



Canada Revenue
Agency

Agence du revenu
du Canada

Payroll Deductions Formulas for Computer Programs

92nd Edition

Effective July 1, 2010

Do not discard the January 1, 2010, publication.

Distribution of this publication

The printing of this guide has been discontinued. This decision reflected minimal requests in recent years for a printed guide in favour of the electronic version. It also has resulted in cost savings and benefits to the environment. The T4127 will still be available on our website at which time you may print the document or download it to your personal computer.

Payroll deductions information is available on the Canada Revenue Agency (CRA) Web site at www.cra.gc.ca/payroll.

Electronic mailing lists – More ways to serve you!

If your business has access to the Internet, the CRA can now notify you immediately of any changes. To get quick and easy access to the CRA's latest information and new publications including changes to payroll deductions, you can subscribe free of charge to any of the electronic mailing lists. The CRA will add more electronic mailing lists to its Web site in the future.

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More information on this convenient, free electronic subscription service is available at: www.cra.gc.ca/lists.

Tables on Diskette (TOD) will be discontinued

The final Tables on Diskette edition will be issued for July 1, 2010.

This decision reflected minimal requests received in recent years for a stand-alone computer program version in favour of the Payroll Deductions Online Calculator (PDOC). It also has resulted in cost savings and benefits to the environment. The Payroll Deductions Online Calculator is available on our website at www.cra.gc.ca/pdoc.

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La version française de cette publication est intitulée *Formules pour le calcul informatisé des retenues sur la paie* – 92^e édition.

What does this publication contain?

This publication contains the formulas you need to determine federal, provincial (except Quebec), and territorial income taxes, Canada Pension Plan (CPP) contributions, and Employment Insurance (EI) premium deductions. The formulas also allow you to calculate payroll deductions for special cases such as commission, pension income, bonuses, and retroactive pay increases.

The formulas used in this publication to calculate statutory deductions have been approved for purposes of the *Income Tax Act*, Canada Pension Plan, and *Employment Insurance Act* as well as their related Regulations and any amendments proposed to these Acts. The formulas are valid unless any adjustments are required because of changes to income tax rates, personal tax credits, Canada Pension Plan pensionable earnings, contributions, or rate, or to Employment Insurance insurable earnings, premiums, or rate.

For more information on income amounts that are subject to payroll deductions, see the *Employers' Guide – Payroll Deductions and Remittances* (T4001).

If you have any questions about the formulas contained in this publication, contact your tax services office or tax centre. For the addresses and telephone numbers of your tax services office or tax centre, see the listings in the government section of your telephone book.

Employers who have an establishment in the province of Quebec

When we refer to the annual provincial or territorial tax deduction, factor “T2,” in this publication, **this item does not apply to the province of Quebec**. Quebec administers its own provincial income tax and Quebec Pension Plan contributions. If you have any questions about the formulas for Quebec, contact the Ministère du Revenu du Québec, at the following address:

Ministère du Revenu du Québec
3800 Marly Street
Ste-Foy QC G1X 4A5

Telephone: 1-800-567-4692

Outside Canada: 1-418-659-4692

What's new for July 1, 2010?

The information contained in this 92nd edition publication is effective July 1, 2010. For formulas and factors not included in this edition, see publication T4127, *Payroll Deductions Formulas for Computer Programs* – 91st edition, effective January 1, 2010. Significant changes to the formulas and text in this publication appear with a shaded background.

Tax measures for July 2010

This publication reflects some income tax changes recently announced which, if enacted by the applicable legislature as proposed, would be effective July 1, 2010. At the time of publishing, these proposed changes had not been legislated. We recommend that you use the new payroll deductions tables and formulas in this publication for withholding, commencing with your first payroll in July 2010.

Federal changes included in this edition

There are no changes to the federal tax rates, income thresholds, or personal amounts required for July 1, 2010.

However, some provincial and territorial changes have been announced for July 1, 2010. As a result, we have **not** revised the entire publication, but we have provided this updated edition, which contains the provincial and territorial changes for Newfoundland and Labrador and Nova Scotia. At press time, some of these proposals had not yet become law. However, the changes

would be retroactive. We recommend that you follow the new formulas in this edition for withholding, starting with your first payroll in July 2010.

For formulas and factors not included in this edition, see publication T4127, *Payroll Deductions Formulas for Computer Programs* – 91st Edition, effective January 1, 2010.

Canada Pension Plan (CPP) and Employment Insurance (EI)

There are no changes to CPP or EI for July 1, 2010.

For complete details, see publication T4127, *Payroll Deductions Formulas for Computer Programs* – 91st Edition, effective January 1, 2010.

Provincial and territorial tax changes effective July 1, 2010

1. Newfoundland and Labrador

The Newfoundland and Labrador budget tabled on March 29, 2010, contains proposed changes to the provincial income tax rates. Effective July 1, 2010, the province of Newfoundland and Labrador reduced the second and third personal income tax brackets from 12.8% to 12.5% and 15.5% to 13.3% respectively. Effective July 1, 2010, the rates and tax brackets are as follows:

- 7.7% on income less than or equal to \$31,278;
- 12.5% (formerly 12.8%) on income greater than \$31,278, but less than or equal to \$62,556;
- 13.3% (formerly 15.5%) on income greater than \$62,556.

The Minister also proposed increasing the provincial Age amount non-refundable personal tax credit to \$5,000 (formerly \$3,681). To obtain the additional credit, the employee or pensioner needs to file a revised Personal Tax Credits Return TD1NL, effective July 1, 2010.

2. Nova Scotia

The Nova Scotia Budget, tabled on April 6, 2010, announced that effective January 1, 2010, the province will add a fifth personal income tax bracket. Taxable income in the range of \$93,000 to \$150,000 will be taxed at a rate of 17.5%. Taxable income in excess of \$150,000 will be taxed at a rate of 21%. Since employees in this new income tax bracket have been taxed at 17.5% for the first six months of this year, a tax rate of 24.5% will be applied for the remaining six months commencing with the first payroll in July. Effective July 1, 2010, the rates and tax brackets for Option 1 are as follows:

- 8.79% on income less than or equal to \$29,590;
- 14.95% on income greater than \$29,590, but less than or equal to \$59,180;
- 16.67% on income greater than \$59,180, but less than or equal to \$93,000;
- 17.5% on income greater than \$93,000 but less than or equal to \$150,000;
- 24.5% (formerly 17.5%) on income greater than \$150,000.

The Minister also proposed that, effective January 1, 2010, the surtax equal to 10% of individual provincial tax payable in excess of \$10,000 will be suspended indefinitely.

As a result of the above change, the formula for calculating Nova Scotia's V1 is changed to:

V1 = \$0 (formerly 10% of the basic provincial tax payable in excess of \$10,000).

Personal tax credits return (TD1 forms)

Federal Form TD1, 2010 Personal Tax Credits Return

No changes from the 91st Edition, effective January 1, 2010.

Provincial or territorial Form TD1, 2010 Personal Tax Credits Return

Newfoundland and Labrador is increasing the provincial Age amount non-refundable personal tax credit to \$5,000 (formerly \$3,681). To obtain the additional credit, the employee or pensioner needs to file a revised Personal Tax Credits Return TD1NL, effective July 1, 2010.

Federal, provincial, and territorial claim codes

The Federal, provincial and territorial claim codes are not changed. Therefore we are not reproducing the charts in this edition.

Glossary

Factor	Meaning (refer to the formulas for complete details)
A	Annual taxable income
C	Canada (or Quebec) Pension Plan contributions for the pay period
EI	Employment Insurance premiums for the pay period
K	Federal constant
KP	Provincial or territorial constant
K1	Federal non-refundable personal tax credit
K1P	Provincial or territorial non-refundable personal tax credit
K2	Federal Canada (or Quebec) Pension Plan contributions and Employment Insurance premium tax credits for the year
K2P	Provincial or territorial Canada (or Quebec) Pension Plan contribution and Employment Insurance premiums tax credits for the year
K3	Other federal tax credits, such as medical expenses and charitable donations authorized by a tax services office or tax centre
K3P	Other provincial or territorial tax credits, such as medical expenses and charitable donations authorized by a tax services office or tax centre
K4	Canada Employment Credit
K4P	Provincial or territorial Canada Employment Credit (applies to Yukon only)
LCF	Federal labour-sponsored funds tax credit
LCP	Provincial or territorial labour-sponsored funds tax credit
P	The number of pay periods in the year
R	Federal tax rate applicable to the annual taxable income A
T	Estimated federal and provincial or territorial tax deductions for the pay period
T1	Annual federal tax deduction
T2	Annual provincial or territorial tax deduction
T3	Annual basic federal tax
T4	Annual basic provincial or territorial tax
TC	"Total claim amount" reported on federal Form TD1
TCP	"Total claim amount" reported on the provincial or territorial TD1 form
V	Provincial or territorial tax rate for the year
V1	Surtax calculated on the basic provincial or territorial tax
V2	Additional tax calculated on taxable income (applies to Ontario Health Premium only)
YTD	Year-to-date

Formula to calculate annual taxable income (A)

As the formula to calculate the annual taxable income and the explanatory variables have not changed, they have not been reproduced.

Formula to calculate basic federal tax (T₃)

As the formula to calculate the basic federal tax and the explanatory variables have not changed, they have not been reproduced.

Formula to calculate annual basic provincial or territorial tax (T₂)

As Newfoundland and Labrador and Nova Scotia are the only provinces or territories to have a provincial/territorial change, we are only reproducing their calculations.

For Newfoundland and Labrador only:

$$T_2 = T_4 + V_1 - S - LCP$$

If the result is negative, T₂ = \$0.

Where:

$$T_4 = (V \times A) - KP - K_1P - K_2P - K_3P$$

Where V and KP are based on the value of A in the July 2010 Newfoundland and Labrador tax rates and income thresholds table.

July 2010 Newfoundland and Labrador tax rates and income thresholds		
Annual taxable income A More than – Not more than	Rate V	Constant KP
\$ 0 – \$ 31,278	0.077	\$ 0
31,278 – 62,556	0.125	1,501
62,556 – and over	0.133	2,002

$$K_1P = 0.077 \times TCP$$

Where:

TCP = The total of personal non-refundable tax credits amounts reported on Form TD1NL. If Form TD1NL is not filed, TCP is \$7,833.

$$K_2P = [(0.077 \times (P \times C, \text{ max. } \$2,163.15)) + (0.077 \times (P \times EI, \text{ max. } \$747.36))]^*$$

* Where an employee has already contributed the maximum CPP or EI for the year with the employer, use the maximum CPP or EI deduction to determine the credit for the remainder of the year. Where, during the pay period in which the employee reaches the maximum, the CPP or EI when annualized, is less than the annual maximum, then use the maximum annual deduction(s) in that pay period.

K₃P = Other annual provincial non-refundable tax credits, such as medical expenses or charitable donations authorized by a tax services office or tax centre. The tax office will inform the employer or payer of the amount of K₃P when it applies and how to implement the amount after the first pay period of the year.

$$V_1 = \$0$$

$$S = \$0$$

LCP = The lesser of:

(i) \$2,000; and

(ii) 20% of the amount deducted or withheld during the year for the acquisition by the employee of approved shares of the capital stock of a prescribed labour-sponsored venture capital corporation.

For Nova Scotia only:

$$T_2 = T_4 + V_1 - S - LCP$$

If the result is negative, T₂ = \$0.

Where:

$$T_4 = (V \times A) - KP - K_1P - K_2P - K_3P$$

Where V and KP are based on the value of A in the July 2010 Nova Scotia tax rates and income thresholds Option 1 table.

July 2010 Nova Scotia tax rates and income thresholds Option 1		
Annual taxable income A More than – Not more than	Rate V	Constant KP
\$ 0 – \$ 29,590	0.0879	\$ 0
29,590 – 59,180	0.1495	1,823
59,180 – 93,000	0.1667	2,841
93,000 – 150,000	0.1750	3,613
150,000 – and over	0.2450	14,113

$$K_1P = 0.0879 \times TCP$$

Where:

TCP = The total of personal non-refundable tax credits amounts reported on Form TD1NS. If Form TD1NS is not filed, TCP is \$8,231.

$$K_2P = [(0.0879 \times (P \times C, \text{max. } \$2,163.15)) + (0.0879 \times (P \times EI, \text{max. } \$747.36))]^*$$

* Where an employee has already contributed the maximum CPP or EI for the year with the employer, use the maximum CPP or EI deduction to determine the credit for the remainder of the year. Where, during the pay period in which the employee reaches the maximum, the CPP or EI when annualized, is less than the annual maximum, then use the maximum annual deduction(s) in that pay period.

K3P = Other annual provincial non-refundable tax credits, such as medical expenses or charitable donations authorized by a tax services office or tax centre. The tax office will inform the employer or payer of the amount of K3P when it applies and how to implement the amount after the first pay period of the year.

$$V_1 = \$0$$

$$S = \$0$$

LCP = The lesser of:

- (i) \$2,000; and
- (ii) 20% of the amount deducted or withheld during the year for the acquisition by the employee of approved shares of the capital stock of a prescribed labour-sponsored venture capital corporation.

Option 1 – Tax calculation examples for periodic payments

Steps to follow – for salary, wages, pensions, or other periodic payments

The following step-by-step method should provide an understandable approach to Option 1 based on the following examples.

Notes

The following examples have been standardized to reflect the same income and deduction amounts for each province and territory. We trust this measure will simplify the process of reviewing and testing calculations.

In addition, the federal calculation has been shown only once, with the portion for each province and territory shown after. This method will avoid duplication and reduce the number of pages in this publication.

Changes in this section are not shaded.

Example – Assumptions and federal calculation

This example is for a married employee who has a dependent spouse and three dependent children (under 18). The total personal non-refundable tax credits amount on Form TD1 is \$27,067 (\$10,382 + \$10,382 + \$6,303). For each province and territory we have assumed the maximum claims for these dependants, as shown on the provincial or territorial TD1 forms.

The employee's salary is \$57,200 annually, or \$1,100 on a weekly payroll (52 pay periods). Registered pension plan contributions are \$50 for the pay period, and \$20 is deducted for union dues. The employee bought, by payroll deductions, \$2,000 of approved shares of the capital stock of a prescribed labour-sponsored venture capital corporation.

Step 1

Determine A using the following formula:

$$\begin{aligned} A &= [P \times (I - F - F_2 - U_1)] - HD - F_1 \\ &= [52 \times (\$1,100 - \$50 - \$0 - \$20)] - \$0 - \$0 \\ &= [52 \times \$1,030] - \$0 - \$0 \\ &= \$53,560 - \$0 - \$0 \\ &= \$53,560 \end{aligned}$$

Determine C using the following formula:

$$\begin{aligned} C &= \text{The lesser of:} \\ &\quad (i) \$2,163.15 - D; \text{ and} \\ &\quad \quad = \$2,163.15 \\ &\quad (ii) 0.0495 \times [PI - (\$3,500 / 52)] \\ &\quad \quad = 0.0495 \times (\$1,100 - \$67.30) \\ &\quad \quad = 0.0495 \times \$1,032.70 \\ &\quad \quad = \$51.12 \end{aligned}$$

Determine EI using the following formula:

$$\begin{aligned} EI &= \text{The lesser of:} \\ &\quad (i) \$747.36 - D_1; \text{ and} \\ &\quad \quad = \$747.36 \\ &\quad (ii) 0.0173 \times IE \\ &\quad \quad = 0.0173 \times \$1,100 \\ &\quad \quad = \$19.03 \end{aligned}$$

For employees in Quebec only:

$$\begin{aligned} EI &= \text{The lesser of:} \\ &\quad (i) \$587.52 - D_1; \text{ and} \\ &\quad \quad = \$587.52 \\ &\quad (ii) 0.0136 \times IE \\ &\quad \quad = 0.0136 \times \$1,100 \\ &\quad \quad = \$14.96 \end{aligned}$$

Step 2

Determine K1, K2, K2Q, K3, and K4 using the following formula:

$$\begin{aligned} K_1 &= 0.15 \times TC \\ &= 0.15 \times \$27,067 \\ &= \$4,060.05 \\ K_2 &= [(0.15 \times (P \times C, \text{ max. } \$2,163.15)) + (0.15 \times (P \times EI, \text{ max. } \$747.36))] \\ &= [(0.15 \times (52 \times \$51.12, \text{ max. } \$2,163.15)) + (0.15 \times (52 \times \$19.03, \text{ max. } \$747.36))] \\ &= [(0.15 \times (\$2,658.24, \text{ max. } \$2,163.15)) + (0.15 \times (\$989.56, \text{ max. } \$747.36))] \\ &= (0.15 \times \$2,163.15) + (0.15 \times \$747.36) \\ &= \$324.47 + \$112.10 \\ &= \$436.57 \\ K_{2Q} &= [(0.15 \times (P \times C, \text{ max. } \$2,163.15)) + (0.15 \times (P \times EI, \text{ max. } \$587.52)) + \\ &\quad (0.15 \times (P \times IE \times 0.00506, \text{ max. } \$316.25))] \\ &= [(0.15 \times (52 \times \$51.12, \text{ max. } \$2,163.15)) + (0.15 \times (52 \times \$14.96, \text{ max. } \$587.52)) + \\ &\quad (0.15 \times (52 \times \$1,100 \times 0.00506, \text{ max. } \$316.25))] \\ &= [(0.15 \times (\$2,658.24, \text{ max. } \$2,163.15)) + (0.15 \times (\$777.92, \text{ max. } \$587.52)) + \\ &\quad (0.15 \times (\$289.43, \text{ max. } \$316.25))] \\ &= (0.15 \times \$2,163.15) + (0.15 \times \$587.52) + (0.15 \times \$289.43) \end{aligned}$$

$$= \$324.47 + \$88.13 + \$43.41$$

$$= \$456.01$$

$$K_3 = \$0$$

$$K_4 = \text{The lesser of:}$$

- (i) $0.15 \times A$; and
- (ii) $0.15 \times \$1,051$

$$= \$157.65$$

Step 3

A =	\$	53,560.00
Federal R	×	0.22
	\$	11,783.20
Less federal constant K	–	2,868.00
Federal tax	\$	8,915.20
Less federal tax credits, $K_1 + K_2 + K_3 + K_4$	–	4,654.27
Basic federal tax T ₃	\$	<u>4,260.93</u>

Step 4

Determine the federal labour-sponsored funds tax credit:

$$\text{LCF} = \text{The lesser of:}$$

- (i) \$750; and
- (ii) 15% of the purchase of approved shares.

$$0.15 \times \$2,000 \dots\dots\dots - \quad \underline{300.00}$$

$$\text{Annual federal tax deduction, except for employees in Quebec, outside Canada, and in Canada beyond the limits of any province (T}_1) \dots\dots\dots \$ \quad \underline{\underline{3,960.93}}$$

Example 1 – For Newfoundland and Labrador

See the section called “Example – Assumptions and federal calculation” on page 9 for more details.

Step 5

Determine the basic provincial tax (T₄) using the following formula:

$$(V \times A) - KP - K_1P - K_2P - K_3P$$

$$(V \times A) = 0.125 \times \$53,560 \dots\dots\dots \$ \quad 6,695.00$$

$$KP = \$1,501 \dots\dots\dots - \quad 1,501.00$$

$$K_1P = 0.077 \times TCP$$

$$= 0.077 \times \$14,233 \dots\dots\dots - \quad 1,095.94$$

$$K_2P = [(0.077 \times (P \times C, \text{ max. } \$2,163.15)) + (0.077 \times (P \times EI, \text{ max. } \$747.36))]$$

$$= [(0.077 \times \$2,163.15) + (0.077 \times \$747.36)]$$

$$= \$166.56 + \$57.55 \dots\dots\dots - \quad 224.11$$

$$K_3P = \$0 \dots\dots\dots \underline{\quad 0.00}$$

$$\text{Basic provincial tax for the year (T}_4) \dots\dots\dots \$ \quad \underline{3,873.95}$$

Determine the annual provincial tax deduction using the following formula:

$$T_2 = T_4 + V_1 - S - LCP$$

$$V_1 \text{ and } S = \$0 \dots\dots\dots \quad 0.00$$

$$\text{LCP} = \text{The lesser of:}$$

- (i) \$2,000; and
- (ii) 20% of the purchase of approved shares.

$$0.20 \times \$2,000 \dots\dots\dots - \quad \underline{400.00}$$

$$\text{Net provincial tax deduction for the year (T}_2) \dots\dots\dots \$ \quad \underline{\underline{3,473.95}}$$

Step 6

Total federal and provincial tax deductions for the year:

T1 (see federal portion of example) \$3,960.93 + T2.....	\$	<u>7,434.88</u>
T = Tax prorated for the pay period.....	\$	<u>142.98</u>

Example 2 – For Nova Scotia

See the section called “Example – Assumptions and federal calculation” on page 9 for more details.

Step 5

Determine the basic provincial tax (T4) using the following formula:

$(V \times A) - KP - K1P - K2P - K3P$		
$(V \times A) = 0.1495 \times \$53,560$	\$	8,007.22
KP = \$1,823.....	-	1,823.00
K1P = $0.0879 \times TCP$ = $0.0879 \times \$15,220$	-	1,337.84
K2P = $[(0.0879 \times (P \times C, \text{max. } \$2,163.15)) + (0.0879 \times (P \times EI, \text{max. } \$747.36))]$ = $[(0.0879 \times \$2,163.15) + (0.0879 \times \$747.36)]$ = $\$190.14 + \65.69	-	255.83
K3P = \$0.....		<u>0.00</u>
Basic provincial tax for the year (T4).....	\$	4,590.55

Determine the annual provincial tax deduction using the following formula:

$T_2 = T_4 + V_1 - S - LCP$		
V1 = \$0.....		0.00
S = \$0.....		<u>0.00</u>
Net provincial tax deduction for the year before LCP.....	\$	4,590.55
LCP = The lesser of: (i) \$2,000; and (ii) 20% of the purchase of approved shares. $0.20 \times \$2,000$	-	<u>400.00</u>
Net provincial tax deduction for the year (T2).....	\$	<u>4,190.55</u>

Step 6

Total federal and provincial tax deductions for the year:

T1 (see federal portion of example) \$3,960.93 + T2.....	\$	<u>8,151.48</u>
T = Tax prorated for the pay period.....	\$	<u>156.76</u>

Option 2 – Tax formula based on cumulative averaging

There are no changes to the federal tax rates, income thresholds, or personal amounts required for July 1, 2010.

Formula to calculate provincial and territorial tax payable (T2)

As Nova Scotia is the only province or territory to have a retroactive provincial/territorial change, we are only reproducing their calculations.

For Nova Scotia only:

$$T_2 = T_4 + V_1 - S - LCP$$

If the result is negative, $T_2 = \$0$.

Where:

$$T_4 = (V \times A) - KP - K_1P - K_2P - K_3P$$

Where V and KP are based on the value of A in the 2010 Nova Scotia tax rates and income thresholds Option 2 table.

2010 Nova Scotia tax rates and income thresholds Option 2		
Annual taxable income A More than – Not more than	Rate V	Constant KP
\$ 0 – \$ 29,590	0.0879	\$ 0
29,590 – 59,180	0.1495	1,823
59,180 – 93,000	0.1667	2,841
93,000 – 150,000	0.1750	3,613
150,000 – and over	0.2100	8,863

$$K_1P = 0.0879 \times TCP$$

Where:

TCP = The total of personal non-refundable tax credits amounts reported on Form TD1NS. If Form TD1NS is not filed, TCP is \$8,231.

$$K_2P = [(0.0879 \times (P \times C, \text{max. } \$2,163.15)) + (0.0879 \times (P \times EI, \text{max. } \$747.36))]^*$$

* Where an employee has already contributed the maximum CPP, EI, or QPIP for the year with the employer, use the maximum CPP, EI, or QPIP deduction to determine the credit for the remainder of the year. Where, during the pay period in which the employee reaches the maximum, the CPP, EI, or QPIP, when annualized, is less than the annual maximum, then use the maximum annual deduction(s) in that pay period.

K3P = Other annual provincial non-refundable tax credits, such as medical expenses or charitable donations authorized by a tax services office or tax centre. The tax office will inform the employer or payer of the amount of K3P when it applies and how to implement the amount after the first pay period of the year.

$$V_1 = \$0$$

$$S = \$0$$

LCP = The lesser of:

- (i) \$2,000; and
- (ii) 20% of the amount deducted or withheld during the year for the acquisition by the employee of approved shares of the capital stock of a prescribed labour-sponsored venture capital corporation.

Option 2 – Examples when calculating the tax deductions on salary and non-periodic payments separately

The Option 2 charts provided in the January 1, 2010, edition are not changed. Therefore we are not reproducing the charts in this edition.