Taxes in Retirement

What You Need to Know
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

<table>
<thead>
<tr>
<th>Government</th>
<th>Corporate</th>
<th>Personal</th>
</tr>
</thead>
<tbody>
<tr>
<td>• CPP</td>
<td>• Employment Income</td>
<td>• RRSP</td>
</tr>
<tr>
<td>• OAS</td>
<td>• Pension Benefits</td>
<td>• TFSA</td>
</tr>
<tr>
<td></td>
<td>• Severance Packages</td>
<td>• Non-Registered Investments</td>
</tr>
</tbody>
</table>
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
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 in 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)
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
Canada employs a progressive tax system; the more you earn the higher the rate.

Federal Tax rates are combined with provincial tax rates. These combined rates dictate the taxes we pay.

Ontario has 8 tax brackets for 2019 when Federal and Provincial taxes are combined.

<table>
<thead>
<tr>
<th>Income Levels</th>
<th>Combined Federal and Ontario Tax Rates¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 to $43,906</td>
<td>20.05%</td>
</tr>
<tr>
<td>$43,907 to $47,630</td>
<td>24.15%</td>
</tr>
<tr>
<td>$47,631 to $87,813</td>
<td>29.65%</td>
</tr>
<tr>
<td>$87,814 to $95,259</td>
<td>31.66%</td>
</tr>
<tr>
<td>$95,260 to $147,667</td>
<td>37.16%</td>
</tr>
<tr>
<td>$147,668 to $150,000</td>
<td>40.16%</td>
</tr>
<tr>
<td>$150,001 to $210,371</td>
<td>41.16%</td>
</tr>
<tr>
<td>$210,372 to $220,000</td>
<td>45.16%</td>
</tr>
<tr>
<td>Over $220,000</td>
<td>46.16%</td>
</tr>
</tbody>
</table>

¹ Source: [https://www.canada.ca/en/revenue-agency/services/tax/individuals/frequently-asked-questions-individuals/canadian-income-tax-rates-individuals-current-previous-years.html#provincial](https://www.canada.ca/en/revenue-agency/services/tax/individuals/frequently-asked-questions-individuals/canadian-income-tax-rates-individuals-current-previous-years.html#provincial)
The Three “D’s” of Tax Planning

❖ Deduct
  ❖ Take Deductions to reduce your taxable income

❖ Divide
  ❖ Divide your tax burden by taking advantage of income splitting

❖ Defer
  ❖ Deferring 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

A couple who lives in Ontario. One spouse receives pension income in the amount of $60,000 per year after all federal and provincial pension tax credits have been applied, while the other spouse has no income.

Scenario #1

One spouse with a taxable income of $60,000 would pay $13,370 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. Each would pay $6,015 in taxes, or $12,030 total.

The couple still has the same household income of $60,000, and save $1,340 in tax.

*This example was calculated using the 2019 combined Manitoba/Canada tax rates.*
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.
The couple could then create a spousal loan agreement. Spouse A could loan Spouse B the $250,000 to invest, while charging 1%. Spouse B would net 4% returns, 5% investment income, less 1% loan interest.

**Scenario 1: No Loan**
Spouse (250,000 X 5%) X 46.16% = $5,770

**Scenario 2: Loan @ 1% interest rate**
Spouse A (250,000 X 1%) = $2,500 income
$2,500 X 46.16% = $1,154
Spouse B (250,000 X (5%-1%)) = $10,000 income
$3,723 x 24.15% + $6,277 x 29.65% = $2,760
**Total Tax Owed:** $3,914

**Total Tax Saved:** $1,856

*This example was calculated using the 2019 combined Ontario/Canada tax rates.*
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, then TFSAs
- Registered Investments

Highest Earning Spouse:
- Non-Registered Investment, then TFSAs
- Registered Investments

But always remember.....
Strategy #5- Order Of Withdrawals

One Size Does NOT Fit All
... and we change sizes often! !
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?