

September/October 2009

The government has announced proposed changes to the both the Canada Pension Plan and CRA's administrative policy on certain taxable benefits. The CPP changes may impact those individuals that are considering retirement in the next few years. We shall also review a number of tips and traps related to the Ontario tax harmonization and review the arbitrary nature of certain penalties imposed by CRA.

Proposed Changes to the Canada Pension Plan

The government has proposed a number of changes to the Canada Pension Plan. These proposals require parliamentary approval and will not be effective until 2011. The key proposals are:

Removal of the Work Cessation Test – Under the current rules, an individual between the age of sixty and sixty five can stop work for a two month period and commence receiving CPP payments. The payments are reduced by .5% per month for each month until the individual turns 65. Once an individual starts to collect CPP, they are not required to make contributions should they return to the workforce at some point in the future.

Proposal – The elimination of the work cessation rule has two implications. First of all, once individuals turn sixty, they can start to draw their CPP even if they are still working. This will be a positive step for individuals that either want to have a phased in retirement with their current employer or have lost their full time job and are working part time to supplement their income. Thus, it appears an individual will be able to receive a CPP pension, while paying into the plan on their employment earnings.

Increase in Low Earnings Drop Out – This is a complicated provision of the Canada Pension Plan legislation that allows for the exclusion of an individual's lowest seven years of income when calculating the retirement pension. In other words, an individual could still earn the maximum CPP pension if they left the work force for up to seven years. Income may be below the maximum annual CPP limit for a number of reasons, such as early

retirement, delayed entry into the workforce or leaving the workforce to raise a family.

Proposal - The seven year drop out will be increased to 7.5 years in 2012 and 8 years in 2014. This provision is positive for everyone. It will also increase the CPP disability payments and survivor pensions.

Voluntary Contributions after Age 65 – Currently, Canada Pension Plan contributions cease when individuals turn age sixty five.

Proposal – If individuals continue to work after age 65, they have the option of continuing to contribute to their CPP. This could result in an individual eventually receiving a pension that exceeds the stated maximum retirement pension.

Adjustments for Early and Late CPP Pensions – Currently, if individuals decide to take their Canada Pension Plan prior to their 65th birthday, the pension is reduced by .5% per month until the individual turns 65. Thus, if individuals took the CPP when they turned sixty, the pension would be reduced by 30%. If they deferred taking their pension when they turned sixty five, the pension is increased by .5% per month.

Proposal – Effective in 2012, if individuals take their CPP prior to their 65th birthday, the pension will be reduced by .6% per month, rather .5%. If they defer receiving the pension past age 65, it will be increased by .7% per month, rather than the current .5%.

Conclusion – Individuals that are considering retirement in the next few years should decide if these proposals will impact their retirement plans. They have the option of retiring before the new rules are implemented and take advantage of the current rules or defer retirement and gain any benefit of the new proposals.

Note – The remainder of this article is only available to subscribers of the Canadian Tax Planners Newsletter. If you elect to subscribe and wish to receive a copy of this newsletter, advise us accordingly and the complete article will be forwarded by return mail.