Payroll deductions: what employers need to know about changes to provincial income tax rates

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On March 21, 2023, during his traditional budget speech, the Minister of Finance of Québec announced that Quebecers will benefit from a general reduction in personal income taxes starting in 2023. The effect will be a reduction in the tax rates that apply to the first two taxable income brackets of the personal income tax table.

In addition to having a positive impact on Quebecers' disposable income, the tax cut will also have repercussions on source deduction rates applied to certain payments and remuneration.

The fixed rates used for provincial income tax source deductions on lump-sum payments have been changed. Employers will therefore have to adjust their calculations for such payments. This will be the case, for example, where sums are paid as retiring allowances, as is frequently the case in the settlement of certain employment termination agreements.

Previously, the rate used to calculate provincial income tax source deductions on a retiring allowance payment was 15% for amounts up to $5,000, and 20% for payments over $5,000. The income tax deductions on such payments made after June 30, 2023, is now 14% for amounts up to $5,000, and 19% for payments over $5,000.

Table of provincial and federal income tax source deduction rates for lump-sum payments, effective July 1, 2023, by amount of lump-sum payment (e.g. retiring allowance):

$5,000 or less	
Provincial tax rate	Federal tax rate
14%	**5%**
Over $5,000 up to $15,000	
Provincial tax rate	Federal tax rate
19%	**10%**

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Over $15,000	
Provincial tax rate	Federal tax rate
19%	**15%**

Although it may seem trivial, this review of provincial income tax source deduction rates has far-reaching implications, given that these are often used by parties especially in the negotiation of employment termination agreements. Human resources and payroll professionals must use the new income tax source deductions in their employment termination negotiations to ensure that they are tax compliant. A positive outcome of these rates is that employees will now have more disposable income after tax for the same amount paid by their employer. Such a measure could make reaching an agreement easier in the context of tough negotiations.

As an employer, it is essential that you update your payroll systems and processes to correctly reflect the new income tax rates and ensure tax compliance.

Our team of labour law and tax professionals is available to answer your questions about this change and help you make informed decisions that will benefit your business.

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