Submission by

the Public Service Alliance of Canada

to the

Senate Standing Committee on National Finance

re

Bill C-97, An Act to implement certain provisions of the budget tabled in Parliament on March 19, 2019 and other measures, Part 1(n)

June 5, 2019
The Public Service Alliance of Canada (PSAC) represents 180,000 workers across Canada including thousands of federal public sector workers in government departments and agencies, crown corporations, museums, workers in the federal transportation sector at airports and port authorities, and others.

Overpayments created tax problems

For more than three years, the Public Service Alliance of Canada has been working to mitigate the harm suffered by our members and other federal public service workers that has been inflicted by the Phoenix pay system. PSAC members have been underpaid, overpaid or not paid at all during this period.

In the case of overpayments, employees have been responsible for repaying the gross amount which they never actually received. This was done with the expectation that the employee would receive the difference between the net amount and gross amount in a future tax return, if the overpayment was not addressed with the same calendar year.

But rather than limiting the burden of these Phoenix errors to calculating the overpayment and repaying it to the employer, the government had forced these workers to reimburse the gross amount of the overpayment (CPP payments, income tax deductions, etc...) – significantly more than the amount they received.

Not only has this been a financial burden, but it has resulted in years of tax return problems for thousands of workers who had done nothing to cause them. And while, at PSAC’s prodding, the government had introduced some mitigating measures, they failed to fully address the full extent of the problem.

As a result, as far back as January 2018, PSAC had been asking for a complete exemption, through a remission order, to deal with the unfair recovery of gross pay.

Department of Finance response

In mid-January 2019, the Department of Finance announced consultations on draft tax legislation regarding salary overpayments, including those made through the Phoenix pay system. The Department acknowledged the problem in its announcement.

“Under current legislation, any employee who received an overpayment in the previous year is required to pay back the gross amount of this overpayment to their employer. The employee must recover from the Canada Revenue Agency (CRA), the excess income tax, Canada Pension Plan (CPP) contributions and Employment Insurance (EI) premiums that were deducted by their employer when the overpayment was made. This may put an unfair burden on affected employees and may require them to make repayments that
are larger than the amount they received from their employer, creating uncertainty and potential financial hardships.”

Those legislative proposals have now been included in Bill C-97, the *Budget Implementation Act*.

These changes will, under certain conditions, allow an affected employee to repay only the net amount of the overpayment received in the previous year, rather than the gross amount. The Canada Revenue Agency will be able to refund the additional income tax, CPP and EI deductions generated by the overpayment directly to the employer, in this case, the federal government.

**Conclusion**

While we would have preferred to have this legislation introduced before now, PSAC fully supports the proposed changes contained in Bill C-97 that will finally address one of the key concerns with overpayments resulting from the Phoenix pay system.

Far too many federal public service workers have been – and continue to be – the innocent victims of the Phoenix payroll system.

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