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WESTCOAST WATCH!



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Current Service Contribution For A Connected Person

The Registered Plans Directorate of Canada Customs and Revenue Agency has issued a new guideline on how company current service contributions (“CSC”) should be made to a defined benefit registered pension plan on behalf of a connected person. A connected person is defined in the Income Tax Regulations as a person directly or indirectly owning 10% or more of any class of company shares or not dealing at arms length with such person.

The new guideline requires ongoing CSC for a connected person to be made based on a percentage of the member’s pensionable earnings (T-4 earnings) rather than a fixed amount. This is consistent with the fact that the amount of pension benefits earned by a connected person is based on the person’s pensionable earnings for the year. The higher the pensionable earnings, the more the pension benefits earned by the member and thus the higher the amount of contributions required.

Starting with 2003, our actuarial valuation reports will express the CSC for a connected person as a percentage of earnings up to a specific dollar amount each year. The percentage would apply to all three years covered by the report.

Example: Our January 1, 2003 valuation report stipulates that the CSC for the member is 23.5% of earnings up to the following maximum dollar amounts:

2003	\$ 20,212
2004	\$ 21,728
2005	\$ 23,358

The following table summarizes the CSC at various levels of T-4 income for 2003:

T-4 Income	CSC at 23.5%	Maximum \$ Amount	Actual CSC
\$70,000	\$16,450	\$20,212	\$16,450
\$80,000	\$18,800	\$20,212	\$18,800
\$90,000	\$21,150	\$20,212	\$20,212

Contributions for 2004 and 2005 should be made based on 23.5% of the member’s T-4 income up to a maximum of \$21,728 and \$23,358 respectively.

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