

## TAX TALK

# Early CPP and your tax bill

## How will changes to CPP affect you?

I've always said that as I near retirement I'm going into a line of work where every customer is happy. Like car sales. Everyone who buys a new car drives away happy. A new vehicle looks right, feels right, every thinga-majiggy works when you push the right button. Your wife hugs the salesman because she's so happy.

Heck, she might even hug you. You, of course, are pretty sure you got a good deal, but who knows? You're driving a brand new car!

In the tax-filing business, customers only rarely come away happy. We can do great work planning and organizing but at the end of the day you still have



Tax Talk

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to pay your taxes. No one brushes their fingers across a freshly prepared tax return like it's leather upholstery.

All people ever want to know is why they owe so much more tax than last year.

There can be many reasons, and a good accountant should be able to sit down with you and draw up a strategy to help you reduce your tax obligation – or, at the very

least, prevent a surprise tax bill. You'll want to do this periodically because rules change, and these changes may affect how much tax you owe.

One of the issues we're talking with clients about this year involves the Canada Pension Plan (CPP). The federal government has made revisions to CPP that take effect gradually from 2011 to 2016, but one important change started this year.

As of Jan. 1, 2012, there is no longer a work-cessation test for CPP benefits. That means you can receive a CPP retirement pension starting at age 60 while you keep working.

If you do, however, you have to continue making CPP contributions on your employment or self-employment income. These contributions go toward a new post-retirement benefit (PRB), created for working people who

are between 60 and 70 years old and who are receiving a CPP pension.

### Early payout, more tax

PRB is intended to increase your retirement income. Even if you are drawing the maximum retirement benefit under CPP, any contributions to the PRB will be paid back to you.

However, if you're 60 or older, working, and receiving CPP, these changes involving CPP and PRB are why your 2012 tax bill will likely be more than your 2011 tax payable was.

Let's say you showed CRA a \$30,000 income on your 2011 tax return and expect to do so again for 2012. Your total tax payable will be \$2,624 higher due to your CPP contributions. That's enough to make you unhappy and call your tax preparer, isn't it?

For sole proprietors, if you're between 60 and 65, CPP will be calculated and payable on your self-employed income when your 2012 federal income tax return is filed in April 2013. You will need to increase your tax installment because your tax bill will be higher for 2012 because of this.

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. When your 2012 tax return is filed, you or your tax preparer can indicate your decision. If you use a tax preparer, make sure he knows whether you want to pay more into CPP or not.

For incorporated owner/operators, if you're between 60 and 65, you and your corporation must continue or restart to pay into CPP through the new PRB program. Your monthly installments for source deductions will have to be increased to pay the PRB.

If you are between 65 and 70, you'll be able to choose whether you want to make CPP contributions or opt out. If you do not want to contribute to CPP, you must complete and file Form CPT30 with CRA and with your employer.

The good news is you can change your mind, although only once a year. You can file Form CPT30 to start, stop, or re-start paying into CPP at any time as long as it is not within the same calendar year since you last completed and filed the form. You can only file the form once you are 65, not before.

Your employer will stop deducting CPP contributions on the first payday in the month following the month you filed the form.

Hopefully, your tax preparer will explain all this to you and help you make the right decision for you. Hopefully, that will make you (and your wife) happy. Hey, we can all use a hug. □

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