TAX TALK

To CPP or not CPP?

Planning is required to get the most out of changes to CPP

Back in my February column, I discussed the various changes the federal government is making to Canada Pension Plan retirement benefits.

These revisions take effect gradually from 2011 to 2016, but one of the biggest starts on Jan. 1, 2012.

It's called the Post-Retirement Benefit (PRB), and depending on your age and whether you collect a CPP retirement pension, it may affect the size of your paycheque.

Under the current rules, if you want to take your CPP retirement benefits before age 65 you have to either stop working or significantly reduce your earnings for at least two months.

Then you can go back to your job and receive your pension at the same time – without having to pay CPP on your employment or self-employment income.

That's changing.

Effective Jan. 1, 2012, if you're between 60 and 65, you can receive your CPP retirement pension without having to stop work or reduce your income.

However, you and your employer must continue to pay into CPP through the new PRB program.

If you're an employee, your employer will automatically deduct your contribution from your paycheque.

If you're self-employed, CPP will be calculated and payable when you file your 2012 federal income tax return a year or so from now.

If you are between 65 and 70 and work while receiving your CPP pension, you'll be able to choose whether you want to make CPP contributions or opt out.

If you decide to make the contributions, your employer will have to as well.

It's an all-or-nothing decision – you can't pay on only part of your income.

What to do?

There's a game to be played here because the PRB is in addition to your regular CPP retirement benefit.

Even if you are receiving the maximum retirement benefit under CPP, any contributions to the PRB will be paid back to you.

So if you're an employee it may be the best choice to choose to pay it.

Why, you ask?

Because just like any other CPP deduction, every dollar you contribute must be matched by your employer.

Your boss is therefore paying half of any additional benefit.

Let's look at an example at the maximum rate.

In 2012, if you make $50,100 (yes, I realize you'd be working a lot) the CPP deduction to you as an employee is $2,306.70 and your employer must contribute the same amount.

So now you have $4,613.40 in your PRB account to receive in the years to come.

You may not want to pay the deduction, but having your employer making such a sizable contribution toward your pension is certainly tempting.

Now let's cut to the chase and address owner/operators who are receiving their CPP retirement benefit while working.

If you are a sole proprietor and between 60 and 65 when you file your 2012 tax return, you will have to pay into the PRB.

If you are between 65 and 70 when you file your 2012 tax return, you can indicate your choice to pay or not.

If you are an incorporated owner/operator between 60 and 65, then you must start deducting CPP from your wages and pay it toward the PRB.

If you are between 65 and 70, then you can elect not to contribute to CPP.

If you are an employee (of your own company or someone else's) and between 65 and 70, and you wish to not contribute to CPP starting in 2012, you must complete and file Form CPT30 with Canada Revenue Agency and with your employer.

I have of course written this column presuming you're an owner/operator or employee driver.

If you're an employer (owner/operator or carrier), this topic is just as relevant to you.

If you have employees in this 60-70 age bracket, you will potentially have to start deducting and remitting CPP for them. This may affect your pay as well.

More information

Not everyone who wants to retire can afford it, and not everyone who can afford it is ready to retire.

Either way, you deserve every penny you've paid into your pension, and PRB gives you a little more flexibility with your retirement savings and income.

If you have a choice about CPP and PRB, make the right one. You can learn more about at: cra-arc.gc.ca/tx/ndvdls/tpcs/cpp-rpc/cpp-menu-eng.html.

Better yet, talk to your accountant about how changes to CPP will affect you and your specific retirement plan.

Finally, as we wrap up the year in *Truck News*, I want to thank you for reading and for all of your ideas and feedback.

Here's to a safe, happy holiday season, and to a prosperous 2012. See you then. ☐

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