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# Payroll Fundamentals 1Exam

## National Payroll Institute PF1

### Version Demo

**Total Demo Questions: 10**

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## QUESTION NO: 1

The formula for calculating net pay is:

**A.** Pensionable earnings minus total deductions

**B.** Gross earnings minus total deductions

**C.** Gross earnings minus total tax

**D.** Net taxable income minus total deductions

## ANSWER: B

**Explanation:**

Gross earnings minus total deductions is the correct general formula for net pay. Gross earnings are the employee's total earnings before deductions, including regular wages and other amounts that must be processed through payroll. Total deductions include the statutory amounts an employer is required to withhold, such as income tax, Canada Pension Plan contributions or Quebec Pension Plan contributions where applicable, and Employment Insurance premiums. They may also include properly authorized deductions, such as registered pension plan contributions, benefit premiums, union dues, or garnishment amounts. Subtracting the complete amount of deductions from gross earnings produces net pay: the amount payable to the employee, commonly called take-home pay. Payroll professionals must distinguish the gross-to-net calculation from calculations used for individual statutory deductions, since each deduction can use a different earnings base and set of rules. The Canada Revenue Agency's payroll guidance directs employers to calculate payroll deductions from employee remuneration and remit the amounts withheld, while paying employees the remaining net amount. See the CRA's Payroll information for employers and its Payroll deductions tables.

## QUESTION NO: 2

Which of the following deductions would be the last payroll withholding in order of priority?

**A.** Requirement to Pay

**B.** Third Party Demand

**C.** The organization's pension plan

**D.** Voluntary insurance coverage

## ANSWER: D

**Explanation:**

Voluntary insurance coverage is correct because it is an employee-authorized, discretionary payroll deduction and therefore has the lowest withholding priority. Payroll professionals must first protect deductions that an employer is legally required to remit, including statutory source deductions and amounts subject to a legal demand or garnishment. These higher-priority obligations are not optional and must be handled in accordance with the applicable legislation, court order, or government direction. Once required withholdings have been calculated and sufficient net pay remains, the employer can process employee-authorized deductions such as insurance premiums. This ordering helps ensure that voluntary deductions do not reduce an employee's pay to the point that legally required amounts cannot be withheld and remitted. The Canada Revenue Agency explains that a Requirement to Pay requires a third party, such as an employer, to pay amounts otherwise payable to a taxpayer to the CRA: CRA: Requirements to Pay. CRA guidance on payroll deductions and remittances is available at CRA: Payroll. Employers should also follow the applicable provincial employment-standards rules and the specific terms of the employee's written authorization for voluntary insurance coverage.

## QUESTION NO: 3

Raminder was hired in January 1997. He was fully vested in the organization's pension plan at the time he received the retiring allowance. His employment was terminated on May 1, 2006 and he was paid a $10,000.00 retiring allowance. Calculate the eligible portion of the retiring allowance.

**A.** $2,000.00

**B.** $7,500.00

**C.** $10,000.00

**D.** None of the retiring allowance is eligible

**ANSWER: D**

**Explanation:**

None of the retiring allowance is eligible. An eligible retiring allowance is the portion of a retiring allowance that may be transferred directly to an RRSP under the special transfer rules in paragraph 60(j.1) of the Income Tax Act, without using the employee's regular RRSP deduction limit. The basic amount is calculated as $2,000 for each year, or part year, of employment with the employer before 1996. An additional $1,500 may apply for each pre-1989 year in which the employee had not vested in employer contributions to a pension plan or deferred profit-sharing plan. Raminder's employment began in January 1997, so he has no years or part-years of employment before 1996. Consequently, the basic eligible amount is zero. As there are also no years before 1989, the additional amount is zero regardless of his vested status. The $10,000 payment may still be a retiring allowance subject to the applicable payroll withholding requirements, but no portion qualifies for the special eligible-retiring-allowance RRSP transfer calculation. The governing statutory provision is available at Income Tax Act, section 60; CRA guidance on these transfers is available at CRA: Transferring retiring allowances.

**QUESTION NO: 4**

The Canada Revenue Agency form that is completed to allow a commissioned employee to claim non-reimbursed expenses at source is a:

**A.** TD1

**B.** TP-1015.R.13.1-V

**C.** TD1X

**D.** T777

**ANSWER: C**

**Explanation:**

TD1X is the correct form because it is the Canada Revenue Agency's "Statement of Commission Income and Expenses for Payroll Tax Deductions." A commissioned employee, including an employee paid a salary plus commissions, may complete this form when they expect to incur employment expenses that will not be reimbursed and that may be deducted in calculating their income for the year. The employee gives the completed TD1X to their employer so the employer can take the estimated deductible commission expenses into account when calculating federal income tax deductions from commission payments. This process helps align source deductions more closely with the employee's anticipated taxable income during the year, rather than requiring the employee to wait until filing their personal income tax return to receive the full tax effect of those expenses. The form is specifically intended for payroll tax-deduction purposes, and the employee must provide reasonable estimates of their commission income and eligible expenses. Payroll should retain the completed form in its records and use it when determining the appropriate income-tax withholding treatment. The CRA's form page is available at Form TD1X — Statement of Commission Income and Expenses for Payroll Tax Deductions. Additional CRA guidance on employees paid by commission is available at Employee paid by commission.

**QUESTION NO: 5**

The authorization for hiring form should contain a checklist to ensure the organization obtains all required information. What is an example of an item that could be on that checklist?

**A.** A clearance certificate

**B.** A completed T1213

**C.** A benefit enrollment form

**D.** All of the above

**ANSWER: C**

**Explanation:**

A benefit enrollment form is an appropriate example of an item on an authorization-for-hiring checklist because the checklist helps coordinate the information and documents required to establish a new employee in the employer's payroll and related HR programs. Where the employer offers insured benefits or a group retirement plan, the employee's enrolment elections can affect eligibility dates, employee deductions, employer contributions, dependent coverage, and beneficiary information. Capturing the form during the hiring process helps ensure that the payroll department receives the information needed to begin any applicable deductions accurately and on time, while HR or the benefits administrator can submit the employee's elections to the carrier or plan administrator. The National Payroll Institute identifies employee onboarding and the administration of payroll-related deductions and benefits as practical payroll responsibilities; see its payroll education and certification information. In addition, the Canada Revenue Agency confirms that taxable benefits and deductions are payroll considerations for employers in its guide to benefits and allowances. A benefit enrollment form therefore fits the purpose of a hiring authorization checklist: confirming that necessary employment setup documentation has been obtained and routed before payroll processing begins.

## QUESTION NO: 6

An organization pays the premiums for a sickness or accident plan for their president only. This would be considered:

**A.** A taxable allowance

**B.** A cash taxable benefit

**C.** A non-cash taxable benefit

**D.** None of the above

**ANSWER: C**

**Explanation:**

**A non-cash taxable benefit** is correct because the coverage is provided only to the president, rather than through a group sickness or accident insurance plan. When an employer pays premiums for a non-group sickness or accident insurance plan for an employee, the premium amount is a taxable benefit to that employee. The taxable value is generally the premium paid by the employer for the employee's coverage during the relevant pay period or year.

The benefit is non-cash because the organization pays the insurer directly and provides insurance protection to the president; it does not pay money directly to the president as salary, an allowance, or a reimbursement. Payroll should therefore include the taxable value of the employer-paid premiums in the president's employment income, subject to the applicable statutory deduction treatment, and report the benefit on the employee's T4 information return. CRA's guidance on employer-paid insurance premiums identifies premiums for a non-group sickness or accident insurance plan as a taxable benefit. CRA also explains the distinction between cash and non-cash benefits based on how the employee receives the benefit.

See the CRA's Insurance premiums guidance and its Benefits and allowances overview.

## QUESTION NO: 7

Which of the following company-compulsory deductions would reduce the employee's gross taxable income for purposes of withholding income taxes?

**A.** Employee contributions to a group Registered Retirement Savings Plan (RRSP)

**B.** Employee payment of provincial health care plan premiums

**C.** Employee payment of a portion of group benefit plan premiums

**D.** All of the above

**ANSWER: A**

**Explanation:**

Employee contributions to a group Registered Retirement Savings Plan (RRSP) reduce the employee's taxable remuneration used to calculate payroll income-tax withholding, provided the contributions are deductible by the employee. This payroll treatment gives effect to the RRSP deduction as contributions are made, rather than requiring the employee to wait until filing an income tax and benefit return to obtain the tax reduction. The amount remains subject to CPP contributions and EI premiums; the reduction applies specifically to the income-tax withholding calculation. Payroll must also ensure that the contribution is within the employee's available RRSP deduction limit and that the arrangement is administered as a qualifying deductible RRSP contribution. The Canada Revenue Agency's payroll guidance permits an employer that deducts RRSP contributions from an employee's remuneration to reduce the income tax withheld by the contribution amount when it is reasonable to expect that the employee can deduct it. This is consistent with the CRA's general RRSP guidance: deductible contributions may be claimed to reduce taxable income. See the CRA's Employers' Guide – Payroll Deductions and Remittances (T4001) and its RRSP contributions guidance.

## QUESTION NO: 8

Which of the following situations would not require an employer to issue a Record of Employment?

**A.** Full-time employee went on 6 weeks' unpaid leave of absence

**B.** Employee's earnings fall to 40% of their normal weekly earnings

**C.** A business is sold and the new owner retains all employees and payroll records with no loss of earnings

**D.** Employee is laid off and will not be recalled

**ANSWER: C**

**Explanation:**

"A business is sold and the new owner retains all employees and payroll records with no loss of earnings" is the situation in which the former employer may not need to issue a Record of Employment (ROE). A change in business ownership does not by itself create an interruption of earnings. Where employees continue working without a break in earnings, the payroll records are transferred or otherwise available to the purchaser, and the new owner agrees to issue an ROE that covers employment with both the former and new employer if one is later required, Service Canada permits the former employer not to issue a separate ROE at the time of sale. This approach preserves a complete and continuous record of the employee's insurable employment and earnings while avoiding unnecessary duplicate ROEs. Payroll staff should ensure that the transfer of payroll information is reliable and that the successor employer understands its responsibility to produce a combined ROE if an interruption of earnings subsequently occurs. The applicable Service Canada guidance describes both the general obligation to issue ROEs when an interruption of earnings occurs and the special handling available for a change in ownership. See the Government of Canada's guide to completing the Record of Employment form and its Record of Employment information for employers.

## QUESTION NO: 9 - (SIMULATION)

Jasmine works for a Saskatchewan employer and earns $500.00 weekly. Calculate her Employment Insurance (EI) premium.

**ANSWER: Check the explanation for the answer**

**Explanation:**

**EI premium: $8.15 per week.**

Saskatchewan is outside Quebec, so use the regular employee EI rate of **1.63%** (or $1.63 per $100 of insurable earnings).

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$500.00 × 0.0163 = $8.15
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Therefore, deduct **$8.15** in EI premiums from Jasmine's weekly pay, assuming her earnings are insurable and she has not reached the annual EI maximum.

## QUESTION NO: 10 - (SIMULATION)

National Hardware, an Ontario organization, will be terminating the employment of Emilie St. Germain on October 28, 2019, the last day of the pay period. Emilie started with National Hardware on September 19, 2007. Complete the paper Record of Employment (ROE) for Emilie based on the information provided in the following chart.

Note: Vacationable earnings already include the pay in lieu of notice.

All dates must be entered in the format DDMMYYYY.

Paper ROE (Form Reference)

Complete the following paper ROE blocks for Emilie:

Block 6 – Pay period type

Block 8 – Social Insurance Number

Block 10 – First day worked

Block 11 – Last day for which paid

Block 12 – Final pay period ending date

Block 15A – Total insurable hours

Block 15B – Total insurable earnings

Block 17A – Vacation pay

Block 17C – Other monies (Pay in lieu of notice)

Block 17C – Other monies (Severance)

Step 1 — Complete Block 6

Enter the pay period type for Emilie.

Step 2 — Complete Block 8

Enter Emilie's Social Insurance Number.

Step 3 — Complete Block 10

Enter Emilie's first day worked in DDMMYYYY format.

Step 4 — Complete Block 11

Enter Emilie's last day for which paid in DDMMYYYY format.

Step 5 — Complete Block 12

Enter the final pay period ending date in DDMMYYYY format.

Step 6 — Complete Block 15A

Calculate and enter total insurable hours.

Given:

Hours worked per pay period = 80.00

Bi-weekly ROE pay period chart captures 27 pay periods

Step 7 — Complete Block 15B

Calculate and enter total insurable earnings.

Given:

Pay period earnings = $1,884.62

Bi-weekly ROE pay period chart captures 27 pay periods

Step 8 — Complete Block 17A

Calculate and enter vacation pay.

Given:

Vacation pay rate = 6%

Vacationable earnings = $52,050.00

*(already includes pay in lieu of notice)*

Step 9 — Complete Block 17C

Enter the correct amount in 17C for "Other monies" specified as Pay in lieu of notice.

Given:

Pay in lieu of notice = 8 weeks

Use weekly earnings derived from the bi-weekly pay period earnings.

Step 10 — Complete Block 17C

Enter the correct amount in 17C for "Other monies" specified as Severance.

Given:

Severance = 10 weeks

Use the same weekly earnings used in Step 9.

**ANSWER: Check the explanation for the answer**

**Explanation:**

Complete the paper ROE as follows:

**Block 6 — Pay period type:** `Bi-weekly`
**Block 8 — Social Insurance Number:** `435837159`
**Block 10 — First day worked:** `19092007`
**Block 11 — Last day for which paid:** `28102019`
**Block 12 — Final pay period ending date:** `28102019`
**Block 15A — Total insurable hours:** `2160`
**Block 15B — Total insurable earnings:** `50884.74`
**Block 17A — Vacation pay:** `3123.00`
**Block 17C — Other monies, Pay in lieu of notice:** `7538.48`

**Block 17C — Other monies, Severance:** `9423.10`

**Calculations:**

Block 15A: `80.00 hours × 27 pay periods = 2,160 hours`.
Block 15B: `$1,884.62 × 27 = $50,884.74`.
Block 17A: `$52,050.00 × 6% = $3,123.00`. The vacationable earnings figure already includes the pay in lieu of notice, so no further adjustment is made.
Weekly earnings: `$1,884.62 ÷ 2 = $942.31`.
Pay in lieu: `$942.31 × 8 weeks = $7,538.48`.
Severance: `$942.31 × 10 weeks = $9,423.10`.