



Canada Customs
and Revenue Agency

Agence des douanes
et du revenu du Canada

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Income Tax Information About Pay Equity Employment Income and Pay Equity Interest Payments Received in 2000

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Introduction

This document was prepared in December 1999 by the Canada Customs and Revenue Agency (CCRA) with help from the Treasury Board of Canada Secretariat (TBS). It is in question and answer format, and includes a number of examples. It is intended to answer most questions that pay equity recipients and their representatives may have about the income tax implications of receiving pay equity payments in 2000.

We prepared this document based on the income tax law in effect in December 1999, and on law that was proposed in the February 1999 federal budget. The information in this document is accurate as of December 1999. However, it does not reflect information about any income tax changes that may be proposed after December 1999.

This document is in 7 parts.

Part 1, General tax information, has 11 questions and answers about the taxation of pay equity employment income payments and pay equity interest payments, and about the types of amounts that will be withheld from these payments.

Part 2, Tax information about RRSP contributions, has 12 questions and answers, and 5 examples about making deductible RRSP contributions for 2000 with pay equity payments that are received in 2000.

Part 3, Tax waiver letters for deductible RRSP contributions, has 7 questions and answers and 4 examples about having withholding tax waived on part or all of pay equity employment income payments that will be used to make deductible RRSP contributions for 2000.

Part 4, Non-refundable and refundable tax credits, has 19 questions and answers about the effect pay equity payments received in 2000 may have on certain non-refundable and refundable tax credits that may be claimed for 2000.

Part 5, Tax information about the Canada Child Tax Benefit (CCTB) and the goods and services tax/harmonized sales tax (GST/HST) credit, has 9 questions and answers about the effect pay equity payments received in 2000 may have on the CCTB and the GST/HST credit during the July 2001 to June 2002 payment period.

Part 6, Miscellaneous tax information, has 7 questions and answers about tax information related to receiving pay equity payments in 2000.

Part 7, Tax information for pensioners, has 14 questions and answers about receiving pay equity payments in 2000 that will be of particular interest to pensioners and their representatives.

Part 1
General tax information
Pay equity employment income payments and pay equity interest payments

Q1. Do I have to report all my pay equity payments on my income tax return for the year I get them?

A1. Yes. You have to report all your pay equity payments on your income tax return. This applies to all your employment income payments and all your interest payments you get in the year. For example, you have to report on your 2000 income tax return all the employment income and interest income you get in 2000.

You report your employment income on line 101, and your interest income on line 121 of your income tax return.

Q2. Are there any rules that allow me to include my pay equity payments on my tax returns for the years to which my retroactive payments apply?

A2. No. The law requires you to fully include both your pay equity employment income payments and interest income payments in your income in the year you get them.

However, a proposed law that applies to your **retroactive pay equity employment income** payments may provide some tax savings for you. The proposal allows us to perform a special tax calculation if the part of your retroactive pay equity employment income that relates to all previous years is \$3,000 or more.

Under the special tax calculation, we reduce your taxable income for the year the payments are received by the part of the payment that relates to previous years. Tax is calculated on the reduced taxable income in the usual way, and a tax adjustment is added for the previous-year part of the payment. The tax adjustment includes the additional tax that you would have paid in each of the previous years if you had received the retroactive pay equity employment income in those years, and a “deemed tax” that represents interest calculated on the additional tax for each of the previous years. If the tax we calculate using this method is less than the amount we calculate in the usual way, you are required to pay only the lesser amount.

Notes

1. If you are entitled to pay equity employment income for all the years covered by the agreement, or for the early years only, this proposed law may not result in any tax savings for you. This is because the “deemed tax” part of the tax adjustment, which represents interest calculated at our refund interest

rates on the additional tax relating to each of the previous years, is calculated for a long period of time. On the other hand, if you are entitled to pay equity employment income payments for the more recent years only, or for years where your taxable income was zero or a minimal amount, you may benefit from this proposed law. This is because the “deemed tax” that is added to the previous years’ additional taxes is calculated for a shorter period of time. Generally, the further back your retroactive entitlement goes, the smaller your tax savings, if any, is likely to be.

2. If the previous-year part of your payments is \$3,000 or more, we will perform this special tax calculation whether or not you make deductible registered retirement savings plan (RRSP) contributions with some or all of your pay equity payments. This means that you may generate a small tax savings for the year as a result of the special tax calculation, even if you delay having to pay tax on your retroactive employment income payments by making deductible RRSP contributions with those payments.

Q3. Is there a form that has to be completed so that the special tax calculation can be applied to my retroactive lump sum employment income payments?

- A3. Yes. Form T1198, *Statement of Qualifying Retroactive Lump-Sum Payment*, has to be completed.

Q4. Do I have to complete Form T1198, or will it be completed by my employer?

- A4. Your employer is supposed to complete the form. You have to attach the completed form to the tax return you file for the year you receive the retroactive pay equity lump-sum employment income payments.

For example, if you get these payments in 2000, your employer will complete the form sometime after the end of 2000. You attach the completed form to your 2000 tax return that you file in 2001.

As you know, your employer expects to make retroactive payments to more than 230,000 employees and former employees. For this reason, the Treasury Board of Canada Secretariat (TBS) and the Canada Customs and Revenue Agency (CCRA) are discussing whether it is practical for your employer to provide us the information electronically instead of having your employer complete a form for each pay equity recipient.

Your employer should be able to give you more information about the results of these discussions in the fall of 2000.

Q5. Will this special tax calculation for previous years that applies to my retroactive pay equity employment income affect any deductions and credits that I claimed for previous years?

A5. No. There will be no changes to any deduction or credit that you claimed for previous years. Similarly, no change will occur to any income-tested benefit such as a good and services tax credit that was paid to you in a previous year.

Q6. What tax information slips will I get for the payments made to me?

A6. Your retroactive wage payments will be reported on your T4 slip, and your interest payments will be reported on a T5 slip. These information slips will be issued to you by your employer. You should get them by late February or early March 2001 for payments you receive in 2000.

Q7. Will Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) contributions be withheld from my pay equity payments?

A7. Yes. In most cases, CPP or QPP contributions will be withheld from your pay equity employment income payments. However, they will not be withheld from the interest payments you get.

The maximum CPP contributions that will be withheld by a payer from employment income paid to an individual in 2000 is \$1,329.90. These contributions are withheld at a rate of 3.9% of contributory earnings. The payer stops withholding CPP contributions once the maximum has been withheld.

Q8. Will Employment Insurance (EI) premiums be withheld from my pay equity payments?

A8. Yes. EI premiums will be withheld from your pay equity employment income payments. However, they will not be withheld from the interest payments you get.

The maximum EI premiums that will be withheld by a payer from employment income paid to an individual in 2000 is \$936.00. These premiums are withheld at a rate of 2.4% of insurable earnings. The payer stops withholding EI premiums once the maximum has been withheld.

Q9. Will superannuation contributions be withheld from my pay equity payments?

A9. Yes. Superannuation contributions will be withheld from your pay equity employment income payments. However, they will not be withheld from the interest payments you get.

Q10. Will income tax be withheld from my pay equity payments?

A10. Yes. Income tax will be withheld from your pay equity employment income payments. However, **no income tax will be withheld from the interest payments** you get. You may owe tax on the interest when you file your 2000 tax return.

Generally, the amount of income tax that will be withheld from your pay equity employment income will depend on the province or territory in which you work, and on the total amount of periodic and lump-sum employment income that is projected to be paid to you in the year. Depending on these factors, the withholding rate could be anywhere between 25% and 50% of your lump-sum employment income payments.

Q11. Will I owe income tax when I file my income tax return for 2000?

A11. This depends on many different factors, and each recipient's situation will be unique. However, as the interest payments you get will not have any income tax withheld, you may owe tax on these payments when you file your 2000 income tax return.

If you owe tax for 2000, you have to pay it before May 1, 2001, or you will have to pay arrears interest on the tax that is unpaid after that date.

For information about how you may be able to reduce the tax you may owe for 2000, go to the next part of this document. It provides you with information about deductible RRSP contributions.

Part 2
Tax information about RRSP contributions
Pay equity employment income payments and pay equity interest payments

Q1. How much can I contribute to an RRSP for 2000?

A1. The maximum deductible RRSP contributions you can make for 2000 is equal to your RRSP deduction limit for 2000.

Generally, your 2000 RRSP deduction limit will equal:

- your 1999 RRSP deduction limit
- minus**
- your RRSP contributions you deduct for 1999
- plus**
- the amount equal to 18% of your 1999 earned income (maximum \$13,500)
- minus** your 1999 pension adjustment.

Example 1

1999 RRSP deduction limit	\$21,000	
1999 RRSP contributions deducted	nil	
1999 unused RRSP contribution room (\$21,000 - nil)	\$21,000	\$21,000
1999 earned income	\$29,000	
18% of earned income (\$29,000 x 18%)	\$ 5,220	
1999 pension adjustment	\$ 2,793	
2000 RRSP contribution room (\$5,220 - \$2,793)	\$ 2,427	\$ 2,427
2000 RRSP deduction limit (\$21,000 + \$2,427)		\$23,427

In this example, you could make a \$23,427 RRSP contribution that you could deduct on your 2000 tax return.

Example 2

1999 RRSP deduction limit	\$21,000	
1999 RRSP contributions deducted	\$ 3,000	
1999 unused RRSP contribution room (\$21,000 - \$3,000)	\$18,000	\$18,000
1999 earned income	\$33,000	
18% of earned income (\$33,000 x 18%)	\$ 5,940	
1999 pension adjustment	\$ 3,261	
2000 RRSP contribution room (\$5,940 - \$3,261)	\$ 2,679	\$ 2,679
2000 RRSP deduction limit (\$18,000 + \$2,679)		\$20,679

In this example, you could make a \$20,679 RRSP contribution that you could deduct on your 2000 tax return.

Notes

1. To find out your RRSP deduction limit for 1999, see your most recent *Notice of Assessment* that we sent you. To find out your RRSP deduction limit for 2000, see your *Notice of Assessment* that we will send you after we process your 1999 tax return. If you send your 1999 tax return to us in March or April 2000, you should get your *Notice of Assessment* within three or four weeks of the date you send us your tax return.

You can also find out your RRSP deduction limit by using our Tax Information Phone Service (T.I.P.S.). T.I.P.S. telephone numbers are included in the government section of your telephone book. To use T.I.P.S., you will be asked for your social insurance number, your month and year of birth, and the total income you reported on line 150 of your previous tax return.

2. To keep these examples straightforward, we used the earned income amounts to calculate the 18% and the 1999 pension adjustment. RRSP earned income and employment earnings on which the pension adjustment is calculated will rarely be the same amount. We did not show certain other amounts that affect the new RRSP contribution room created for 2000 such as past service pension adjustments (PSPAs) and pension adjustments reversals (PARs). These examples are simply designed to show you how your 2000 RRSP deduction limit will ordinarily be calculated.

Q2. When can I contribute to an RRSP for 2000?

- A2. You can make your deductible RRSP contributions for 2000 at any time in 2000 or in the first 60 days of 2001.

Q3. Can I contribute to an RRSP for my spouse?

- A3. Yes. You can contribute to your spouse's RRSP, or you can contribute to your own personal RRSP.

Q4. If I make contributions to my spouse's RRSP, can I use my spouse's RRSP deduction limit to claim a larger deduction against my pay equity payments?

- A4. No. The maximum amount you can claim for the RRSP contributions you make is limited to your RRSP deduction limit. This is the case whether you make all your contributions to your spouse's RRSP, or you make some to your RRSP and some to your spouse's RRSP.

For example, if your 2000 RRSP deduction limit is \$21,000, the maximum amount you can claim on your 2000 tax return for RRSP contributions you make is \$21,000. You can make the \$21,000 contribution to your spouse's RRSP or to your own RRSP. Alternatively, you can split the contributions you make between your spouse's RRSP and your own personal RRSP, but you cannot deduct more than \$21,000 on your tax return.

Q5. What happens if my spouse takes money out of an RRSP that I contributed to for him or her?

A5. If your spouse takes money out of such an RRSP in the year you contributed it, or in either of the two following years, you have to include in your income all or part of the money your spouse withdrew. You have to include this amount in your income in the year that your spouse withdrew it.

The amount you have to include in your income in the year the money is withdrawn is **the lesser of**:

- the money your spouse withdrew; and
- the RRSP contributions you made to your spouse's RRSP in the year and in either of the two previous years.

Example 1

money your spouse withdraws in 2000	\$6,000
spousal RRSP contributions you make in 2000	\$8,000
spousal RRSP contributions you made in 1999	\$ nil
spousal RRSP contributions you made in 1998	\$ nil

The amount you would have to include in your income in 2000 for the money your spouse withdrew is **the lesser of**:

- \$6,000 (money your spouse withdrew); and
- \$8,000 (the RRSP contributions you made to your spouse's RRSP in 2000, 1999, and 1998).

In this example, you would have to include the \$6,000 in your 2000 income. Your spouse would not have to include any of the \$6,000 in his or her income.

Your spouse would have to complete Form T2205, *Calculation of Amounts from a Spousal RRSP or RRIF to be Included in Income*, for the 2000. This form has to be completed for the year in which your spouse withdraws money from an RRSP that you contributed to for your spouse. Both you and your spouse would have to attach a copy of the completed Form T2205 to your income tax returns for 2000.

Example 2

money your spouse withdraws in 2002	\$8,500
spousal RRSP contributions you make in 2002	\$ nil
spousal RRSP contributions you make in 2001	\$ nil
spousal RRSP contributions you make in 2000	\$8,000

The amount you would have to include in your income in 2002 for the money your spouse withdrew is **the lesser of**:

- \$8,500 (money your spouse withdrew); or
- \$8,000 (the RRSP contributions you made to your spouse's RRSP in 2002, 2001, and 2000).

In this example, you would have to include the \$8,000 in your 2002 income. Your spouse would have to include \$500 in his or her 2002 income.

Your spouse would have to complete Form T2205, *Calculation of Amounts from a Spousal RRSP or RRIF to be Included in Income*, for 2002. This form has to be completed for the year in which your spouse withdraws money from an RRSP that you contributed to for your spouse. Both you and your spouse would have to attach a copy of the completed Form T2205 to your income tax returns for 2002.

Q6. What are the tax benefits of me contributing to my spouse's RRSP instead of my own if I have to include in my income money my spouse withdraws from the RRSP in the year I contribute or in the two years after that?

A6. If you and your spouse's income is the same or nearly the same, and you expect that your incomes will stay this way when you retire, there is no tax benefit. However, if your spouse has little or no income, and you expect that this will also be the case when you retire, there will likely be a tax benefit.

As long as the rule described in answer 5 above does not apply, when your spouse withdraws the money, he or she will likely have to pay tax on it at a lower rate than you would have to if you contributed it to your own RRSP, and then withdrew it when you retire. This is because federal tax rates increase as the amount of a person's taxable income increases. Currently, these rates are:

- 17% on taxable income up to \$29,590;
- 26% on taxable income between \$29,590 and \$59,180; and
- 29% on taxable income greater than \$59,180.

If you save federal tax on the spousal RRSP contributions you deduct at the rate of 26%, and your spouse pays federal tax on the amount withdrawn from the RRSP at the rate of 17%, the federal tax benefit is the amount of federal tax that equals the 9% difference between these rates. You will also save provincial or territorial tax because it is calculated as a percentage of federal tax.

Example

Deductible contribution you make to your spouse's RRSP	\$10,000
Federal tax saved (\$10,000 x 26%)	\$ 2,600
Provincial tax saved (\$2,600 x 50%)	\$ 1,300
Total tax saved (\$2,600 + \$1,300)	\$ 3,900
Amount your spouse withdraws from the RRSP	\$10,000
Federal tax paid (\$10,000 x 17%)	\$ 1,700
Provincial tax paid (\$1,700 x 50%)	\$ 850
Total tax paid (\$1,700 + \$850)	\$ 2,550
Total tax saved (\$3,900 - \$2,550)	\$ 1,350

In this example, you save \$3,900 of tax by making the \$10,000 deductible RRSP contribution. In the year your spouse withdraws the \$10,000, your spouse pays \$2,550 of tax on the \$10,000. The total tax saved is therefore \$1,350.

Q7. My total pay equity payments will be larger than my 2000 RRSP deduction limit. My spouse's 2000 RRSP deduction limit is about \$12,000. Should I give my spouse some of my pay equity payments so my spouse can make an RRSP contribution?

A7. This is a personal decision that has to be made by you and your spouse. However, if your spouse has taxable income in the year, and cannot otherwise make the contribution, there may be tax advantages to doing this. Specifically, if your spouse makes contributions to an RRSP, your spouse can deduct those contributions on his or her own return. This deduction will reduce your spouse's income on which total income tax for the year is calculated. This will either reduce the tax that your spouse owes for the year, or it will result in your spouse getting a refund when we process your spouse's tax return for the year.

Note, however, that if you give your spouse money to contribute to his or her own RRSP, you will have to include in your income the amounts your spouse later withdraws from that RRSP in respect of that money. For more information, see Interpretation Bulletin IT-511R, *Interspousal and certain other transfers and loans of property*.

Q8. Does my claim on my income tax return for superannuation contributions affect the amount I can claim for RRSP contributions?

A8. No. Your claim for superannuation contributions has no effect on the amount you can claim for RRSP contributions. The amount you can claim for RRSP contributions you make is based on your RRSP deduction limit as explained in answer 1 above. Your RRSP deduction limit is not affected by your superannuation contributions.

If you purchase elective past service for a period that is after 1989, you have to pay superannuation contributions for that purchase. You will also likely have a past service pension adjustment (PSPA) reported to you for the purchase of that service. A PSPA is reported to you by your pension plan administrator for the year in which you purchase post-1989 past service. A PSPA reduces your RRSP deduction limit in the year you purchase that service. Even though your superannuation contributions do not affect your RRSP deduction limit, there is a relationship between those contributions and your RRSP deduction limit in the year in which you purchase post-1989 past service and start to pay superannuation contributions for that service.

Q9. How do I claim my RRSP contributions on my 2000 income tax return?

A9. You claim your contributions on line 208 of your 2000 income tax return.

If you file a paper return, you have to attach your official RRSP receipts to your completed return. If you file your return electronically, you have to keep your official receipts in case we ask to see them at a later date.

Q10. If I take money out of my RRSP, do I have to pay tax on it?

A10. Yes. Generally, you have to include in your income all amounts you withdraw from an RRSP. You have to include these amounts in your income in the year you get them.

Income tax will be withheld from the amount you withdraw. The tax withheld is determined by the amount of the payment, and the province or territory in which you live at the time the amount is paid to you.

Amount of payment	Tax rate
less than \$5,000	10%
\$5,000 to \$15,000	20%
more than \$15,000	30%

If you live in Quebec, the federal withholding rates are 5% on a payment less than \$5,000, 10% on a payment of \$5,000 to \$15,000, and 15% on a payment of more than \$15,000. However, Quebec income tax will be withheld too.

Q11. Can I use my money in my RRSP to buy a house?

A11. There are special provisions in the RRSP rules that may allow you to borrow money from your RRSP to buy a house. We call these provisions the RRSP Home Buyers' Plan (HBP).

The HBP is a plan that may allow you to borrow up to \$20,000 from your own RRSP to buy or build a qualifying home. Generally, to borrow the money for this purpose, neither you nor your spouse can have owned a home in the year you borrow the money, or in any of the four previous calendar years.

If you intend to borrow the money you contribute to an RRSP in 2000 to buy a home, be aware that a special rule applies to deducting those contributions that you later withdraw under the HBP. Generally, this rule requires that you leave your contributions in the RRSP for at least 89 days before you withdraw them under the HBP, otherwise you cannot deduct them for any year.

However, if you have pre-existing RRSP funds, and you make an RRSP contribution that you withdraw within the 89-day period, you can fully deduct the contribution if the funds in the RRSP after your HBP withdrawal are at least equal to the contributions you made within the 89-day period.

For example, if you contribute \$20,000 to an RRSP, and have no pre-existing RRSP funds, you have to leave the \$20,000 in the RRSP for at least 89 days before you withdraw it under the HBP. Otherwise, you cannot deduct that contribution for any year.

Similarly, if you have \$35,000 of pre-existing RRSP funds, and you withdraw \$20,000 under the HBP within the 89-day period after you make a \$20,000 contribution, you can deduct the \$20,000 if the funds in the RRSP after the withdrawal are at least \$20,000. Of course, you must have an RRSP deduction limit at least equal to the \$20,000.

You have to begin to repay the money you borrow under the HBP in the second calendar year after the year you borrow it. The money has to be repaid to your own RRSP. For example, if you withdraw RRSP funds under the HBP in 2001, you have to begin to repay these funds to your own RRSP in 2003.

For more information about the rules that apply to the HBP, get a copy of the guide called, *Home Buyers' Plan (HBP)* by calling, visiting, or writing your tax services office. The address and telephone numbers are listed in the government section of your telephone book.

- Q12. I intend to make deductible RRSP contributions with as much of my pay equity payments as possible. However, I am concerned that the income tax that will be withheld on my pay equity employment income payments means I may not have enough money to make contributions equal to my 2000 RRSP deduction limit. Can I have the income tax that will be withheld reduced or eliminated?**

- A12. You may be able to reduce or eliminate the tax that will be withheld. To have the income tax withholding reduced or eliminated, you have to give your employer a tax waiver letter of authority. For more information about tax waiver letters, go to the next part of this document. It gives you information about tax waiver letters for deductible RRSP contributions.

Part 3
Tax waiver letters for deductible RRSP contributions
Pay equity employment income payments and pay equity interest payments

Q1. Who issues a tax waiver letter of authority?

A1. The Client Services Division of your tax services office (TSO) ordinarily issues these letters if they receive a written request, or a completed form, *Request for a Reduction of Tax Deductions at Source*. You can get this form by calling, visiting, or writing your TSO. The address and telephone numbers for your TSO are listed in the government section of your telephone book.

Q2. Is there an easier way for me to get a tax waiver letter for my pay equity employment income payments?

A2. **Yes. We developed a modified procedure to allow you to have no income tax withheld from up to \$10,000 of your pay equity employment income without you having to send a request to your TSO.** This should satisfy the majority of pay equity recipients.

If you have not already used this procedure, all you have to do is complete the waiver letter that is attached to this part of the document. After you complete it, give a copy of it to your compensation advisor so he or she can make the changes to the tax that will be withheld on your pay equity employment income. If you have already completed a modified waiver letter, you do not have to complete another one. If you use this waiver letter, you do not have to send a written request, or a completed form, to your TSO.

You can use this letter to have tax waived on up to \$10,000 of your pay equity employment income if you use the income on which no tax is withheld to make a deductible contribution to your or your spouse's RRSP. You can also use all of your pay equity interest income to make deductible RRSP contributions because your interest payments will not have income tax withheld from them.

In most cases, you will be able to make deductible RRSP contributions for 2000 that fully use up your 2000 RRSP deduction limit. You can do this by contributing all of your \$10,000 pay equity employment income on which no tax is withheld, and all or part of your pay equity interest income on which no tax is withheld.

Q3. I am concerned that the \$10,000 I will get from using the modified waiver letter and my pay equity interest payments will be less than my 2000 RRSP deduction limit. Will my TSO issue me a tax waiver for more than \$10,000 if I am getting more than \$10,000 in pay equity employment income?

- A3. If your RRSP deduction limit minus your estimated pay equity interest payments is more than \$10,000, **your TSO may give you a letter that allows no tax to be withheld from an amount equal to your RRSP deduction limit minus your estimated interest payments.** This is provided that you make a deductible RRSP contribution equal to the amount of your pay equity employment income on which no tax is withheld.

For your TSO to consider your request for more than \$10,000, you will have to include detailed calculations that show your estimated annual pay equity wage adjustments, and the cumulative total of these amounts at the end of each year. More importantly, your statement also has to include calculations that show the estimated annual interest payable to you on your annual and cumulative wage adjustments. The statement must also show the total estimated interest payable to you on December 31, 1999, because we limit tax waivers to your RRSP deduction limit minus your other estimated income in the year on which no tax will be withheld.

You can find information about the annual pay equity wage adjustments for each occupational group and level, and the annual interest rates that will be used for each year from 1985 until 1999, on the TBS Internet Web site (http://publiservice.tbs-sct.gc.ca/wnew/PayEquity/paycaL1_e.html). We have used these interest rates in the two examples that follow.

To keep your estimated interest calculations relatively straightforward, your TSO will allow you to calculate your estimated interest using the following rules.

1. **Calculate your annual interest payable on December 31 of each year using the annual interest rate that applies each year. You do not have to calculate your interest semi-annually.**
2. **Calculate your annual and cumulative interest payable on 100% of the annual wage adjustment payable to you on December 31 each year.**
3. **Do not calculate interest payable on December 31, 1985, even if you are entitled to a wage adjustment for that year.**
4. **Do not calculate any annual interest payable on the additional 5% lump-sum payment payable on money owed to you for the period March 8, 1985, until March 31, 1994. This 5% replaces recalculations for overtime, acting pay, etc.**
5. **Do not calculate any annual interest payable on the actual recalculations that will be made for overtime, acting pay, etc. for the period April 1, 1994, until July 29, 1998.**
6. **Do not calculate any annual interest after December 31, 1999.**

After you calculate your estimated pay equity interest payable, subtract it from your RRSP deduction limit. If the result is more than \$10,000, you may apply for

a tax waiver for that amount. If the result is less than \$10,000, use the \$10,000 modified waiver letter.

Notes

1. These guidelines are to help you estimate your pay equity interest payments. The actual interest you get may be higher or lower than the estimated interest you calculate. These guidelines require you to calculate your estimated interest on 100% of your wage adjustments rather than on 90%. However, since they do not require you to calculate interest on the 5% lump-sum payment, any other adjustments, or for 2000 up to the date you get your money, the guidelines are reasonable.
2. Your TSO will not calculate, or help you calculate, your estimated interest. If your request does not include complete calculations based on these guidelines, your TSO will not approve your tax waiver request for more than \$10,000.
3. If you are entitled to significant annual pay equity wage adjustments for the entire period covered by the agreement, your RRSP deduction limit minus your estimated interest payments will, in many cases, be less than \$10,000. This is because the interest rates in the late 1980s and early 1990s were higher than they are now and the interest payable is calculated for a longer period of time (see Example 2).

Example 1 - RRSP deduction limit minus estimated interest is more than \$10,000

RRSP deduction limit	\$28,500	Interest rate
1994 wage adjustment	\$ 6,884	1994 4.25%
1995 wage adjustment	\$ 6,890	1995 7.50%
1996 wage adjustment	\$ 6,820	1996 5.25%
1997 wage adjustment	\$ 3,068	1997 5.25%
1998 wage adjustment	\$ 383	1998 3.50%
total wage adjustment	\$24,045	1999 4.00%

Year	Wage adjustment	Cumulative wage adjustment	Interest rate	Annual interest	Cumulative interest payable
1994	\$ 6,884	\$ 6,884	4.25%	\$ 292.57	\$ 292.57
1995	\$ 6,890	\$13,774	7.50%	\$1,033.05	\$1,325.62
1996	\$ 6,820	\$20,594	5.25%	\$1,081.18	\$2,406.80
1997	\$ 3,068	\$23,662	5.25%	\$1,242.25	\$3,649.05
1998	\$ 383	\$24,045	3.50%	\$ 841.57	\$4,490.62
1999	\$ nil	\$24,045	4.00%	\$ 961.80	\$5,452.42

On December 31, 1999, the estimated pay equity interest payable is \$5,452.42. Your TSO may give you a tax waiver letter for \$23,048. This is your \$28,500 RRSP deduction limit minus your \$5,452 estimated interest payment.

If you make a deductible RRSP contribution for \$23,048 only, you will owe tax for 2000 on the \$5,452.42 interest payment you get in 2000. If you also make a deductible RRSP contribution with your \$5,452 interest payment, you will not owe tax for 2000 on the interest payment.

Example 2 - RRSP deduction limit minus estimated interest is less than \$10,000

RRSP deduction limit	\$22,500	Interest rate
1985 wage adjustment	\$ 1,158	1985 11.25%
1986 wage adjustment	\$ 1,520	1986 10.00%
1987 wage adjustment	\$ 1,694	1987 7.75%
1988 wage adjustment	\$ 1,981	1988 9.00%
1989 wage adjustment	\$ 2,030	1989 10.50%
1990 wage adjustment	\$ 2,411	1990 10.50%
1991 wage adjustment	\$ 2,938	1991 10.75%
1992 wage adjustment	\$ 3,086	1992 7.50%
1993 wage adjustment	\$ 3,237	1993 6.00%
1994 wage adjustment	\$ 3,172	1994 4.25%
1995 wage adjustment	\$ 3,177	1995 7.50%
1996 wage adjustment	\$ 3,130	1996 5.25%
1997 wage adjustment	\$ 2,036	1997 5.25%
1998 wage adjustment	\$ 1,589	1998 3.50%
total wage adjustment	\$33,159	1999 4.00%

Year	Wage adjustment	Cumulative wage adjustment	Interest rate	Annual interest	Cumulative interest payable
1985	\$ 1,158	\$ 1,158	11.25%	\$ nil	\$ nil
1986	\$ 1,520	\$ 2,678	10.00%	\$ 267.80	\$ 267.80
1987	\$ 1,694	\$ 4,372	7.75%	\$ 338.83	\$ 606.63
1988	\$ 1,981	\$ 6,353	9.00%	\$ 571.77	\$ 1,178.40
1989	\$ 2,030	\$ 8,383	10.50%	\$ 880.21	\$ 2,058.61
1990	\$ 2,411	\$10,794	10.50%	\$1,133.37	\$ 3,191.98
1991	\$ 2,938	\$13,732	10.75%	\$1,476.19	\$ 4,668.17
1992	\$ 3,086	\$16,818	7.50%	\$1,261.35	\$ 5,929.52
1993	\$ 3,237	\$20,055	6.00%	\$1,203.30	\$ 7,132.82
1994	\$ 3,172	\$23,227	4.25%	\$ 987.14	\$ 8,119.96
1995	\$ 3,177	\$26,404	7.50%	\$1,980.30	\$10,100.26
1996	\$ 3,130	\$29,534	5.25%	\$1,550.53	\$11,650.79
1997	\$ 2,036	\$31,570	5.25%	\$1,657.42	\$13,308.21
1998	\$ 1,589	\$33,159	3.50%	\$1,160.56	\$14,468.77
1999	\$ nil	\$33,159	4.00%	\$1,326.36	\$15,795.13

On December 31, 1999, the estimated pay equity interest payable is \$15,795.13. Your \$22,500 RRSP deduction limit minus your \$15,795.13 estimated interest payment equals \$6,704.87. Since this amount is less than \$10,000, your TSO will not give you a waiver letter for more than \$10,000. You can use the \$10,000 modified tax waiver letter as long as you make a deductible RRSP contribution up to \$10,000.

If you use the modified waiver letter for \$10,000 and you also use \$12,500 of your interest payment to make a deductible RRSP contribution, you will owe tax for 2000 on your remaining \$3,295.13 interest payment that cannot be used to make a deductible RRSP contribution for 2000.

If you do not want to owe tax on any of your interest payment when you file your 2000 tax return, use the modified waiver letter for \$6,704.87 only (\$22,500 RRSP deduction limit minus your \$15,795.13 interest payment). Contribute the \$6,704.87 payment and the \$15,795.13 interest payment to an RRSP. You will have used up all of your 2000 RRSP deduction limit and will not owe tax on your interest payment because the RRSP contribution deduction offsets the inclusion in income of the interest payment.

Q4. I already completed a modified tax waiver letter for \$10,000. However, that \$10,000 and my pay equity interest payments will not give me enough money to make deductible RRSP contributions for 2000 that equal my 2000 RRSP deduction limit. Can I get a tax waiver letter for more than \$10,000 from my TSO?

A4. Yes. You may be able to get a waiver letter for more than \$10,000. However, you will have to provide all of the information we indicated is required in answer 3 above. If you do not provide this information, your TSO will not approve a waiver letter for you for more than \$10,000. If your TSO issues you a letter for more than \$10,000, the letter will tell your employer that this letter cancels any previous tax waiver letter it has for your pay equity employment income payments.

Q5. I already completed a modified tax waiver letter for \$10,000. I know that this \$10,000 and my interest payments will give me enough money to make deductible RRSP contributions for 2000 that equal my 2000 RRSP deduction limit. Do I have to complete another tax waiver letter for \$10,000 now that I know I will get my pay equity payments in 2000?

A5. No. If you already completed the modified letter and gave a copy of it to your pay office, your pay office would have already made the required changes to ensure that income tax will not be withheld from \$10,000 of your pay equity employment income.

Q6. Does the modified tax waiver letter that I completed apply to each pay equity employment income payment that I will get, or does it apply to the first \$10,000 of these payments only?

A6. The modified tax waiver letter applies to the first \$10,000 of these payments only.

Example 1

Your first pay equity employment income payment	\$8,500
Your second pay equity employment income payment	\$3,900

No income tax will be withheld from your first payment of \$8,500. No tax will be withheld from \$1,500 of your second payment of \$3,900. Tax will be withheld from the remaining \$2,400 of your second payment (\$3,900 - \$1,500).

Example 2

Your first pay equity employment income payment	\$14,000
Your second pay equity employment income payment	\$ 5,500

No income tax will be withheld from \$10,000 of your first payment of \$14,000. Tax will be withheld from the remaining \$4,000 of your first payment, and from all \$5,500 of your second payment.

Q7. My 2000 RRSP deduction limit will be about \$14,000, and I expect to get a \$6,000 pay equity interest payment. Is there any benefit to me if I use my interest payment to make a deductible RRSP contribution?

A7. Your interest payment will not have income tax withheld from it, but it is fully taxable in the year you get it. If you make a deductible RRSP contribution with it for the year you get it, the deduction for that RRSP contribution will offset the increase in your income from getting the interest payment.

The benefit to you is that you will not owe tax on your interest payment when you file your income tax return for the year you get your interest payments.

CANADA CUSTOMS AND REVENUE AGENCY

**Re: Reduction to Tax Withholding on Your Pay Equity Wage Payments
Employer - Government of Canada**

This is our approval to allow the Government of Canada to reduce the required income tax on the lump sum pay equity wage payments that you will receive.

This approval is conditional on you making deductible RRSP contributions for the year you get your payments. The deductible contributions have to be made to your or your spouse's RRSP. They have to be based on your RRSP deduction limit even if you contribute them to your spouse's RRSP. They have to equal the part of your lump sum wage payments on which tax is not withheld pursuant to this approval. This approval is also conditional on you deducting the RRSP contributions on your tax return for the year you get your payments.

This approval applies to the **least** of the following three amounts:

- the part of your lump sum wage payments on which tax is not withheld;
- your RRSP deduction limit for the year you get your payments; and
- \$10,000.

If you use this approval, complete the information below, including the amount of your lump sum wage payments on which you want no tax withheld. Then, give the form to your pay office so they can make the changes to the tax withholding on your lump sum pay equity wage payments.

Amount of my lump sum pay equity wage payments on which I want no income tax withheld (maximum \$10,000)_____

Name: _____

Social Insurance Number: _____

Personal Record Identifier: _____

Signature: _____ Date: _____

Note:

To find out your RRSP deduction limit for the year you get your payments, refer to your most recent *Notice of Assessment* that we sent you, or use our Tax Information Phone Service (T.I.P.S.). T.I.P.S. telephone numbers are included in the Government section of your telephone book. To use T.I.P.S., you will be asked for your social insurance number, your month and year of birth, and the total income you reported on line 150 of your previous tax return.

Part 4
Non-refundable and refundable tax credits
Pay equity employment income and pay equity interest payments

Q1. What are non-refundable tax credits?

A1. Non-refundable tax credits are amounts that reduce a person's income tax for a year. They are non-refundable because if the amount of these credits is more than the person's income tax for the year, the person does not get a refund for the difference.

Q2. Will any non-refundable tax credits I can claim in 2000 be affected because I will get pay equity payments in 2000 that I have to include in my 2000 income?

A2. The non-refundable tax credits you can claim in 2000 may or may not be affected.

We calculate a number of non-refundable tax credits for a year using a person's net income for the year. Net income is the amount on line 236 of a person's income tax return for the year. If a person's net income increases in a year because he or she gets additional income in the year, the person's non-refundable tax credits can be affected.

Non-refundable tax credits that we calculate using your net income include the following:

- age amount (line 301 of your tax guide);
- medical expenses (line 330 of your tax guide); and
- donations and gifts (line 349 of your tax guide).

Q3. Will the age amount I can claim on line 301 of my 2000 tax return be reduced because I get pay equity payments in 2000?

A3. The age amount you can claim may or may not be reduced.

You can claim the full age amount of \$3,482 in 2000 if your net income on line 236 of your 2000 tax return is \$25,921 or less.

You can claim a reduced age amount if your net income in 2000 is more than \$25,921 but less than \$49,134. To calculate the age amount you can claim, reduce the age amount of \$3,482 by the amount that equals 15% of your net income that is more than \$25,921.

You cannot claim any age amount in 2000 if your net income in 2000 is \$49,134 or more.

Remember, to claim any age amount, you have to be at least 65 years of age in the year you make your claim.

Q4. Will the spousal amount my spouse can claim for me on line 303 of his or her 2000 tax return be reduced because I will get pay equity payments in 2000?

A4. The amount your spouse can claim for you may or may not be reduced.

Your spouse can claim the full spousal amount of \$6,055 for you if your net income on line 236 of your 2000 tax return is \$606 or less.

Your spouse can claim a reduced spousal amount for you if your net income on line 236 of your 2000 tax return is more than \$606 but less than \$6,661. To calculate the amount your spouse can claim for you, your spouse has to subtract your net income from \$6,661. The result is the spousal amount your spouse can claim for you for 2000.

Your spouse cannot claim any spousal amount for you if your net income on line 236 of your 2000 tax return is \$6,661 or more.

Q5. Will the spousal amount I can claim for my spouse on line 303 of my 2000 tax return be reduced because my spouse will get pay equity payments in 2000?

A5. The amount you can claim may or may not be reduced.

You can claim the full spousal amount of \$6,055 if your spouse's net income on line 236 of his or her 2000 tax return is \$606 or less.

You can claim a reduced spousal amount if your spouse's net income on line 236 of his or her 2000 tax return is more than \$606 but less than \$6,661. To calculate the spousal amount you can claim, subtract your spouse's net income from \$6,661. The result is the spousal amount you can claim for 2000.

You cannot claim any spousal amount if your spouse's net income on line 236 of his or her 2000 tax return is \$6,661 or more.

Q6. Will the equivalent-to-spouse amount my child can claim for me on line 305 of his or her 2000 tax return be reduced because I will get pay equity payments in 2000?

A6. The amount your child can claim for you may or may not be reduced.

Your child can claim the full equivalent-to-spouse amount of \$6,055 for you on line 305 of his or her 2000 tax return if your net income on line 236 of your 2000 tax return is \$606 or less.

Your child can claim a reduced equivalent-to-spouse amount for you if your net income on line 236 of your 2000 tax return is more than \$606 but less than \$6,661. To calculate the equivalent-to-spouse amount that your child can claim for you, your child has to subtract your net income from \$6,661. The result is the equivalent-to-spouse amount that your child can claim for you for 2000.

Your child cannot claim any equivalent-to-spouse amount for you if your net income on line 236 of your 2000 tax return is \$6,661 or more.

Q7. Will the equivalent-to-spouse amount I can claim for my dependant on line 305 of my 2000 tax return be reduced because my dependant will get pay equity payments in 2000?

A7. The amount you can claim for your dependant may or may not be reduced.

You can claim the full equivalent-to-spouse amount of \$6,055 for your dependant on line 305 of your 2000 tax return if your dependant's net income on line 236 of his or her 2000 tax return is \$606 or less.

You can claim a reduced equivalent-to-spouse amount for your dependant if the net income on line 236 of his or her 2000 tax return is more than \$606 but less than \$6,661. To calculate the equivalent-to-spouse amount that you can claim for your dependant, you have to subtract your dependant's net income from \$6,661. The result is the equivalent-to-spouse amount that you can claim for your dependant for 2000.

You cannot claim any equivalent-to-spouse amount for your dependant if the net income on line 236 of his or her 2000 tax return is \$6,661 or more.

Q8. Will the equivalent-to-spouse amount I can claim for my child on line 305 of my 2000 tax return be reduced because I will get pay equity payments in 2000?

A8. No. You calculate the equivalent-to-spouse amount you can claim for your child using your child's net income.

Q9. Will the amount for infirm dependants age 18 or older that I can claim for my dependent parent on line 306 of my 2000 tax return be reduced because he or she received pay equity payments in 2000?

A9. The amount you can claim for your dependent parent may or may not be reduced.

You can claim the full amount of \$2,353 if your parent's net income on line 236 of his or her 2000 tax return is \$4,778 or less, and you do not claim any amount for your parent on line 305 of your 2000 tax return.

You can claim a reduced amount if your parent's net income is more than \$4,778 but less than \$7,131. To calculate the reduced amount you can claim, subtract your parent's net income from \$7,131. The result is the amount you can claim as long as you do not claim any amount for your parent on line 305 of your 2000 tax return.

You cannot claim any amount if your parent's net income is \$7,131 or more.

You can find more information about the rules for claiming this non-refundable tax credit at line 306 in your *General Income Tax and Benefit Guide*.

Q10. Will my pay equity employment income I get in 2000 affect my non-refundable tax credit for Canada Pension Plan (CPP) contributions or Quebec Pension Plan (QPP) contributions that I pay in 2000?

A10. Generally, CPP or QPP contributions will be withheld from your pay equity employment income and your other employment income in 2000 at the rate of 3.9% of earnings until the maximum contribution of \$1,329.90 has been withheld. Consequently, if you would not have paid this maximum amount on your regular earnings in the year, the receipt of your pay equity employment income in 2000 will increase the non-refundable tax credit you can claim for CPP or QPP contributions because these contributions will be withheld from your pay equity employment income.

Q11. Will my pay equity employment income I get in 2000 affect my non-refundable tax credit for Employment Insurance (EI) premiums that I pay in 2000?

A11. EI premiums will be withheld from your pay equity employment income and your other employment income in 2000 at the rate of 2.4% of insurable earnings until the maximum premium of \$936 has been withheld. Consequently, if you would not have paid this maximum amount on your regular earnings in the year, the receipt of your pay equity employment income in 2000 will increase the non-refundable tax credit you can claim for EI premiums because these premiums will be withheld from your pay equity employment income.

Q12. Will the caregiver amount that I can claim for my dependant on line 315 of my 2000 tax return be reduced because he or she received pay equity payments in 2000?

- A12. The caregiver amount you can claim for your dependant may or may not be reduced.

You can claim the full amount of \$2,353 if your dependant's net income on line 236 of his or her 2000 tax return is \$11,500 or less, and you do not claim any amount for this dependant on line 305 of your 2000 tax return.

You can claim a reduced amount if your dependant's net income is more than \$11,500 but less than \$13,853. To calculate the reduced amount you can claim, subtract your dependant's net income from 13,853. The result is the amount you can claim as long as you do not claim any amount for this dependant on line 305 of your 2000 tax return.

You cannot claim any amount if your dependant's net income is \$13,853 or more.

You can find more information about the rules for claiming this non-refundable tax credit at line 315 in your *General Income Tax and Benefit Guide*.

- Q13. Will the disability amount transferred from a dependant other than my spouse that I can claim on line 318 of my 2000 tax return be reduced because he or she received pay equity payments in 2000?**

- A13. The amount you can claim may or may not be reduced. This depends on your dependant's taxable income on line 260 of his or her tax return for 2000 and on the total non-refundable tax credits from lines 300 to 315 of that tax return. Use the chart for line 318 on the *Worksheet* included with your forms to find out if the amount will be reduced.

You can find more information about the rules for claiming this non-refundable tax credit at line 318 in your *General Income Tax and Benefit Guide*.

- Q14. Will the amounts transferred from my spouse that I can claim on my 2000 tax return be reduced because my spouse will get pay equity payments in 2000?**

- A14. The amount you can claim may or may not be reduced. This depends on your spouse's taxable income on line 260 of his or her tax return for 2000 and on the total non-refundable tax credits from lines 300, 308, 310, and 312 of that tax return. Use Schedule 2, *Amounts Transferred From Your Spouse*, and the appropriate charts on the *Worksheet* included with your forms to find out if the amount will be reduced.

You can find more information about the rules for claiming this non-refundable tax credit at line 326 in your *General Income Tax and Benefit Guide*.

Q15. Will the pay equity payments I get in 2000 affect the amount of medical expenses I can claim on my tax return for 2000?

A15. The pay equity payments you get in 2000 may or may not affect the medical expenses you can claim.

The medical expenses that you can claim for 2000 have to be reduced by the lesser of \$1,614 and 3% of your net income in 2000. As a result, the pay equity payments you get in 2000 that you have to fully include in your income may reduce the medical expenses that you would have otherwise been able to claim. If your net income in 2000 would have been lower than \$53,800 before including your pay equity payments in your income, your medical expense claim will be affected because you will get pay equity payments in 2000.

You or your spouse can claim medical expenses for you, your spouse, or certain of your dependants. Since the allowable claim is calculated, in part, based on the net income of the person who claims the expenses, it may be more beneficial for the spouse with the lower net income to claim the allowable medical expenses.

You can find more information on the rules for claiming this non-refundable tax credit at line 330 in your *General Income Tax and Benefit Guide*.

Q16. Will the medical expenses adjustment that reduces my medical expense claim for my dependant (other than my spouse) be affected because my dependant will get pay equity payments in 2000?

A16. The pay equity payments your dependant gets in 2000 may or may not affect the claim you can make for his or her medical expenses.

Medical expenses claimed for a year for a dependant (other than your spouse) whose net income in the year is more than \$7,131 have to be reduced. The reduction equals four times the amount of the dependant's net income that is greater than \$7,131. Therefore, if the medical expenses adjustment for a dependant is more than the medical expenses claimed for that dependant, it is not to your benefit to claim medical expenses for that dependant.

You can find more information about the medical expenses adjustment at line 331 of your *General Income Tax and Benefit Guide*.

Q17. Will the pay equity payments I get in 2000 affect the donations and gifts I can claim on my tax return for 2000?

A17. The pay equity payments you get in 2000 may or may not affect the donations and gifts you can claim.

Generally, you can claim all or part of the amount of donations and gifts you make in a year as long as this amount is not more than 75% of your net income in the year. Since you have to include all the pay equity payments you get in 2000 in your income for 2000, these payments will likely increase your net income. As a result, the amount of donations and gifts you make for which you can claim a non-refundable tax credit in 2000 will likely also increase.

You can find more information about claiming this non-refundable tax credit at line 349 of your *General Income Tax and Benefit Guide*.

Q18. Will the refundable medical expense supplement I can claim on line 452 of my 2000 tax return be affected because my spouse or I will get pay equity payments in 2000?

A18. The pay equity payments you or your spouse get in 2000 may or may not affect the refundable medical expense supplement that you can claim.

One of the rules for claiming the refundable medical expense supplement is that the person claiming it must have employment or self-employment income in the year it is claimed. If a pay equity recipient would not have had such income in 2000, a pay equity employment income payment received in 2000 may qualify the recipient to make a claim that otherwise could not be claimed.

The refundable medical expense supplement of up to \$500 for a year is calculated, in part, based on your allowable medical expenses for the year on line 332 of your tax return. It is also calculated based on the combined net income of you and your spouse in the year. Net income is the amount on line 236 of a person's tax return for a year. If your combined net income in 2000 increases because you or your spouse get pay equity payments in the year, your refundable medical expense supplement can be reduced.

If your combined net income in 2000 is \$17,419 or less, you can claim the full refundable medical expense supplement to which you otherwise are entitled for the year.

If your combined net income in 2000 is more than \$17,419, but less than \$27,419, your refundable medical expense supplement to which you otherwise are entitled for the year will be reduced by 5% of the combined net income that is more than \$17,419.

If your combined net income in 2000 is more than \$27,419, you cannot claim any refundable medical expense supplement for 2000.

You can find more information about claiming this refundable tax credit at line 452 of your *General Income Tax and Benefit Guide*, and on Schedule 10,

Refundable Medical Expense Supplement, which is included in the T1 Forms booklet.

Q19. Will the refundable provincial or territorial tax credits I can claim on line 479 of my 2000 tax return be affected because my spouse or I will get pay equity payments in 2000?

A19. The pay equity payments you or your spouse get in 2000 may or may not affect the refundable provincial or territorial tax credits you can claim on line 479 of your 2000 tax return.

Generally, the refundable provincial or territorial tax credits you can claim for a year are calculated, in part, based on the combined net income in the year of you and your spouse. Net income is the amount on line 236 of a person's tax return for a year. If your combined net income in 2000 increases because you or your spouse get pay equity payments in the year, your refundable provincial or territorial tax credits may be reduced.

You can find more information about claiming your refundable provincial or territorial tax credits on the provincial or territorial pink information sheets and forms included with your T1 Forms booklet.

Part 5

Tax information about the Canada Child Tax Benefit (CCTB) and the goods and services tax/harmonized sales tax (GST/HST) credit

Pay equity employment income payments and pay equity interest payments

Q1. I will be getting pay equity payments in 2000. Will the amount I get affect my CCTB payments or any related provincial or territorial benefit program payments?

A1. The pay equity payments you get in 2000 will not affect the CCTB payments or any related provincial or territorial benefit program payments you get in 2000.

However, those pay equity payments may affect the CCTB payments, and any related provincial or territorial benefit program payments you get during the July 2001 to June 2002 payment period. If the pay equity payments you get in 2000 cause your family net income in 2000 to be more than \$29,590, the CCTB payments, and any related provincial or territorial benefit program payments you otherwise would get during the July 2001 to June 2002 payment period, will be reduced.

For more details about the CCTB and any related provincial and territorial benefit program calculations, see the pamphlet called *Your Canada Child Tax Benefit*.

Q2. I will not be getting pay equity payments in 2000, but my spouse will be getting those payments. Will the amount my spouse gets affect my CCTB payments or any related provincial or territorial benefit program payments I get?

A2. The pay equity payments your spouse gets in 2000 will not affect your CCTB payments or any related provincial or territorial benefit program payments you get in 2000.

However, as indicated in answer 1 above, the pay equity payments your spouse gets in 2000 may affect the CCTB payments, and any related provincial or territorial benefit program payments you get during the July 2001 to June 2002 payment period. This is because your CCTB payments, and any related provincial or territorial benefit program payments, are calculated based on family net income. If the pay equity payments your spouse gets cause your family net income to increase, they may reduce your CCTB payments and any related provincial or territorial benefit program payments you get during the July 2001 to June 2002 payment period.

For more details about the CCTB and any related provincial and territorial benefit program calculations, see the pamphlet called, *Your Canada Child Tax Benefit*.

Q3. I receive the National Child Benefit Supplement (NCBS). Will the pay equity payments I get in 2000 affect my supplement?

A3. The pay equity payments you get in 2000 will not affect the NCBS you get in 2000.

However, those pay equity payments may affect your NCBS during the July 2001 to June 2002 payment period. If the pay equity payments you get in 2000 cause your family net income to be more than \$20,921, the NCBS you otherwise would get during the July 2001 to June 2002 payment period will be reduced.

For more details about the CCTB calculation, see the pamphlet called, *Your Canada Child Tax Benefit*.

Q4. I am a resident of British Columbia and I have children eligible for the CCTB. Will the pay equity employment income I get qualify for the British Columbia Earned Income Benefit?

A4. Yes. Your pay equity employment income qualifies for the British Columbia Earned Income Benefit.

Q5. I am a resident of Alberta and I have children eligible for the CCTB. Will the pay equity employment income I get qualify for the Alberta Family Employment Tax Credit?

A5. Yes. Your pay equity employment income qualifies for the Alberta Family Employment Tax Credit.

Q6. I am a resident of Nunavut and I have children eligible for the CCTB. Will the pay equity employment income I get qualify for the Territorial Workers' Supplement?

A6. Yes. Your pay equity employment income qualifies for the Territorial Workers' Supplement.

Q7. I am a resident of the Northwest Territories and I have children eligible for the CCTB. Will the pay equity employment income I get qualify for the Territorial Workers' Supplement?

A7. Yes. Your pay equity employment income qualifies for the Territorial Workers' Supplement.

Q8. I am a resident of New Brunswick and I have children eligible for the CCTB. Will the pay equity employment income I get qualify for the New Brunswick Working Income Supplement?

A8. Yes. Your pay equity employment income qualifies for the New Brunswick Working Income Supplement.

Q9. I will be getting pay equity payments in 2000. Will the amount I get affect my GST/HST credit (which includes the Newfoundland Harmonized Sales Tax Credit)?

A9. Your GST/HST credit payments in 2000 are based on the income shown on your 1998 and 1999 tax returns. Therefore, the pay equity payments you get in 2000 will not affect the GST/HST credit you get in 2000.

However, those pay equity payments may affect the GST/HST credit you get during the July 2001 to June 2002 payment period. If the pay equity payments you get in 2000 cause your family net income in 2000 to be more than \$25,921, the GST/HST credit you otherwise would get during the July 2001 to June 2002 payment period will be reduced.

Part 6
Miscellaneous tax information
Pay equity employment income payments and pay equity interest payments

Q1. Will the child-care expenses I can claim on my 2000 tax return be affected because I will get pay equity payments in 2000?

- A1. The amount that you can claim for child care expenses is generally limited to the least of the following three amounts:
- the child care expenses actually paid;
 - two thirds of the earned income of the person entitled to claim the expenses; or
 - \$7,000 for each child under the age of 7 at the end of the year, and \$4,000 for each child over age 6 and under age 16 at the end of the year.

If you are ordinarily limited to an amount equal to two thirds of your earned income, your pay equity employment income that you will get in 2000 will likely increase your child care expense claim. This is because employment income is included in the calculation of earned income.

Q2. I usually claim our child care expenses because my net income is lower than my spouse's net income. Will the pay equity payments I get in 2000 affect who claims the child care expenses for 2000?

- A2. Generally, child care expenses have to be claimed by the spouse with the lower net income. You have to include all your pay equity payments in your income, and they will likely increase your net income. This may cause your net income in 2000 to be higher than your spouse's net income in 2000.

To determine who can claim the child care expenses in 2000, you have to figure out whether you or your spouse will have the lower net income in the year. Net income is the amount that you would include on line 236 of your tax return if you had no claim for child care expenses on line 214 and no social benefits repayment on line 235.

You can find more information about the child care expenses deduction on Form T778, *Child Care Expenses Deduction*.

Q3. Can I deduct fees I pay to a financial adviser to determine how I should spend my pay equity payments?

- A3. No. Fees paid for general financial planning or counselling cannot be deducted.

Q4. Can I deduct fees I pay to a brokerage house to invest my pay equity payments?

A4. You can deduct fees, other than commissions, paid for advice about buying and selling specific shares or securities if you pay them to someone whose principal business is advising others whether to buy or sell specific shares or securities, or whose principal business includes the administration or management of shares and securities. You deduct these fees on line 221 of your tax return for the year in which you pay them.

Q5. Can I deduct fees paid to a financial adviser to help me choose the proper investments for my RRSP?

A5. No. You cannot deduct the fees you pay to a financial adviser to help you choose which investments your RRSP should buy. These fees are an expense of the RRSP whether you pay them or the RRSP pays them.

Q6. Can I deduct RRSP administration fees?

A6. No. You cannot deduct fees you pay to the trustee of an RRSP to administer your RRSP. These fees are an expense of the RRSP whether you pay them or the RRSP pays them.

Q7. Will I have to repay the Employment Insurance (EI) benefits that I get in 2000 because I will get pay equity payments in 2000?

A7. You may or may not have to repay some or all of the EI benefits you get in 2000.

You will not have to repay any EI benefits you get in 2000 if you got 20 weeks or less of regular benefits after July 1, 1996, and before 2000, and your net income before adjustments on line 234 of your 2000 tax return is less than \$48,750. However, if your net income is more than \$48,750, you will have to repay some or all of the benefits you get. The amount you have to repay is the lesser of:

- the total benefits you get in 2000; and
- 30% of the amount of your net income before adjustments that is more than \$48,750 in 2000.

You will also have to repay some or all of the benefits you get in 2000 if you got more than 20 weeks of regular EI benefits after July 1, 1996, and before 2000, and your net income before adjustments on line 234 of your 2000 tax return is more than \$39,000. In these cases, the amount you generally will have to repay is the lesser of:

- 30% of the amount of your net income before adjustments that is more than \$39,000 in 2000; and

- your repayment rate multiplied by the EI benefits you get in 2000. Your repayment rate is based on the number of weeks of regular benefits you got after July 1, 1996, and before 2000. The rate ranges from 50% to 100%. If the EI benefits you get in 2000 are a combination of regular benefits and special benefits such as maternity benefits, the amount you have to repay for the special benefits is calculated differently than it is for the regular benefits.

If you have to repay some or all of your EI benefits, include the amount you have to repay on line 422 of your 2000 return. It becomes part of your total payable on line 435. In addition, deduct the amount you have to repay on line 235 of your tax return to determine your net income for 2000.

You can find more information about repaying EI benefits at line 235 in your *General Income Tax and Benefit Guide* and on the charts included with your T4E slip, *Statement of Employment Insurance Benefits*.

Part 7
Tax information for pensioners
Pay equity employment income payments and pay equity interest payments

Q1. I will be getting pay equity payments in 2000. I expect these payments will increase my superannuation retroactively, and I will get a lump-sum payment for these retroactive amounts. Do I have to include this retroactive lump-sum pension in my income in the year I get it, or can I include it in my income for the previous years that it applies to?

A1. You have to include all the pension income you get in a year on your tax return for that year.

However, a proposed law that applies to your **retroactive pension payments** may provide some tax savings for you. The proposal allows us to perform a special tax calculation if the part of your retroactive payments that relates to all previous years is \$3,000 or more. If the tax we calculate using this method is less than the amount we calculate in the usual way, you are required to pay only the lesser amount.

If you get retroactive pay equity employment income and retroactive pension payments in the same year, the proposed law applies to the total of all the retroactive payments you get in the year. Therefore, even if your retroactive pension is less than \$3,000, the proposed law may provide some tax savings for you as long as the total of the two retroactive payments you get in the same year is \$3,000 or more.

You can find more information about this proposed law in questions and answers 1 to 4 in Part 1 of this document.

Q2. Will this special tax calculation for preceding years that applies to any retroactive pay equity employment income and retroactive pension payments affect any deductions and credits that I claimed for previous years?

A2. No. There will be no changes to any deduction or credit that you claimed for previous years. Similarly, no change will occur to any income-tested benefit such as the goods and services tax credit that was paid to you in a previous year.

Q3. Will the age amount I can claim on line 301 of my 2000 tax return be reduced because I get pay equity payments in 2000?

A3. The age amount you can claim may or may not be reduced.

You can claim the full age amount of \$3,482 in 2000 if your net income on line 236 of your 2000 tax return is \$25,921 or less.

You can claim a reduced age amount if your net income in 2000 is more than \$25,921 but less than \$49,134. To calculate the age amount you can claim, reduce the age amount of \$3,482 by the amount that equals 15% of your net income that is more than \$25,921.

You cannot claim any age amount in 2000 if your net income in 2000 is \$49,134 or more.

Remember, to claim any age amount, you have to be at least 65 years of age in the year you make your claim.

Q4. I will be getting pay equity payments in 2000. Will I have to repay the Old Age Security (OAS) benefits I get in 2000?

A4. You may or may not have to repay some or all of the OAS benefits you get in 2000.

You will not have to repay any OAS benefits you get in 2000 if your net income before adjustments on line 234 of your 2000 return (which includes all of your pay equity payments and any retroactive pension income you get in the year) is less than \$53,215. However, if your net income before adjustments is more than \$53,215, you will have to repay all or part of these benefits in most cases. The amount you have to repay is the lesser of:

- 15% of your net income before adjustments that is more than \$53,215 in 2000; and
- the total OAS benefits you get in 2000.

If you have to repay some or all of your OAS benefits, include the amount you have to repay on line 422 of your 2000 return. It becomes part of your total payable on line 435. In addition, deduct the amount you have to repay on line 235 of your tax return to determine your net income for 2000.

You can find more information about repaying OAS benefits at line 235 in your *General Income Tax and Benefit Guide* and on the Social benefits repayment chart on the Worksheet included in your T1 Forms booklet.

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Q8. I will be getting pay equity payments in 2000. Will these payments affect my goods and services tax/harmonized sales tax (GST/HST) credit?

A8. Your GST/HST credit payments in 2000 are based on the income shown on your 1998 and 1999 tax returns. Therefore, the pay equity payments you get in 2000 will not affect the GST/HST credit you get in 2000.

However, those pay equity payments may affect the GST/HST credit you get during the July 2001 to June 2002 payment period. If the pay equity payments you get in 2000 cause your family net income in 2000 to be more than \$25,921, the GST/HST credit you otherwise would get during the July 2001 to June 2002 payment period will be reduced.

Q9. Can I make deductible RRSP contributions for 2000 with the pay equity payments I will be getting in 2000?

A9. You may or may not be able to make deductible RRSP contributions for 2000.

To make deductible RRSP contributions for 2000, you must have an RRSP deduction limit for 2000. In addition, to make these contributions to your own RRSP, you must be 69 or younger at the end of the year in which you make your contributions. If you are over 69 at the end of the year, you cannot contribute to your RRSP even if you have an RRSP deduction limit for 2000.

However, if your spouse is 69 or younger at the end of the year, and you have an RRSP deduction limit for 2000, you can make deductible RRSP contributions to your spouse's RRSP.

Generally, since 1991, a person's RRSP deduction limit for a year has been based on the person's previous-year employment or self-employment income. Therefore, if you have been retired for a number of years and used all of your RRSP deduction limit created by your previous years' employment or self-employment income, you will not have an RRSP deduction limit for 2000.

To find out if you will have an RRSP deduction limit for 2000, see your *Notice of Assessment* that we will send you after we process your 1999 tax return, or use our Tax Information Phone Service (T.I.P.S.). T.I.P.S. telephone numbers are listed in the government section of your telephone book. To use T.I.P.S., you will be asked for your social insurance number, your month and year of birth, and the total income you reported on line 150 of your previous year's tax return.

Q10. I can no longer have an RRSP because I am over 69. Can I put any of my pay equity payments into a registered retirement income fund (RRIF)?

A10. No. None of your pay equity payments can be contributed to a RRIF.

Q11. I have already started making quarterly instalment payments in 2000, based on my 1999 tax payable. These instalment payments will probably not be enough because I will be getting pay equity payments in 2000. Will I have to pay a penalty because I did not make enough instalment payments?

A11. No. One of the methods you can use to calculate your instalment payments is to base them on your previous year's tax. If you base your 2000 instalment payments on your 1999 tax payable, you will not have to pay a penalty. However, the additional tax that you would owe for 2000 has to be paid before May 1, 2001, or you will be charged interest on the unpaid amount.

Q12. The pay equity payments I will be getting in 2000 will increase the tax I have to pay for 2000. Does this mean that I will have to make higher instalment payments in 2001, even though I will not be getting extra income in 2001?

A12. Not necessarily. One of the methods you can use to calculate your instalment payments in 2001 is to base them on the amount you expect your tax will be in 2001. As long as you calculate that tax correctly, there is no requirement to base your instalment payments for 2001 on your tax payable for 2000. However, if the amount you calculate is too low, you may have to pay a penalty on the difference.

Q13. Will the refundable provincial or territorial tax credits I can claim on line 479 of my 2000 tax return be affected because my spouse or I will get pay equity payments in 2000?

A13. The pay equity payments you or your spouse get in 2000 may or may not affect the refundable provincial or territorial tax credits you can claim on line 479 of your 2000 tax return.

Generally, the refundable provincial or territorial tax credits you can claim for a year are calculated, in part, based on the combined net income in the year of you and your spouse. Net income is the amount on line 236 of a person's tax return for a year. If your combined net income in 2000 increases because you or your spouse get pay equity payments in 2000, your refundable provincial or territorial tax credits may be reduced.

You can find more information about claiming your refundable provincial or territorial tax credits on the provincial or territorial pink information sheets and forms included with your T1 Forms booklet.

Q14. When I complete my return for 2000, are there any other things I should keep in mind?

A14. Yes. These payments may affect how you choose to report dividends you or your spouse get in 2000. Line 120 in your tax guide has more information about reporting dividends.

In addition, you may want to consider which of you claims the northern residents deductions (line 255 in your tax guide), medical expenses (line 330 in your tax guide), and charitable donations (line 349 in your tax guide).