions made by your employer. *Your pay stub from Ontario Tech University will be in digital format that you can access through My Ontario Tech.*

Tip:
Every year before your taxes come due, the payroll department will provide you with a T4 Statement of Remuneration Paid, which summarizes the details of all the pay stubs you received during the prior year.

What does your pay stub include?

- Your name.
- Employee identification number.
- Pay date, or the date on which you receive your salary or wages for the period.
- Pay period, which is the period for which you're being paid (usually two weeks, or a month).
- Gross earnings, or your income for that pay period before taxes and deductions.
- Deductions for the pay period, such as income tax deducted at source, etc.
- Net pay for the pay period, which will be your take-home salary after tax and deductions.
- Year-to-date gross pay and deductions.

Types of payroll deductions in Canada

Payroll deductions can come as a surprise to some newcomers, especially those who come from countries where there's no income tax or where taxes are not automatically deducted from your salary upfront.

Knowing about payroll deductions and anticipating how much you'll receive when you start a new job in Canada can help you be better prepared financially. The most common payroll deductions in Canada include Canada Pension Plan (CPP) Employment Insurance (EI) premiums, and income tax deductions. In some cases, your pay stub may also include payroll deductions like group pension plan or group retirement plan contributions, union dues, or premiums for add-on benefits.

Canada Pension Plan (CPP)

What is the Canada Pension Plan (CPP)?

The Canada Pension Plan is a government-run plan that provides a taxable pension to replace part of your income after you retire. It is funded through contributions made by eligible employees, employers, and self-employed individuals.

Who needs to make CPP contributions?

Employers are required by law to deduct CPP contributions (QPP if you're in Quebec) from your salary if you meet the following conditions:

- You are in pensionable employment for all or part of the year.
- You are between 18 and 69 years old, even if you've already started receiving CPP You can, however, elect to stop contributing when you reach 65 years of age.
- You are not considered disabled as defined by the CPP.
- Your employer must match your contribution and remit the total amount to the government.

How employers calculate your CPP contribution

Each year, the government sets a maximum annual pensionable earnings limit and contribution rate for both employees and employers. The 2024 yearly maximum pensionable earnings (YMPE) is $68,500. • A second YAMPE tier has been introduced for amounts earned between $68,500 and $73,200.

How it breaks down: • The premium on the first $3,500 of income is $0. • On the amount earned between $3,500 and the first YAPME tier of $68,500, the CPP premium is 5.95 per cent, which equals $3,867.50. Annual Pensionable earnings greater than $68,500 will be subject to a four per cent CPP contribution (on the additional amount) until they reach the second YAMPE tier of $73,200. The additional deduction will not kick in until a person has earned $68,501. There will be a separate CPP code on pay statements for this new additional four per cent deduction.

Employment Insurance (EI)

What is Employment Insurance?

EI insures all or part of your employment earnings and provides temporary financial assistance to eligible individuals who've lost their jobs or are unable to work, provided they meet certain pre-defined criteria.

Who needs to make EI contributions?

Your employer will deduct EI premiums from your pay if your employment is insurable. There is no age limit for EI contributions. Your employer is required to pay 1.4 times your contribution and remit the total amount to the government. Self-employed individuals can also register for the EI program to qualify for special EI benefits.

What does EI cover?

Regular EI benefits can provide temporary financial assistance if:

- You lose your job through no fault of your own, such as due to layoffs or seasonality in worker demand.
- You can demonstrate you are able and willing to work.
- You're actively looking for a job, but are unable to find work.
- You've been without work and pay for at least seven consecutive days during the year.
- You've accrued the required number of insurable employment hours in the last year

How EI deductions are calculated

The government sets EI premium rates and limits for maximum insurable earnings each year. The maximum insurable earnings threshold for employment insurance is $63,200. The employee premium rate on this amount is 1.66 per cent and the maximum premium deduction for 2024 is $1,049.12.

CPP and EI maximum contributions apply to each job an employee holds with different employers. If you leave one employer during the year to start work with another employer, the new employer also must deduct CPP contributions without considering what you paid during your previous employment (even if you contributed the maximum amount in your last job). Canada Revenue Agency (CRA) will credit or refund any CPP and EI overpayments to employees when they fil their income tax return.

Income Tax

Another payroll deduction you'll find on your pay stub is income tax. In Canada, your employer is responsible for deducting income tax at source (directly from your salary) and remitting it to the government.

Why do I need to pay income tax in Canada?

Individuals and businesses are legally required to pay taxes to fund the ongoing operation and improvement of publicly funded services. The income taxes as well as indirect taxes (such as Goods and Services Tax or Harmonized Sales Tax) you pay fund most publicly run systems in Canada, including the healthcare system, school system, roads and highways, as well as newcomer settlement services.

How much income tax will be deducted from my salary?

The income tax deducted from your salary will depend on your income. The federal and provincial governments have separate tax rates for each year, and your total income tax liability will depend on the province you live in and your annual earnings.

If your annual earnings are less than the total amount on your Personal Tax Credits Return, or TD1 form, you can ask your employer to lower your deductions or get a tax refund when you file your income tax return (ITR).

Other deductions

In addition to the above payroll deductions, your employer may deduct other amounts from your salary. These deductions should appear in your paystub and your employer should be able to explain them to you. Additional deductions may include Long Term Disability Insurance Premiums, Pension Plan contributions, or Optional Life Insurance Premiums.

Union membership dues

If you're in an occupation that is unionized and are required to pay union dues out of your wages, your employer may deduct these dues from your pay and remit them on your behalf.

More Information

You can get more detailed information on CRA website.