Does everyone have to pay into the Canada Pension Plan?

The <u>Global Payroll Association's</u> director of education and research, Jeanette Hibbert, investigates the rules behind paying into the Canada Pension Plan.



One of our new starters has said they shouldn't be paying into the Canada Pension Plan - are there exceptions we should know about?

Deductions for the Canada Pension Plan (CPP) are subject to both monetary limits and specific exemptions. Without knowing more details, it is difficult to say whether your employee qualifies for exemption, but here are some important facts:

Thresholds

Employees will not pay contributions in 2016 on earnings below \$3,500 a year and will also stop paying them once their earnings reach \$54,900. This means that their maximum pensionable earnings are \$51,400.

This situation applies to each period of employment. So even if an employee reached the maximum threshold in their previous company, the threshold starts again with their new one. This threshold should be deducted from all emoluments of employment including salary; wages; commissions; bonuses; near-cash and non-cash benefits-in-kind; honorariums for performing an office; tips and gratuities; wage loss benefits from employer-controlled plans and share income from employment.

Items that should be excluded from the calculation are: lump sum payments from pension plans; pension payments; death benefits; supplementary unemployment benefit plan payments; deferred profit share plan payments made under trust and wage loss replacement plan payments where the employer does not exercise control over the plan and does not determine eligibility for benefits.

Contributions are deducted for all employees between the ages of 18 and 70 (Quebec rules are slightly different). If they reach those ages during the year in question, the value should be prorated. Pro-rating should also be done if a CTP30 is received in order to stop CPP contributions, or the employee becomes disabled and therefore exempt from CPP contributions.

Exemptions

Exemptions apply to the following types of employment:

 Agriculture, fishing, forestry etc, if the employee earns less than \$250 cash or is paid in cash and works for less than 25 days per year

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- Casual employees hired for a purpose other than the organisation's usual trade
- Teachers coming to Canada on an exchange from a foreign country
- People being hired for a disaster/rescue operation
- Workers in a circus, parade, fair, exposition or exhibition if hired for less than 7 days
- Employees of a foreign government except where there is a specific agreement between Canada and that foreign government
- In a situation where employers are non-resident (although you can voluntarily opt in).

If none of the above thresholds are reached and none of the exemptions apply, then deductions for CPP need to be made at the appropriate *percentages for employees and employers*.

Depending on the location of your premises, however, further rules and schemes could be introduced in future. These include the Ontario Retirement Pension Plan, which will be rolled out from 2018.

