Taxes in Retirement
What You Need to Know
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 / QPP
- Old Age Security
- GIS

Corporate
- Employment
- Pension
- Benefits
- Severance Packages

Personal
- RRSP, LIRA, RRIF
- TFSA
- IPP
- Non-Registered Investments
What Is It?
• CPP is a mandatory program intended to supplement the retirement income of Canadians.

When Can I Receive It?
• Currently the “Normal” retirement age for CPP is 65 years old. At this age you can receive the full benefit. A reduced pension can be taken as early as 60 or an enhanced pension after the age of 65 until the age of 70.
Government – Canada Pension Plan

Taxation
- Fully Taxable in the hands of the recipient
- Included as income in the year of receipt
- Not eligible for pension income splitting
What Is It?

• Federally funded social security program designed to supplement the incomes of lower and middle class Canadians

• Benefits included in the OAS program:
  • OAS Pension
  • Guaranteed Income Supplement
  • The Survivor’s Allowance

• Currently, the age in which Canadian’s can apply for OAS is age 65.
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 – Employment Income

• Employment Income is an important factor in planning your retirement income.

• As of 2018, one in five Canadians over the age of 65 were working. (Statistics Canada).

• Continuing to work will put less stress on your assets, allowing them to grow, or delay their consumption.

• Form of activity or social interaction.

Source: (Statistics Canada)
Two Major Types of Pension Plans:
- Defined Benefit Pension Plan
  - “70% of your last 5 years of work”
- Defined Contribution Pension Plan
  - A percentage of employment income or matching employee contributions, for example

Potential Options for taking Income
- Annuities
- Life Income Funds
- Commuted Value (lump sum)
Corporate - Severance

The Basics
• Long Service Awards
• "Packages" to encourage employees to retire.

Important Tax Considerations
• CRA could assess these payments in a single tax year placing most, if not all, of it into the highest marginal tax rate.
• Must be dealt with thoughtfully to avoid full taxation.
Corporate - Severance

Tax Planning Options
- Rollover Provisions
- Unused RRSP Contribution Room
- Cash Payments
Personal Income

Your Hard Earned and Saved Money

- RRSP – Registered Retirement Saving Plan
  - Income deduction at time of investment
  - Tax deferred growth on large variety of investments
  - Flexible withdrawals
  - Taxable at withdrawal

- TFSA – Tax Free Savings Account
  - Deposits for after-tax dollars
  - Tax deferred growth
  - Flexible and tax free withdrawals

- Non-Registered Investments
  - Earnings taxable in current period
Simple 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 some simple strategies today:
- Pension Splitting
- CPP Sharing
- Spousal Loan
- Prescribed Annuities
- Withdrawal Strategies
Our Tax System - The Basics

- Canada employs a progressive tax system; the more you earn the higher the rate.
- Ontario has 11 tax brackets for 2020 when Federal and Provincial taxes are combined.

<table>
<thead>
<tr>
<th>Taxable Income Levels</th>
<th>Combined Federal and Ontario Tax Rates¹</th>
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</thead>
<tbody>
<tr>
<td>First $44,740</td>
<td>20.05%</td>
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<tr>
<td>Over $44,740 up to $48,535</td>
<td>24.15%</td>
</tr>
<tr>
<td>Over $48,535 up to $78,783</td>
<td>29.65%</td>
</tr>
<tr>
<td>Over $78,783 up to $89,482</td>
<td>31.48%</td>
</tr>
<tr>
<td>Over $89,482 up to $92,825</td>
<td>33.89%</td>
</tr>
<tr>
<td>Over $92,825 up to $97,069</td>
<td>37.91%</td>
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<tr>
<td>Over $97,069 up to $150,000</td>
<td>43.41%</td>
</tr>
<tr>
<td>Over $150,000 up to $150,473</td>
<td>44.97%</td>
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<tr>
<td>Over $150,473 to $214,368</td>
<td>47.97%</td>
</tr>
<tr>
<td>Over $214,368 to $220,000</td>
<td>51.97%</td>
</tr>
<tr>
<td>Over $220,000</td>
<td>53.53%</td>
</tr>
</tbody>
</table>

¹ Source: CRA at www.canada.ca
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 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 after they used the basic personal exemption of $12,069 ($72,069) would pay $13,285 in combined income tax.

20.05% on the first $44,740 = $8,970
25.15% on the next $3,795 = $916
29.65% on the next $11,465 = $3,399
$13,285 total tax owed

Scenario #2
The spouses jointly elect to split 50% of the eligible income of $72,069, or $36,035 each

$36,035 each less $12,298 (estimated 2020 personal exemption) = $23,737 taxable income
$23,737 taxed @ 20.05% = $4,759 each x 2 = $9,518 total tax

The couple saves $3,767 in tax. ($13,285 less $9,518)

*This example was calculated using the 2020 combined Ontario/Canada tax rates.*
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.
- It works best for long-married couples where one spouse worked outside the home, and the other did not.
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, or ineligible to receive CPP based on lack of contributions.
- The total CPP paid to the married couple doesn’t change, but the distribution to each person does by transferring income from the higher income spouse to the lower income spouse.

How Is The Benefit Calculated?

- It is not a simple redistribution of income. A formula determines how much CPP benefit is shared between the two spouses.
- The formula relies upon the overall length of the relationship, and the amount of time that the relationship occurred during CPP contributory period (i.e. while working).
- A joint application must be made to Canada Revenue to approve this scheme, and a joint notice is required to stop it.
- More information is available at https://www.canada.ca/en/services/benefits/publicpensions/cpp/share-cpp.html
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.
A married couple lives in Ontario. One spouse receives a one-time after-tax bonus of $250,000 from their employer. They plan to invest all of the bonus and plan to earn 5% interest income. And they want to pay the least amount of tax.

The couple could then create a spousal loan agreement. Spouse A could loan Spouse B the $250,000 to invest, while charging 2%. Spouse B would net 3% returns, 5% investment income, less 2% loan interest.

**Scenario 1: No Loan**
Spouse A - 250,000 X 5% interest
= $12,500 income X 53.53% tax = $6,691

**Scenario 2: Loan @ 2% interest rate**
Spouse A - 250,000 X 2% = $5,000 income
= $2,500 income X 53.53% = $2,677
Spouse B - 250,000 X 3% (5% earned -2% paid)
= $7,500 income x 20.05% tax = $1,504

**Total Tax Owed:** $4,181
**Total Tax Saved:** $2,510

*This example was calculated using the 2020 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 investors with a surplus of non-registered assets who are looking to take an income, while being tax-savvy.
Strategy #5 - Order of Withdrawals to reduce Taxes

Lowest Earning Spouse:
1. Non-Registered Investments, then TFSAs
2. Registered Investments

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

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

One Size Does NOT Fit All
... and we change sizes often! !
• 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. Cocktail-party advice can be dangerous!

• 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?