# Taxes in Retirement

What You Need to Know


**Talking Points (notes) and ability to edit is included in purchased version**

# Important Information

This presentation is not meant to act as legal or tax advice. We all have unique financial and personal situations that require one-on-one attention and tailored solutions. **You should always consult with a tax and financial professional before making any decisions regarding your retirement income planning.**

# Retirement Income- Basics

## Government

- CPP
- OAS

## Corporate

- Employment Income
- Pension Benefits
- Severance Packages

## Personal

- RRSP
- TFSA
- Non-Registered Investments

# Government Benefits-Canada Pension Plan

## What Is It?

CPP is a mandatory program intended to supplement the retirement income of Canadians.

## When Can I Receive It?

The "Normal" retirement age for CPP is considered to be 65 years old.   At this age you can receive full retirement benefits from the CPP.  Canadians also have an option to take a reduced pension as early as 60 y/o or an enhanced pension after the age of 65 until the age of 70.

# Government Benefits-Canada Pension Plan

## Taxation

- Fully Taxable
- Included as income for recipient in the year of receipt

# Government Benefit- Old Age Security

## What Is It?

-OAS is a federally funded social security program designed to supplement the incomes of lower and middle class Canadians.

-Benefits included in the OAS program:

- OAS
- Guaranteed Income Supplement
- The Allowance

-Currently, the age in which Canadian's can apply for OAS is age 65.

# Government Benefit- Old Age Security

## Taxation

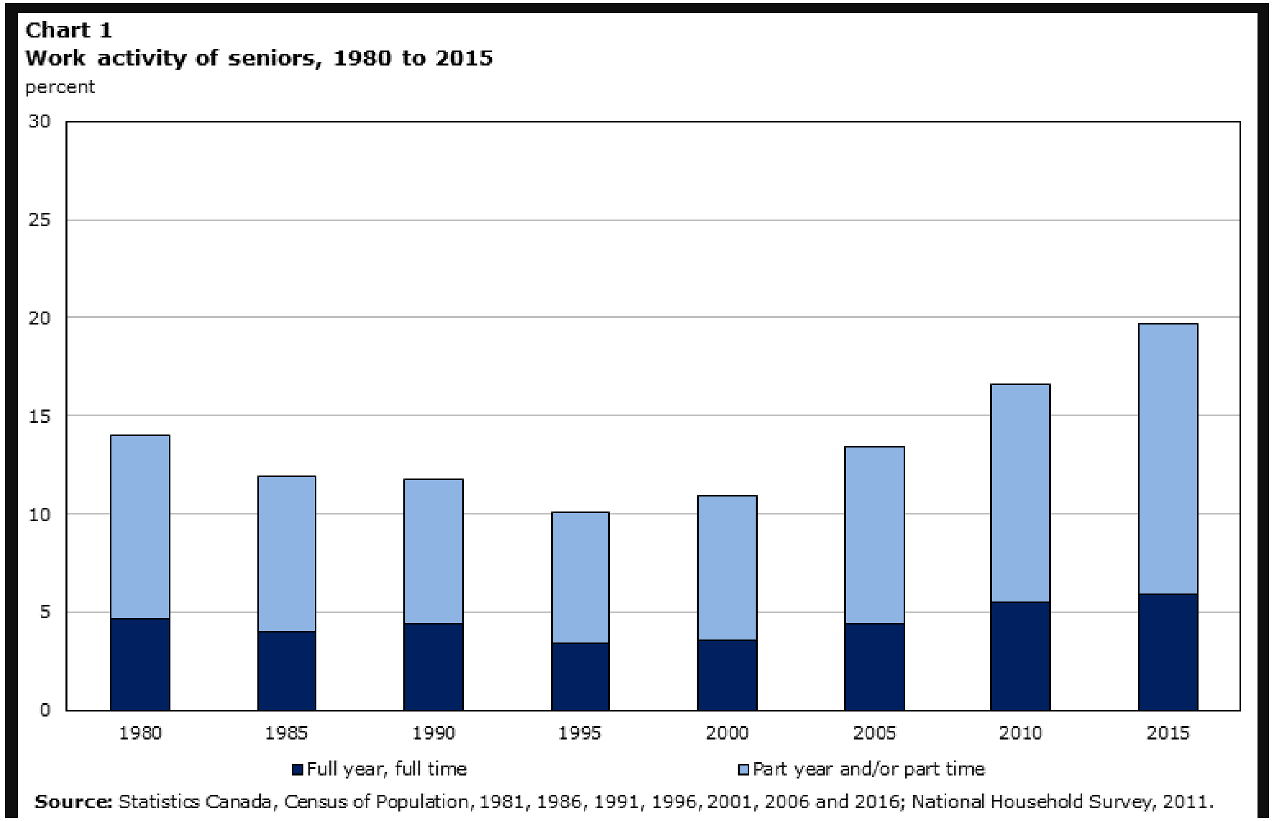
- All OAS benefits are included in the income of the recipient the year they receive the benefits.
- GIS, the Allowance, and Allowance for survivors are subject to a full deduction. This deduction makes them, essentially, tax-free.

## Considerations

- Eligibility
- Deferral
- The Clawback

# Corporate Income Sources- Employment Income

- Employment Income is an important factor is planning your retirement income.
- As of 2015, one in five Canadians over the age of 65 were working. (Statistics Canada, 2017).
- Continuing to work will put less stress on your assets, allowing them to grow.
- Form of activity or social interaction.




Source: (Statistics Canada, 2017)

# Corporate Income Sources- Pension Benefits

Two Types of Pension Plans:

- Defined Benefit Pension Plan
- Defined Contribution Pension Plan

Two Options for Taking Income

- Annuities
- Life Income Funds

Taxation:

- All benefits received from RPP's are fully taxable.

# Corporate Income Sources- Severance

## The Basics

- Long Service Awards etc.
- Often large lump-sum payments

## Important Tax Considerations

-These large sums will be added to your income, resulting in a significant tax event.

- Must be dealt with thoughtfully to avoid full taxation.

# Corporate Income Sources- Severance

Tax Planning Options

- Rollover Provisions
- Unused RRSP Contribution Room
- Cash Payments

# Personal Income Sources-Your Hard Earned Savings!

## RRSP

- Tax Deferred Growth
- Flexible
- Fully taxable at withdrawal.

## TFSA

- Tax Deferred Growth
- Flexible withdrawals
- Tax free withdrawals.

## Non-Registered

- Investment income taxed yearly
- Flexible withdrawals
- Capital Gains may be triggered

# 5 Tax Planning Strategies

# The tax man is always going to get paid.....

Fortunately, there are legitimate strategies that can be used to minimize the taxes you pay.

We will look at 5 strategies today:

- Pension Splitting
- CPP Sharing
- Spousal Loan
- Prescribed Annuities
- Withdrawal Strategies

# Our Tax System-The Basics

- Canada implements a progressive tax system.
- Federal Tax rates are combined with provincial tax rates. These combined rates dictate the taxes we pay.
- There are **5** federal tax brackets in Canada.  They are as follows:

| Tax Bracket | Federal Tax Rate |
| --- | --- |
| Up to $46,605 | 15% |
| $46,606 to $93,208 | 20.50% |
| $93,209 to $144,489 | 26% |
| $144,490 to $205, 842 | 29% |
| $205,843 and over | 33.0% |

***numbers are current as of June, 2018***

# The Three "D's" of Tax Planning

- Deduct
  - Take **D**eductions to reduce your taxable income
- Divide
  - **D**ivide your tax burden by taking advantage of income splitting
- Defer
  - **D**eferring paying tax to keep your money working for you longer

# Strategy #1: Pension Splitting

## What Is It?

- If eligible, an individual may be able to jointly elect to split up to 50% of eligible pension income with their spouse or common law partner.

## Why Does It Work?

- Pension splitting helps keep your net income figure low. This can help preserve government benefits (such as OAS) or it could move you into a lower tax bracket… therefore lowering your tax bill!

# Example

Lets assume that we have a couple who lives in British Columbia. One spouse receives a pension income of $60,000 a year, while the other spouse has no income.

**Scenario #1**

One spouse with a taxable income of $60,000 would pay $16,356 in tax.

**Scenario #2**

The spouses jointly elect to split 50% of the eligible pension income. Now, each spouse has a taxable income of $30,000 ($28,000 with the **pension tax credit)**. Each would pay $5,616.80 in taxes, or $11,233.60 total.

The couple still has the same household income of $60,000, but saved $5,122.40 of tax.

****This example was calculated using the combined BC tax rate. Current as of July 2018***

# Strategy#2-CPP Sharing

## What Is It?

- Married or common law partners have the option of sharing their CPP retirement pension through an arrangement known as **assignment.**

## Why Does It Work?

- The idea behind CPP assignment is to transfer some of the taxable income from the higher earning spouse to the lower earning spouse.
- Assignment redistributes the income, and therefore the tax.

# Strategy #2-CPP Sharing

## To qualify…

- Both spouses must agree to assign their CPP.
- Both spouses must be at least 60 years old and receiving CPP retirement benefits.

## How Is The Benefit Calculated?

- A formula exists that determines how much CPP benefit must be shared between two spouses.
- Dependent on how long the contributor and spouse lived together and number of years in the contributory period.

# Strategy #3- Spousal Loan

## What Is It?

- A Spousal Loan is a form of income splitting.  Income splitting can allow a higher earning spouse to transfer assets to a lower earning spouse.

## How Does It Work?

- There must be a written agreement between the spouses agreeing to the loan repayment.
- Borrowing spouse must pay lending spouse interest on the loan.  It must be paid and documented.

Spouse A has a marginal tax rate of 53.35%, while Spouse B has a marginal tax rate of 29.65%. Spouse A has received a $250,000 bonus at work. They would like to invest the proceeds in a security they believe will earn them 5%, but does not want to have the investment income taxed at their high tax rate. The spouses could then create a spousal loan agreement.  Spouse A could loan Spouse B the $200,000 to invest, while charging 1%. This is what the tax savings could look like:

# Example

Scenario 1: No Loan
Spouse A tax on the Proceeds: ((250,000 X 5%) X 53.53%) = $6699
Spouse B tax on the Proceeds: $0
**Total Tax Owed: $6699**

Scenario 2: Loan
Spouse A tax on the Proceeds: ((250,000 X 1%) X 53.35%) = $1333.75
Spouse B tax on the Proceeds: ((250,000 X (5%-1%)) X 29.65%)= $3669
Total Tax Owed: $5003
**Total Tax Saved: $1696**

# Example

# Strategy #4- Prescribed Annuity

## What Is A Prescribed Annuity?

- An annuity that is allows for special tax treatment for the interest portion of an annuity payment.

## Why Does It Work?

- Tax Deferral
- Lower tax in early years than would otherwise occur
- Level after tax income

## Who Does It Work For?

- Conservative investor with a surplus of non-registered assets who are looking to take an income, while being tax-savvy.

# Strategy #5- Order of Withdrawals

Lowest Earning Spouse

Non-Registered Investments

2

Registered Investments

3

Highest Earning Spouse

Non-Registered Investment

1

Registered Investments

4

But…..

# Strategy #5- Order Of Withdrawals

One Size Does NOT Fit All!

# Key Take-aways

→ Tax planning is the single most effective way to make the most of your income in retirement.

→ What works for some, doesn't work for all.

→ The makings of a good retirement income plan is one that puts the least amount of stress on your assets.

→ The goal is to keep your level of net income low. Why?
  - → Preserve tax credits
  - → Preserve Government Benefits (OAS)
  - → Lower income = lower tax bracket

→ The three D's of tax planning.

# Questions?