Income Assessment - War Veterans Allowance Program

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Purpose

This policy provides direction on assessing income for War Veterans Allowance (WVA) purposes.

Policy

General

1. The *War Veterans Allowance Act* (WVA Act) authorizes the payment of income support to qualified Veterans and Civilians who meet specific requirements related to war service, age or health, income and residence. An additional benefit may be paid on behalf of a spouse or common-law partner and for any dependent children. As well, a surviving spouse, a surviving common-law partner or orphan may qualify for WVA by virtue of the deceased Veteran's/Civilian’s war service.
2. Every WVA recipient must report all sources of income on an annual basis to ensure that the correct rate of allowance is calculated and paid, per subsection 8.1(1) of the WVA Act and paragraph 3(4)(c) of the *Veterans Allowance Regulations*.

Income - Base Calendar Year

3. Generally, income received in the previous calendar year (also referred to as the base calendar year) is used to calculate the monthly amount of WVA payable. The payment period is from July of one year to June of the next year. For example, if the current payment period is July 1, 2012, to June 30, 2013, the amount of WVA payable is based on the applicant's or recipient's income reported in the 2011 income tax return.
4. The types of income described below are Base Calendar Year Incomes:
    a. Canada/Quebec Pension Plan (CPP/QPP) benefits (excluding lump-sum death benefits and children's benefits);
    b. Other pension incomes which include retirement pensions, superannuation benefits, payments received as a result of former employment or contributions to a retirement plan, survivor's benefits received from any of these sources, annuity payments, Worker's Compensation and foreign pensions (excluding war-related disability pensions);
    c. Employment Insurance Benefits;
    d. Net Interest (interest income less allowable interest deductions, as well as $140 per year exemption);
    e. Dividends and Capital Gains - 100% of the actual dividends received and 50% of Capital Gains are assessable for WVA purposes. Capital Losses are permitted as a deduction against Capital Gains only for the year in which the losses occur. Shares must be reported as Capital Gains for the income tax year that they are sold;
    f. Net Employment, Self-employment and Property Rental incomes (Gross incomes less allowable employment, self-employment and rental deductions, as well as $2,900 per year for single recipients or $4,200 per year for married recipients exemption); and
    g. Income from Other Sources includes any income that falls within the income sources described as "income" for *Income Tax Act* purposes, such as:
        i. Alimony;
        ii. Registered Retirement Savings Plan(RRSP)/Registered Retirement Income Fund (RRIF) Income;
        iii. Scholarships and/or Bursaries;
        iv. Retiring Allowances;
        v. Sickness, Accident, Disability or Income Insurances;
        vi. Adult Training Allowances;
        vii. Income Averaging Annuity Contracts;
        viii. Supplementary Unemployment Benefit Plan;
        ix. Income from an estate or trust;
        x. Income from a deferred or profit-sharing plan;
        xi. Research Grants; and
        xii. American Social Security Administration benefits.

Other Assessable Incomes

5. Section 7 of the WVA Act also includes as income any payment made in a year from the following sources:
    a. the *Flying Accidents Compensation Regulations*;
    b. the *Royal Canadian Mounted Police Superannuation Act*;
    c. the Corrections and Conditional Release Act; and
    d. the *Royal Canadian Mounted Police Pension Continuation Act*.

    These incomes are considered Base Calendar Year Incomes and should be recorded under "Income from Other Sources."

Income - Current Monthly Benefits

6. Subsection 4(3)(c) of the WVA Act identifies the following incomes as Current Monthly Benefits. These income sources are assessed in the same month in which they are received and are not included in base calendar year income calculations:
    a. benefits payable under the *Old Age Security Act*;
    b. compassionate pensions, allowances or supplementary awards under section 34 of the *Veterans Review and Appeal Board Act*; or
    c. foreign benefits similar to those under subparagraph 6(b).
7. Any of the incomes cited in paragraph 6 are assessable regardless of whether the recipient is a Veteran/Civilian, a spouse/common-law partner, survivor or orphan. However, monies received by, or on behalf of, dependent children are not assessable for WVA purposes.
8. The gross amount of the Current Monthly Benefit is assessable. This would include:
    a. any portion which has been deducted, withheld or garnished for the purpose of recovering a debt due the Crown; and
    b. any lump sum amount which has been retroactively paid in that month.

Requirement to Apply for Old Age Security Act Benefits

9. A WVA applicant/recipient is required to apply for *Old Age Security Act* benefits to determine eligibility.
10. If no application for *Old Age Security Act* benefits is submitted, subsection 4(3)(c) of the WVA Act and section 14 of the *Veterans Allowance Regulations* authorize VAC to assess the amount that would be payable if an application had been submitted and approved. The effective date is the first day of the fourth month following the date of eligibility for *Old Age Security Act* benefits.
11. If an application for *Old Age Security Act* benefits is submitted, but circumstances beyond the control of the applicant prevent or delay an award, the benefit will not be assessed until the first day of the month in which the Old Age Security payment is actually received.

Foreign Sources of Income

12. Sums of money received from foreign countries should be converted to Canadian currency before performing any calculations. The rate of exchange to be used when converting foreign currency to Canadian dollars is the average rate of exchange for the previous Calendar Year (i.e. for payment year 2012-2013, use Base Calendar Year 2011). Refer to the Bank of Canada web site and go to “Rates and Statistics”, “Exchange Rates”, and “Annual Averages".

Allowable Deductions

13. Section 7 of the WVA Act allows for deductions in accordance with the *Old Age Security Act* and the *Income Tax Act*, when determining assessable income. For example, certain income types have their own “Source-specific Deductions” (e.g. interest, rents from property and earnings from employment and self-employment).
14. Source-specific Deductions for employment income include:
    a. Employment Expense Deduction to a maximum of $3,500;
    b. Canada/Quebec Pension Plan contributions;
    c. Employment Insurance premiums;
    d. Registered Pension Plan contributions;
    e. Legal expenses incurred to collect salary owing from an employer;

f. Rent or value for clergyman's residence;
g. Teacher's Exchange Fund contributions;
h. Meal and Lodging expenses of railway and/or transport employees;
i. Salesmen's expenses;
j. Travelling expenses;
k. Union, professional or like dues; and
l. Salary and/or disability payment reimbursements.

15. Allowable deductions from gross self-employment income include any business expenses permitted under the *Income Tax Act*. These deductions apply to income earned as a result of operating a professional, commission, farming or fishing business.
16. Source-specific deductions from gross rental income include;
    a. Property taxes;
    b. Insurance premiums;
    c. Maintenance and repair expenses;
    d. Electricity, heat and water;
    e. Interest;
    f. Advertising; and
    g. Capital cost allowance.
17. Source-specific deductions for Interest Income include:
    a. Carrying charges;
    b. Safety deposit box charges;
    c. Interest paid on money borrowed to earn investment income;
    d. Management or safe custody fees;
    e. Accounting fees; and
    f. Investment counsel fees.
18. In addition to the source-specific deductions described above, the *Income Tax Act* also permits "floating deductions" to be used when calculating income. Floating deductions can be applied to any one of the nine income sources identified in paragraph 4. Floating Deductions include:
    a. Registered retirement savings plan contributions;
    b. Child care expenses;
    c. Child support payments payable under a court order made prior to April 30, 1997;
    d. Disability Supports Deduction;
    e. Allowable business investment and/or capital losses;
    f. Employment and/or student moving expenses;
    g. Exploration and development expenses;
    h. Spousal support or a separation allowance paid under a separation agreement or a court order;
    i. An amount paid to refund an overpayment of Employment Insurance or Canada/Quebec Pension Plan benefits, except when the amount of the overpayment was recovered by deductions from current benefits; and
    j. First $500.00 of scholarships and/or bursaries.

Employment, Self-employment or Rental Income Exemption

19. Section 16 of the *Veterans Allowance Regulations* allows for a further income deduction to be applied only to net employment, self-employment and/or rental income (gross income less any specific deductions permitted under the *Old Age Security Act* or *Income Tax Act).*
20. The maximum employment, self-employment and/or rental income exemptions are:
    a. $2,900 per year for a single recipient;

b. $4,200 per year for a married recipient; and
c. $4,200 per year in the case of a couple who are both Veterans in their own right.

21. The application of the exemption to net income from employment, self-employment and/or rent must not result in total assessable income less than $0.00.

Interest Income Exemption

22. Section 16.1 of the *Veterans Allowance Regulations* allows for a further interest deduction to be applied to net interest income (i.e. gross interest income less any specific deductions permitted under the *Income Tax Act*) from banks, trust companies, credit unions, bonds, mortgages, annuities, Canada Savings Bonds (CSBs), and CSB bonuses. Where CSBs pay a bonus, only one-half of the bonus is assessable. The interest exemption does not apply to income derived from dividends or Capital Gains.
23. The maximum interest income exemption is $140 per year.
24. A single recipient, a married recipient, or an orphan is entitled to one maximum Interest Exemption. Where both parties to a marriage or common-law relationship are veterans, only one maximum interest exemption is permitted for the couple.
25. The application of the exemption to net interest income must not result in total assessable income less than $0.00.

Assessment of Ex-gratia or Similar Redress Payments

26. Ex-gratia and other similar redress payments are not considered income for income tax purposes. Therefore, they will not be included as income when establishing entitlement to income-tested benefits under the *Old Age Security Act*or the WVA Act. These include:
    a. Compensation payments for Canadian Hong Kong Veterans and their surviving spouses;
    b. Compensation payments for Canada Airmen incarcerated in Buchenwald Concentration Camp;
    c. The Merchant Navy Veteran Special Benefit;
    d. Extraordinary Assistance Program for HIV/AIDS Primaries – assistance payments offered to HIV primarily-infected persons who received HIV contaminated blood;
    e. Assistance Program for HIV/AIDS Secondaries – Federal/Provincial/Territorial assistance payments offered to HIV secondarily-infected individuals infected by a partner or parent who was primarily-infected by blood or blood products;
    f. The 86-90 Hepatitis C Virus (HCV) Settlement Agreement – Section 8.02(2) of the Transfused HCV and the Hemophiliac HCV plans, which provide that the receipt of any redress payments pursuant to the plans will not affect any federal social benefit program;
    g. Redress payments to Japanese Canadians;
    h. The Common Experience Payment (CEP) administered by Indian Residential Schools Resolution Canada. The CEP is a lump-sum payment which is provided as compensation for the poor treatment experienced by some former students of Indian residential schools.

Unassessed Sources of Income

27. The following sources of income are not assessable when calculating the amount of WVA to be paid:
    a. War Veterans Allowance;
    b. Disability Pension Benefits payable under the *Pension Act;*
    c. Assistance Fund Cash Grants;
    d. Attendance and Clothing Allowances, including those received under the *Pension Act;*
    e. Gallantry Awards;

f. Canada/Quebec Pension Plan lump-sum death benefits;
g. Social assistance payments from a municipal, provincial or federal government (i.e. Ontario Guaranteed Annual Income System [GAINS]);
h. Support or gifts from relatives, registered charities or other organizations;
i. Municipal tax rebates;
j. Income tax rebates or refunds;
k. Child Tax Credit;
l. GST/HST Credit;
m. Canadian Home Insulation or Energy Conversion grants;
n. Lottery prizes;
o. Personal injury awards;
p. Ex-gratia and/or similar redress payments;
q. Amounts excluded by statute; and
r. Monies received by, or on behalf of, dependent children.

Decreases in Income

28. When a WVA applicant or recipient experiences a loss or reduction in income of at least $12.50 per month, or $150 per year, in any income source described in paragraph 4, his/her entitlement to WVA may be recalculated based on his/her current income amounts (excluding Current Monthly Benefits). This is referred to as the "option" provision and is available to alleviate financial hardship for a WVA applicant or recipient who experiences an ongoing loss or reduction in income. A loss or reduction in income is considered to be ongoing if it is likely to continue beyond the month in which the change occurred.
29. Once it is determined that a WVA applicant or recipient is entitled to an option, the effective date is the first day of the month in which the income loss or reduction occurred.
30. Options cannot be exercised as a result of a loss or reduction in a Current Monthly Benefit. A loss or reduction in a Current Monthly Benefit will result in a new WVA rate being calculated by subtracting the new amount of the Current Monthly Benefit(s).
31. A WVA applicant or recipient who has exercised an option is required to immediately notify the Department of any subsequent increase in income. If this occurs, then a new WVA rate payable will be calculated based on the increased amount of income. If the increase puts the new estimate of income in excess of the applicable Monthly Income Factor, the account will be cancelled and, if applicable, an overpayment will be established from the first of the month of the increase in income.

Veteran Couples

32. Where both parties in a marriage or common-law relationship are Veterans, the WVA payable to each Veteran is determined individually. Therefore, either Veteran may declare an option, but the other need not do so. If, however, the income of both Veterans is combined to determine WVA entitlement, one cannot declare an option without the other doing so.

Reporting Investment Income

33. When reporting estimated income from interest, dividends, Capital Gains, and other investment income, such incomes should be estimated, based on the annual accrual method, for the whole calendar year. This figure will be divided by twelve to determine a monthly amount.
34. If the estimating of income from interest, dividends, Capital Gains and other investment income will cause hardship because the WVA applicant or recipient has "locked" into an investment from which there is no

income until a certain date, the income may not be assessed until it is actually received. This situation is regarded as exceptional.

35. For all other types of income, the estimated monthly income for the month following the month in which the reduction occurred is used as the monthly amount. That figure, multiplied by 12, gives the estimated annual income.

Example Calculation of WVA Payable

36. The amount of WVA payable is calculated as follows:
    a. Determine the applicable Monthly Income Factor (Column II) for the appropriate Class of Recipient (Column I) from the Schedule to the WVA Act. The Monthly Income Factors are adjusted quarterly to reflect any increases in the Consumer Price Index.
    b. From the appropriate Monthly Income Factor, subtract one-twelfth of the Base Calendar Year Income, after applying all applicable deductions and exemptions. The result is the Monthly Allowance Ceiling.
    c. From the Monthly Allowance Ceiling, subtract all applicable Current Monthly Benefits. The result is the amount of Allowance payable.

    Example: April 2013 WVA payable for a single client with CPP and OAS/GIS.

    i. The client's Base Calendar Year Income for 2011 consisted only of $1,000 in CPP benefits. No exemptions are applicable. (Note: Payment period is July 2012 to June 2013.)
    ii. Client's OAS/GIS (Current Monthly Benefits) rate for April 2013 is $1,245.51 per month.
    iii. Divide his Base Calendar Year Income by 12 to obtain client's monthly Base Calendar Year Income ($1000 ÷ 12 = $83.33).
    iv. Subtract $83.33 from client's single April 2013 Monthly Income Factor of $1,396.78 to obtain his Monthly Allowance Ceiling ($1,396.78 - $83.33 = $1,313.45).
    v. Subtract the 2013 Current Monthly Benefits of $1,245.51 from the Monthly Allowance Ceiling to obtain the monthly WVA payable ($1,313.45 - $1,245.51 = $67.94).

    Starting April 1, 2013, the monthly WVA payable is $67.94.

War Veterans Allowance Act, sections 4, 7, 8.1, 25, 30 and Schedule

Civilian War-related Benefits Act, Part XI - section 57

Old Age Security Act, section 2

Income Tax Act, Division B

Royal Canadian Mounted Police Superannuation Act

Royal Canadian Mounted Police Pension Continuation Act

Veterans Review and Appeal Board Act

Corrections and Conditional Release Act, section 22

Veterans Allowance Regulations, sections 3, 11, 12, 14, 16 and 16.1

Flying Accidents Compensation Regulations

Bank of Canada