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Newsletter

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Canada Pension Plan Payments – Are You Receiving Your Fair Share?

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Last year, I had occasion to realize that a family member's monthly Canadian Pension Plan (CPP) benefit payment was less than the amount they were entitled to receive. The error was due to a simple oversight at the time of initial application for pension benefits. I set out to rectify the problem and wondered how many retired Canadians are receiving less in their monthly pension payments than they should be.

The amount each individual receives from CPP is established on a calculation based on both the number of years an individual has spent contributing to the plan and the overall amount they have contributed during that time.

In the case of an individual who had reduced earnings due to electing to stay at home and care for a child under the age of seven, it is possible to have these non-contribution years excluded from the overall pension benefit calculation. Doing so would increase their Canada pension benefit, ensuring they receive the highest possible monthly pension payment.

In order to qualify, the following criteria must be met:

1. The individual or their spouse or common-law partner must have received Family Allowance payments or must have met the eligibility criteria to receive the Child Tax Benefit.
2. The individual must have had reduced earnings due to electing to stay at home in order to be the primary care provider for a child aged seven or less and born after December 31, 1958.

If you meet the above criteria, it is very likely that you would have completed the CPP child rearing drop-out form at the time of initial application for pension benefits. If you did not complete the child rearing drop-out application at that time, it can be completed at any time. Successful applications should result in the receipt of a lump sum payment for the amount owing to date as well as a higher monthly benefit going forward.

If you would like more information about the Canada Pension Plan or the child rearing drop out provision, don't hesitate to contact Service Canada. They can be reached by phone at 1-800-277-9914 or you can visit them online at servicecanada.gc.ca.

Inside this issue:

"Every job is a self-portrait of the person who did it. Autograph your work with excel-lence."
- Jessica Guidobono

Special points of interest:

- *Filing deadline for self-employed personal tax returns is June 15th.*
- *Recent budget proposes mandatory electronic filing of tax returns prepared by accounting firms.*
- *Personal tax instalments:*
  - *June 15, 2012*
  - *September 15, 2012*
  - *December 15, 2012*
  - *March 15, 2013*

Early Application for CPP Benefits

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Starting in 2012, significant changes have been made with relation to the collection of Canada Pension Plan (CPP) benefits. These changes raise more than a few questions, one being whether or not an individual should collect CPP benefits prior to the age of 65.

Who Can Collect CPP?

Effective 2012, the only requirement to collect CPP benefits is that you must be, at minimum, 60 years of age. The previous requirement stipulating that potential pensioners must have retired or ceased employment has been eliminated.

Should You Collect CPP if You Can?

The new rules, when fully phased in, will provide the following:

- Starting to collect CPP at age 60 will reduce your benefit by 36% compared to the amount you would receive if you waited until age 65 (0.6% reduction for each month vs. 0.5% prior to 2012). Keep in mind, you will have received five additional years of payments if you start to collect at age 60.
- If you wait until age 70 to start collecting CPP, your benefit will be increased by 42% compared to the amount you would have received if you started collecting CPP at the age of 65 (0.7% increase for each month vs. 0.5% prior to 2012).
- If you are under the age of 65 and are still working while receiving CPP retirement benefits, both you and your employer will have to make CPP contributions.
- Those between the ages of 65 and 70 can opt out of paying CPP contributions by completing and filing form CPT30.

The benefits of early CPP application should be reviewed on a case-by-case basis. There are further factors to consider in deciding when to apply for CPP:

- Your life expectancy—the shorter your life expectancy, the more beneficial it is to collect CPP prior to the age of 65.
- What rate of return will you earn on the CPP benefits either by investing it by or paying off debts?
- Can you afford to wait until after the age of 65 to apply for CPP benefits?
- How much additional income tax will you pay on the CPP benefits?

The amount of CPP benefits to which you will be entitled depends on your employment history. Prior to applying for CPP benefits, you can obtain an estimate by visiting Service Canada online at ***www.servicecanada.gc.ca***.

Sharing CPP Benefits with your Spouse

A tax planning opportunity is available for spouses to share their CPP benefits. If the higher-income spouse has more CPP income than their partner, it is usually beneficial for the CPP benefits to be shared between the spouses; however, this may have an impact on couples who do their personal financial planning independently from the other.

Unlike other forms of pension splitting, CPP would adjust the amount of the monthly cheque between each spouse. The calculations are based on the following rules:

- Both spouses must be at least 60 years old.
- If only one spouse is eligible for CPP, that benefit can be shared between the two.
- Each spouse receives a portion of the other's CPP retirement pension based on the number of years married.

On death, divorce or 12 months' separation, the CPP benefit sharing ends and each spouse is entitled to their own pension calculation.

It is never too early to start preparing for retirement, though care and caution should be exercised when planning. Don't hesitate to consult with a tax professional to help ensure that your financial needs, both present and future, will be met.

Positive Team Dynamics: The Key to Organizational Success

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In the serious world of business, does positivity and happiness have a place in an owner-managed organization? Rather than answer this question philosophically, this column will present an evidence-based business case to support the role of positivity in organizations.

What is your Positivity Quotient?

Marcial Losada and his colleagues were interested in determining what factors differentiated peak performing teams from their lower-performing counterparts. To find out, he observed the dynamics within 60 different executive teams from Fortune 500 companies.

As part of this study, the researchers counted the number of positive and negative statements made during meetings. If an executive spoke in a disapproving, sarcastic, or cynical manner, the statement was coded as negative. Positive statements were supportive, encouraging, or appreciative in nature. From there, Losada divided the teams into three performance categories (high, mixed, and low performance) based on the scores they received for three different performance metrics: profitability, client satisfaction, and 360˚ feedback.

When the data was examined, the ratio of positive to negative statements was found to be a critical factor in influencing team performance. For the high-performing teams, the ratio of positive to negative statements was 5.6 to 1. For the low-performing teams, the ratio was 0.36 to 1. In other words, the low-performing teams made three negative comments for each positive statement, while the high-performing teams made nearly six positive comments for every negative statement. It is easy to visualize the look and feel of the different team meetings.

It should be noted that Losada and his team demonstrated it was the positive statements that led to the success observed, and not the other way around. This was an important revelation because one possible alternate explanation could have been that more successful teams had more positive statements in their meetings simply because their success led them to have more positive things to talk about.

Here are some other powerful findings from his research on this topic:

- In another study, it was found that there is an ‘upper limit’ for positivity, beyond which making more positive statements fails to have any benefit on performance. The limit was 11.6 to 1, which means most organizations have a fair amount of wiggle room before reaching the maximum advantage.
- The statements must be genuine; it was noted that “feigned positivity may be more negative than positive.”
- To be clear, this study does not suggest that negative issues cannot be discussed but rather, it is the way and the frequency with which these issues are tabled that is most important.

Concluding Thoughts

With an increase in stress and tension in the workplace, it may seem counterintuitive to pay attention to positivity when deadlines are looming and client concerns need to be addressed. However, the available research suggests that increasing the expression of genuine positivity in our daily interactions should be a key business priority. By shifting our strategy to emphasize the positive, and by addressing challenges with an optimistic rather than pessimistic mindset, we can capitalize on strengths within our organizations, creating more opportunities to maximize our individual, team, and organizational successes.

Should You Lease or Buy?

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It is not feasible to simply say "you should always buy" or "you should always lease" because the one is not necessarily always better than the other. The answer will depend on the particulars of each individual's situation, including the tax consequences of the two differing options. There are a few types of tax implications to consider. Some are more common than the others.

Capital Cost Allowance vs. Lease Expense Deductions

Taxable income is calculated by subtracting qualifying expenses from income. When an asset is purchased, the qualifying expenses include the Capital Cost Allowance (CCA) and interest on the debt associated with the purchase. CCA is calculated using rates stated in the *Income Tax Act* which are loosely intended to expense the cost of an asset over its useful life. Eventually, the full purchase price of the asset is depreciated. When assets are leased, the monthly lease payment is considered the qualifying expense. In this case, the amount of the deduction is generally not controlled by the *Income Tax Act*, but rather by the terms in the lease agreement. An exception is the limitation on the amount deductible in respect of passenger vehicles.

Investment Tax Credits

In certain regions across the country, tax credits can be claimed on the purchase of new equipment or buildings intended to be used in qualifying activities such as farming, fishing, logging, manufacturing or processing. The investment tax credit is equal to 10% of the purchase price. This credit is 40% refundable even if the company or individual has insufficient taxable income. The remaining 60% is not lost if it is not used the year it is earned. It can either be carried back three years or carried forward for up to 20 years, whichever works to the best tax advantage.

The Canadian government implemented this initiative in an attempt to further encourage businesses to invest. As leasing is not necessarily considered an investment, the investment tax credit may not be available if the equipment in question is leased. That said, if both the lessor and the lessee jointly agree to complete form T2145, the Canada Revenue Agency (CRA) will treat the lease as if it were a purchase. As a result, the investment tax credit can be obtained and the tax savings recognized.

GST/HST

When an asset is purchased and sales taxes are applicable, they need to be paid at the point of purchase. Conversely, when an asset is leased, sales taxes are paid over time with each individual payment. As sales taxes paid by registered companies are refunded, this is strictly a timing issue. The timing difference from when the sales taxes are paid to when they are refunded may need to be considered; paying sales taxes in full at the point of purchase could put a significant drain on available cash flow for a short period of time.

Before entering into any lease, purchase or sale agreement, you should consult with your tax professional. They will help to ensure that all tax considerations have been addressed in order to achieve the best results for your own personal situation.