



An OAS Issue

Brenda MacDonald

Recently I had an interesting e-mail from a long-term *MoneySaver* member detailing his Old Age Pension application experience. He suggested I write about his situation to share it with others who might find they face a similar circumstance. For the purpose of this article I will call this fellow Ben (not his real name).

Service Canada sent Canada Pension Plan (CPP) and Old Age Pension Plan (OAS) application forms to Ben shortly after his 64th birthday. He chose to begin receiving both pensions once he turned 65 and completed the forms and sent them in. A month after his 65th birthday he started getting his CPP payments deposited automatically every month into his bank account and continues to receive those regularly with no problems.

OAS proved to be another matter and this is what he would like to share with readers. Ben was contacted by Service Canada and told that his income from the previous year was above the OAS eligibility cutoff and he would not be entitled to any OAS that year. He thought that was the end of it – nothing gained, nothing lost. However, after studying the matter carefully, Ben's very astute wife discovered that something would indeed be lost unless he withdrew his application for OAS. How can this be?

The current (as of June 2010) OAS eligibility cutoff is \$108,090 of taxable income, including OAS. Almost all of Ben's income is derived from dividends from Canadian corporations. These dividends are grossed up 45 percent pushing Ben's taxable income up over \$108,000 even though he doesn't really earn that much. Since Ben consistently reinvests the dividends, his income will continue to grow and he feels that he will probably never be eligible for the OAS under the current rules. He now feels he should never have applied for it. So what's the problem?

Because Ben's income is almost entirely from dividends and he has to pay quarterly tax installments to the Canada Revenue Agency. The Old Age Pension that he never receives is added to the installments that he is required to pay. Let me explain how that happens.

On line 113 of the income tax return Ben must include the amount shown on his T4A OAS slip even though he never received the money.

On line 235 Ben can deduct the same figure so it is not included in his taxable income. But then on line 422 he has to re-enter the same amount, which adds to his total tax payable.

On line 437 he gets a credit for the same amount as the income tax deducted. That way, the OAS he never received does not affect his income tax that year.

However, the problem arises the following year because Ben's tax installments are based on line 435, which includes the OAS he never received. Therefore, the OAS he never got is added to his installments. You think, no problem, because the money will be refunded to him next year after he files his next income tax return. But meanwhile, the Canada Revenue Agency has held his money for a year without paying him interest. So it is of no benefit to him. He can ask the CRA to lower his tax installments but if he miscalculates and underpays, the CRA will charge him interest on the amount he underpaid.

Ben's wife Margaret studied this situation carefully and called the CRA. The agents she spoke to on the phone were unaware of this situation. Margaret then spoke to Service Canada about cancelling Ben's OAS application, which they were quite happy to do upon written request. Ben and Margaret now hope that's the last they hear of OAS.

The lesson they learned is that anyone whose grossed-up taxable income is over \$108,090, including OAS, and who pays income tax installments should not apply for Old Age Pension benefits at all. If this is a concern in your situation, please check it out. You might be able to save yourself the hassle that Ben and Margaret went through.

My thanks to them for sharing their experience.

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