Retiring allowances
A retiring allowance (also called severance pay) is an amount paid to officers or employees when or after they retire from an office or employment in recognition of long service or for the loss of office or employment.

A retiring allowance includes:
■ payments for unused sick-leave credits on termination; and
■ amounts individuals receive when their office or employment is terminated, even if the amount is for damages (wrongful dismissal).

A retiring allowance does not include:
■ a superannuation or pension benefit;
■ an amount an individual receives as a result of an employee’s death,(these payments may be treated as death benefits);
■ a benefit derived from certain counselling services;
■ payments for accumulated vacation leave not taken prior to retirement;
■ pay in lieu of termination notice; and
■ damages for violations or alleged violations of an employee’s human rights awarded under human rights legislation to the extent these amounts are not taxable, as explained in Interpretation Bulletin IT-337, Retiring Allowances.

Transfer of a retiring allowance
There are situations when a person can transfer all or part of a retiring allowance to a registered pension plan (RPP) or a registered retirement savings plan (RRSP). A retiring allowance may be paid over one or more years. The amounts paid in any particular year may be transferred to an RRSP, but cannot exceed the employee’s eligible portion of the retiring allowance minus the eligible portion transferred by the employee in a prior year. The accumulated payments cannot exceed the total eligible amount.

The amount that is eligible for transfer under section 60(j.1) of the Income Tax Act is limited to:
■ $2,000 for each year or part of a year before 1996 that the employee worked for you; plus
■ $1,500 for each year or part of a year before 1989 of that employment in which none of your contributions to the RPP or DPSP were vested in the employee’s name when you paid the retiring allowance. Determine the equivalent number of years of vesting by referring to the terms of the particular plan. The number can be a fraction.

The recipient can contribute the non-eligible part to the RRSP, or to a spousal or common-law partner’s RRSP, up to the amount of the recipient’s available RRSP deduction limit. In this situation, you will withhold income tax.

However, you can contribute the non-eligible part directly on the recipient’s behalf to the recipient’s RRSP or to a spousal or common-law partner RRSP if you have reasonable grounds to believe that the amount can be claimed based on the recipient’s RRSP deduction limit. In this situation, you do not have to deduct income tax on the amount of the retiring allowance that you transfer directly.
Example
In November 2001, you pay Bruno, your ex-employee, who is single, a retiring allowance of $50,000. He worked for you from 1980 to 2001 (22 years, including part-years of service). According to the terms of the pension plan, his contributions are not vested in the pension plan. Therefore, you can only reimburse his contributions to the plan. Calculate the amount of retiring allowance eligible for transfer as follows:

- $2,000 × 16 years (from 1980 to 1995, including part-years) $32,000
- $1,500 × 9 years (from 1980 to 1988, including part-years) $13,500

**Total eligible for transfer $45,500**

**Note** You can no longer transfer $2,000 per year of service to an RRSP for 1996 and following years.

Bruno is allowed to transfer directly $45,500 to an RRSP, without tax deductions. The difference of $4,500 between the allowance paid and the maximum eligible for transfer could be directly transferred to Bruno's RRSP, without tax deductions, if he informs you that it is within his deduction limit.

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**Direct or Indirect Transfer to an RRSP**

The tax-free transfer of a retiring allowance to an RRSP may be “indirect”; that is, the retiring allowance may be paid out, but then it must be contributed to an RRSP within 60 days following the end of the year of receipt, and the employee must complete Schedule 7 with the tax return. It is possible, however, to have the employer contribute the eligible retiring allowance “directly” to an RRSP. Although the TD2 form was eliminated a few years ago, organizations are wise to have employees provide details regarding their transfer intentions and the details related to the transfer. An RRSP contribution slip will be prepared, and the amounts will be reported as income. The employee claims the RRSP deduction and completes Schedule 7 with the tax return.

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The following forms must be completed and submitted to Payroll:

1) Calculation and Transfer of Retiring Allowance
2) Severance Election Authorization Form
3) Payment Instruction Form to Payroll

**Note: Not completing these forms correctly may delay the processing of the Retiring Allowance. If forms are not completed correctly, then the Payroll Department will not process the forms. They will be returned to the ‘issuer’ for correction.**
Calculation and Transfer of Retiring Allowance

Employee Name: ____________________________ Personnel Number: ____________________________

Employment Date: ____________________________ Termination Date: ____________________________

Calculation of Transfer of Retiring Allowance

1. $2,000 for each year or part of a year before 1996 that the retiree worked for you (or a person related to you); plus $____________________

2. $1,500 for each year or part of a year before 1989 of that employment in which none of your contributions to the RPP or DPSP were vested in the employee's name when you paid the retiring allowance. Determine the equivalent number of years of vesting by referring to the terms of the particular plan. $____________________

Total Calculation of Transfer of Retiring Allowance $ ____________________

as per Income Tax Act 60(j.1))

Completed By: ____________________________ (print name) Telephone: ________________
__________________________ (signature) Date: ________________

CC: Departmental Business Officer
Page 3 of 5
Severance Election Authorization Form

Name: __________________________________________ Personnel Number: ________________
Home Address: _____________________________________ SIN: ____________________________
Home Telephone: ____________________________ Total Severance: $ ________________________

SECTION I: SEVERANCE TO BE TAX-SHELTERED

See last page: ‘DIRECT TRANSFER OF A RETIRING ALLOWANCE’

SECTION II: SEVERANCE TO BE TAKEN IN A LUMP-SUM PAYMENT

I wish to take the balance of my severance, $ _____________, in a lump-sum payment. I understand that Income Tax will be deducted from this payment.

Severance Cheque:  To Be Mailed to Employee ☐  ROE:  To Be Mailed to Employee ☐
To Be Picked Up by Employee ☐  To Be Picked Up by Employee ☐
To Be Deposited into Bank Account (If received by Payroll deadline) ☐

SECTION III: BENEFITS CONTINUATION (all benefits suspended as of termination date unless otherwise indicated below)

Refer to employee group policies or collective agreement for eligibility of benefits continuation

<table>
<thead>
<tr>
<th>Benefit Plan</th>
<th>End Date:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group Life Plan</td>
<td></td>
</tr>
<tr>
<td>Dental Care Plan</td>
<td></td>
</tr>
<tr>
<td>Extended Health Care Plan</td>
<td></td>
</tr>
<tr>
<td>Semi-Private Hospital Accom. Plan</td>
<td></td>
</tr>
<tr>
<td>Joint Membership Plan</td>
<td></td>
</tr>
<tr>
<td>Vision Care Plan</td>
<td></td>
</tr>
</tbody>
</table>

Full Premiums (i.e., both employee and employer cost of benefits)
Deducted from Final Pay ☐  OR  Paid by Cheque: Lump Sum ☐ Instalments ☐

Employee’s Authorization: ________________________________  Signature: __________________
Date: __________________

Payment Instruction Form to Payroll

Employee Name: ____________________________ Personnel Number: ________________
Employee Subgroup: Uswa / Confidential/ PM/ Other Staff Group:

SECTION I: SEVERANCE PROCESSING

Total Severance = $ ________________________
Of the Total Severance, please process payment as follows:

Source of Payment
Total severance to be paid from Central Fund:
• Operating ☐ /Restricted ☐ /Ancillary ☐

OR

Severance to be paid as follows:
• $ __________________ from Central Fund:
  Operating ☐ /Restricted ☐ /Ancillary

For Payroll Use Only: Approval for Central Fund: ____________________________

• $ __________________ from:
  GL ____________________________
  CC ____________________________

CC:  Departmental Business Officer
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**SECTION II: RECORD OF EMPLOYMENT (ROE)**

Reason for Termination: (In all cases, code as K)

<table>
<thead>
<tr>
<th>Option</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organizational Change (Layoff)</td>
<td>Employee was released/laid off involuntarily for reasons of Organizational Change.</td>
</tr>
<tr>
<td>Voluntary Exit Package (VEP)</td>
<td>Employee resigned to preserve the job of a co-worker under the Workforce Reduction Program.</td>
</tr>
<tr>
<td>Enhanced Early Retirement (EERP)</td>
<td>Employee early retired to preserve the job of a co-worker under the Workforce Reduction Program.</td>
</tr>
<tr>
<td>Other</td>
<td>Please explain:</td>
</tr>
</tbody>
</table>

Completed By: ____________________________ (print name)  
______________________________ (signature)  
Telephone: ____________________  
Date: _____________________
This form can be used for the transfer of either the eligible or non-eligible part of a retiring allowance to a Registered Retirement Savings Plan (RRSP). The employer must deduct income tax from any part of a retiring allowance paid directly to the employee or former employee. However, an employer does not have to deduct income tax on the allowance that is directly transferred to the recipient’s RRSP. The amount transferred, as well as any other retiring allowance amounts paid to the employee or former employee, will be reported by the employer on a T4A for Canada Revenue Agency purposes.

Details of the Transfer:
Employee Last name: (please print) : _____________________________________________
Employee Usual first name and initials: ___________________________________________
Employee Home Address:  _____________________________________________
Home Telephone Number:   _____________________________________________

Transfer of Retiring Allowance to RRSP:  $_______________________________________

Additional RRSP Contributions (*if eligible)
* In addition to this amount, of my total severance, I wish to tax-shelter $________ I have been advised by the Canada Customs and Revenue Agency that this amount does not exceed the current RRSP contribution room I have available. I understand that Income Tax will not be withheld at source from this transfer and the eligibility of these funds as a tax-shelter is solely my responsibility and that I am responsible for any penalties with respect to RRSP over-contributions

Transfer Funds To:
1) Name of Financial Institution: __________________________________________________
   Address:________________________________________________________________
   Contact Name: _____________________________________________________________
   Name of Plan: ______________________________________________________________
   Contract or Account Number: ________________________________________________
   Amount: $ _________________________________________________________________

2) Name of Financial Institution:
   Address:________________________________________________________________
   Contact Name: _____________________________________________________________
   Name of Plan: ______________________________________________________________
   Contract or Account Number: ________________________________________________
   Amount: $ _________________________________________________________________

Please Note: Ensure this form is fully completed with correct information or there may be a delay in your payment(s) being transferred. You must provide the name of the institution we are to make the cheque payable to. Please provide a complete mailing address including postal code. You need to provide an account number for your RRSP. Sufficient information must be provided for the institution to identify your payment. Since many institutions have central processing units for these payments, the payment may not go directly to your broker or agent.

Signature of Employee:  ___________________________  Date: ________________________

For Payroll Use Only:
<table>
<thead>
<tr>
<th>Eligible amount $</th>
<th>Non-eligible amount $</th>
</tr>
</thead>
</table>

Payroll Department Contact Information: Bala Rasiah, Supervisor Payroll Accounting, (416) 978-4838

CC:  Departmental Business Officer
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