

Pro-ration of Administrative Payroll

Policy 1-38-3 states that an employer's administration and/or management payroll must be reported and assessed in the classification assigned to that employer. It further states that the administration, management or other common payroll¹ must be pro-rated in the ratio of "net assessable direct payroll"².

There are generally two situations where common payroll is pro-rated in the ratio of net assessable direct payroll:

- An employer is assigned two or more classifications; or
- Two or more separate companies have common controlling shareholders but different classifications or assessment rates.

The following two sections exemplify situations where this is done.

A) An employer is assigned two or more classifications and has common administrative payroll

Example

A firm is assigned classifications in both manufacturing and construction operations. It maintains three separate payrolls that reflect each classification as well as its common payroll in administration.

	<u>Manufacturing</u>	<u>Construction</u>	<u>Administration</u>
Gross ³	\$2,500,000	\$4,500,000	\$900,000
Excess	500,000	1,500,000	300,000
Net	\$2,000,000	\$3,000,000	\$600,000

To pro-rate the administrative payroll, first determine the ratio of net assessable direct payroll:

		<u>Ratio</u>
Manufacturing direct assessable payroll	\$2,000,000	40%
Construction direct assessable payroll	3,000,000	60%
Total	\$5,000,000	100%

Apply these ratios and pro-rate the administration payroll accordingly:

<u>Classification</u>	Administration Net	X Ratio	= Pro-rated Administration Amount
Manufacturing	\$600,000	40%	\$240,000
Construction	\$600,000	60%	\$360,000

Add the pro-rated administration amount to the net of each classification to determine the total assessable payroll for each classification:

¹ "Common payroll" refers to the following:

- where the personnel of an employer who undertakes multiple business operations support both parts of the business operations
- when personnel move back and forth between the separate parts of business operations on a regular basis

² "Net assessable direct payroll" is the payroll that is directly applicable to a specific classification, including the earnings of any labour contractors, after deducting any excess earnings that are attributable to the individuals included.

³ Gross payroll includes wages and contractor earnings.

<u>Classification</u>	Net	+ Pro-rated Administration Amount	= Total Assessable Payroll
Manufacturing	\$2,000,000	\$240,000	\$2,240,000
Construction	\$3,000,000	\$360,000	\$3,360,000

B. Management companies - two or more separate companies have common controlling shareholders but different classifications or assessment rates

Example

As per policy, when a management company provides services to two or more operating firms or a group of affiliated companies, the payroll of the management company must be pro-rated between the operating firms in the same ratio as the direct assessable payroll of each operating firm bears to the total assessable payroll of all operating firms.

	<u>Payroll</u>
(Non-registered) management company payroll	\$1,000,000
(Registered) operating company A: direct assessable payroll	\$10,000,000
(Registered) operating company B: direct assessable payroll	\$30,000,000

Determine the direct assessable payroll ratios:

Company A	$\frac{\$10,000,000}{\$10,000,000 + \$30,000,000}$	=25%
Company B	$\frac{\$30,000,000}{\$10,000,000 + \$30,000,000}$	=75%

Determine the pro-ration of the management company payroll:

Company A	$\$1,000,000 \times 25\% =$	<u>\$250,000</u>
Company B	$\$1,000,000 \times 75\% =$	<u>\$750,000</u>

Add the pro-ration of management company payroll to the operating company's direct assessable payroll to determine the total assessable payroll for each firm:

	Direct Assessable Payroll	+ Pro-ration of Management Company Payroll	=Total Assessable Payroll
Company A	\$10,000,000	\$250,000	\$10,250,000
Company B	\$30,000,000	\$750,000	\$30,750,000