
Withholding and Reporting Requirements

Relationships between workers and payers can vary. Your status may have tax and benefit implications.

Employee

If you are an employee, your employer will deduct Canada Pension Plan (CPP) contributions, employment insurance (EI) premiums, and income tax from your pay. The income taxes deducted, together with your and your employer's share of CPP and EI, will be remitted to the Canada Revenue Agency (CRA). At the end of the year, your employer will report your income and deductions on a T4 slip – Statement of Remuneration Paid.

Self-employed individual

If you are a self-employed individual (sometimes referred to as an independent contractor), you will not have CPP, EI, and income tax deducted from amounts paid to you. At the end of the year, you are responsible for making the following payments:

- CPP contributions
- EI premiums if you entered into an agreement with the Canada Employment Insurance Commission to have access to EI special benefits, such as maternity, parental, sickness or caregiving benefits
- all income taxes you owe

All amounts paid to you must be reported on a T4A slip – Statement of Pension, Retirement, Annuity and Other Income.

Personal services business

You may choose to incorporate; however, if you would normally be an employee if it were not for the existence of the corporation, the CRA will consider you a personal services business. This is sometimes referred to as an incorporated employee.

Tax implications

Personal services businesses are not entitled to income tax deductions available to other corporations, such as the small business deduction and the general rate reduction. Your corporation will be subject to the full federal and provincial tax rates on all taxable income. For 2018, the federal tax rate is 33%.

In addition, personal services businesses cannot deduct most expenses available to other corporations. These types of expenses include things such as office supplies, travel expenses, meals, and cell phone costs. The only expenses that your corporation will be able to deduct are:

- the salary and wages the corporation pays to its incorporated employee(s)
- any benefit or allowance the corporation provides to its incorporated employee(s)
- legal expenses the corporation incurs for collecting amounts owing to it

Reporting

All amounts paid to your corporation must be reported on T4A slips. For more information, see Guide [RC4157, Deducting Income Tax on Pension and Other Income, and Filing the T4A Slip and Summary](#).

You will be responsible for filling out a T2 corporate income tax return for the personal services business in addition to a T1 personal income tax and benefit return as an individual.

Amounts paid by one business for services provided by another business are not subject to statutory payroll deductions. However, if you pay salary and wages to yourself from your corporation, or to another employee of your corporation, you will have to withhold income tax, CPP and, in some cases, EI. At the end of the year, the corporation will have to report the income paid to employees and the deductions on T4 slips. For more information, see Guide [RC4120, Employers' Guide – Filing the T4 Slip and Summary](#).

Compliance

The CRA is committed to protecting and maintaining the fairness and integrity of Canada's tax system and takes tax evasion very seriously. Tax evasion includes under-reporting your income or claiming expenses you are not eligible for. When the CRA finds cases of non-compliance, it educates the taxpayer on their tax obligations, makes sure they prepare and file their returns correctly, and takes the necessary enforcement actions to make sure they comply with the law.