CPP Exemption Quiz

What's the Salesperson's CPP Basic Exemption Amount?

SITUATION

In addition to a monthly base salary of $2,000 salesman Bob White is paid commissions on sales he negotiates with municipalities across the country. Base salary is paid at the end of the month; commissions are paid only after the customer pays the first installment on its sales contract. But once that installment is paid, Bob receives the full commission for the deal. In Feb. 2016, Bob earns only one commission for $8,475, which he receives on Feb. 12. His 2016 CPP pensionable earnings don't hit the YMPE (Year's Maximum Pensionable Earnings) until April. For source deduction purposes, Bob has a monthly pay period and his commissions are subject to the bonus tax method.

QUESTION

What is the correct CPP Basic Exemption on Bob's Feb. $2,000 monthly salary?

A. 0 since this salary is the second payment in his monthly pay period
B. 0 since any Basic Exemption was absorbed by the $8,475 commission payment
C. $291.66, the basic exemption for a monthly pay period
D. $3,500 divided by 12, i.e., the annual Basic Exemption divided by number of pay periods per year

ANSWER

C. Bob's CPP Basic Exemption is $291.66, the amount listed in the *CPP Regulations* for a monthly pay period.

EXPLANATION

The *CPP Regulations* distinguish between two types of pensionable earnings: i. qualifying remuneration, i.e., pensionable earnings paid on the normal pay day for a pay period and stemming from work in that period; and ii. non-qualifying remuneration, i.e., any other earnings subject to CPP. This scenario, which is purely hypothetical, illustrates how this basic distinction affects the Basic Exemption used in CPP calculations.

Such wages would be considered non-qualifying earnings since there's a difference between the pay periods when work was performed and in which it was paid. Thus, Bob’s sales commissions are non-qualifying since: i. they’re not paid on the regular pay days for his monthly pay periods; and ii. these payments have no relation to work in the current pay period. As non-qualifying remuneration, Bob’s commissions attract no Basic Exemption. As a result, the full monthly $291.66 Basic Exemption amount listed in the CPP regulations would apply to Bob’s $2,000 salary for Feb.

WHY WRONG ANSWERS ARE WRONG

A is wrong because there’s no such rule that second and subsequent payments in a pay period aren’t eligible for any CPP Basic Exemption. *Any* qualifying remuneration is eligible for the CPP Basic Exemption, even if this qualifying remuneration is made in multiple payments.

B is wrong because Bob’s commissions don’t qualify for any CPP Basic Exemption. Since he’s treated as an employee with a regular monthly pay period, his commissions which are paid at irregular intervals and for work not specifically related to a single pay period are non-qualifying remuneration subject to CPP at the full 4.95% contributions rate. The CPP source deductions on them are not reduced by a Basic Exemption.

D is wrong because, for most employees with a regular pay period, the *CPP Regulations* specify a fixed pay period basic exemption. However, for employees paid weekly or bi-weekly, when there are 53 or 27 pay periods in the year, the pay period Basic Exemption amount is $3,500 divided by 53 or 27, rounded downwards to the nearest whole cent.