

# Am I Entitled to a Pension if I Only Earn Self-Employed Income? | 2020 TurboTax® Canada Tips

While self-employment offers plenty of control and freedom, many of the benefits associated with working for an employer take a back seat as you build your own business. **The Canada Pension Plan (CPP)**, however, **does require contributions from self-employed taxpayers**, with these contributions calculated when you complete your tax return. In addition to the CPP, self-employed people are free to purchase and set up other retirement income investments.

## Self-Employed Individuals Must Contribute To The Canada Pension Plan

“With few exceptions, everyone in Canada who makes over \$3,500 a year contributes to the CPP, with the exception of Quebec residents, who contribute to a provincial plan,” says says Jeff Stokley, chartered investment manager and financial management advisor with Investors Group in London, Ontario. **“Self-employed people are no exception, however they do pay the full CPP amount [10.2% for 2019]**, where an employed worker pays half with the employer also paying half.” All taxpayers have their own CPP accounts, based on contributions made since the age of 18. Pension payments usually start at age 65 but can be started as early as age 60. CPP contributions stop at age 70, even if you’re still working. In some situations, you can draw CPP income while still working; in such a case, you make additional contributions to your plan.

## Contribution Calculations

- CPP contributions are based on an income range that changes annually, based on current average wage data for the country.
- The lower income floor and upper amount changes pretty much every year.
- The rate for CPP contributions for self-employed Canadians for 2019, it has increased to 10,20%

**As a self-employed worker, you are responsible for the entire contribution**, whereas employees and employers divide the contributions evenly. Your contributions from self-employment are, however, only based on the net income of your business. Income from other sources, such as investments, do not factor into the contribution requirement. If you overpay your CPP amount, or if your net income from self-employment is less than the minimum amount, these funds will be refunded when your tax return is processed.

## CPP and Your Tax Return

- You report income from self-employment on **lines 135 to 143** of your tax return.
- To determine your CPP contributions, start with your income on **line 1 of Schedule 8**. Enter other information as directed on Schedule 8 and your CPP self-employment contributions are calculated at line 10 of the schedule, which is then transferred to line 421 on your tax return.
- **Line 11** from the schedule calculates half of the line 10 amount and is used in your tax return at **lines 222 and 310** for deductions and tax credits based on CPP contributions.
- You also can elect, via Schedule 8, to stop contributing to the CPP if you are between 65 and 70 years of age by entering the month in which you elect to stop, provided it is no earlier than

the month in which you turn 65.

## Finding Your CPP Contributions

The CPP keeps your contributions filed in a statement which keeps record of both your pensionable earnings and your contributions. This statement includes both employment and self-employment contributions. When you are estimating your retirement proceeds from the CPP, use this statement as a basis for calculations. You can obtain a copy online through your My Service Canada Account or by contacting Service Canada directly for a copy. Service Canada also provides online tools to estimate your CPP retirement income. Some of your lowest earning years will be dropped from the calculations to keep your pensionable earning higher, under the general drop-out provision. Similarly, years you earned less due to time spent raising children up to the age of seven may be dropped with the child-rearing provision. If you qualify, these provisions are available regardless of the self-employed nature of your earnings.

**Reference: Jeff Stokley CIM, FMA; Investors Group; London, Ontario**