

Canada Pension Plan (CPP)

All employees are required to contribute to the Canada Pension Plan (CPP), to an annual maximum, and the employer must match this contribution. For 2007, the basic criteria are:

Maximum annual pensionable earnings:	\$43,700.00
Basic exemption:	\$ 3,500.00
Maximum annual employee contribution:	\$ 1,989.90
Maximum annual employer contribution:	\$ 1,989.90
Rate:	4.95%

Deductions are made from each pay cheque at the prescribed rate throughout the year or until such time as the maximum has been reached. Normally, tables provided by the government are used to determine the amount to be deducted; deductions can, of course, be calculated. Deductions and employer contributions are remitted to the government monthly.

For illustration purposes only, two sample calculations follow:

Sample Calculation Number 1: Assume earnings of \$500.00 per week (\$26,000 per annum). Since earnings are paid weekly, the weekly method of calculation is used as follows:

Weekly Earnings	\$500.00
Less: Basic Exemption (\$3,500/52)	<u>\$67.30</u>
Earnings on which contributions are based	\$432.70
Employee Contribution at 4.95%	\$21.41
Employer Contribution at 4.95%	\$21.41

CPP deductions from the employee's earnings at the rate of \$21.41 per week would continue throughout the year for an annual total of \$1,113.32

Sample Calculation Number 2: Assume earnings of \$5,000 per month (\$60,000 per annum). Since earnings are paid monthly, the monthly method of calculation is used as follows:

Monthly earnings	\$5,000.00
Less: Basic Exemption (\$3,500/12)	<u>\$291.66</u>
Earnings on which contributions are based	\$4,708.34
Employee contribution at 4.95%	\$233.06
Employer contribution at 4.95%	\$233.06

The amount of \$233.06 would be deducted from the employee's cheque for 8 months. The balance of \$125.42 would be deducted in the ninth month, to reach the maximum contribution of \$1,989.90 per annum.

Source: Canada Revenue Agency E057