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

Government – Canada Pension Plan

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

Government – Old Age Security

What Is It?

- Federally funded social security program designed to supplement the incomes of low 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.

Government – Old Age Security

Taxation

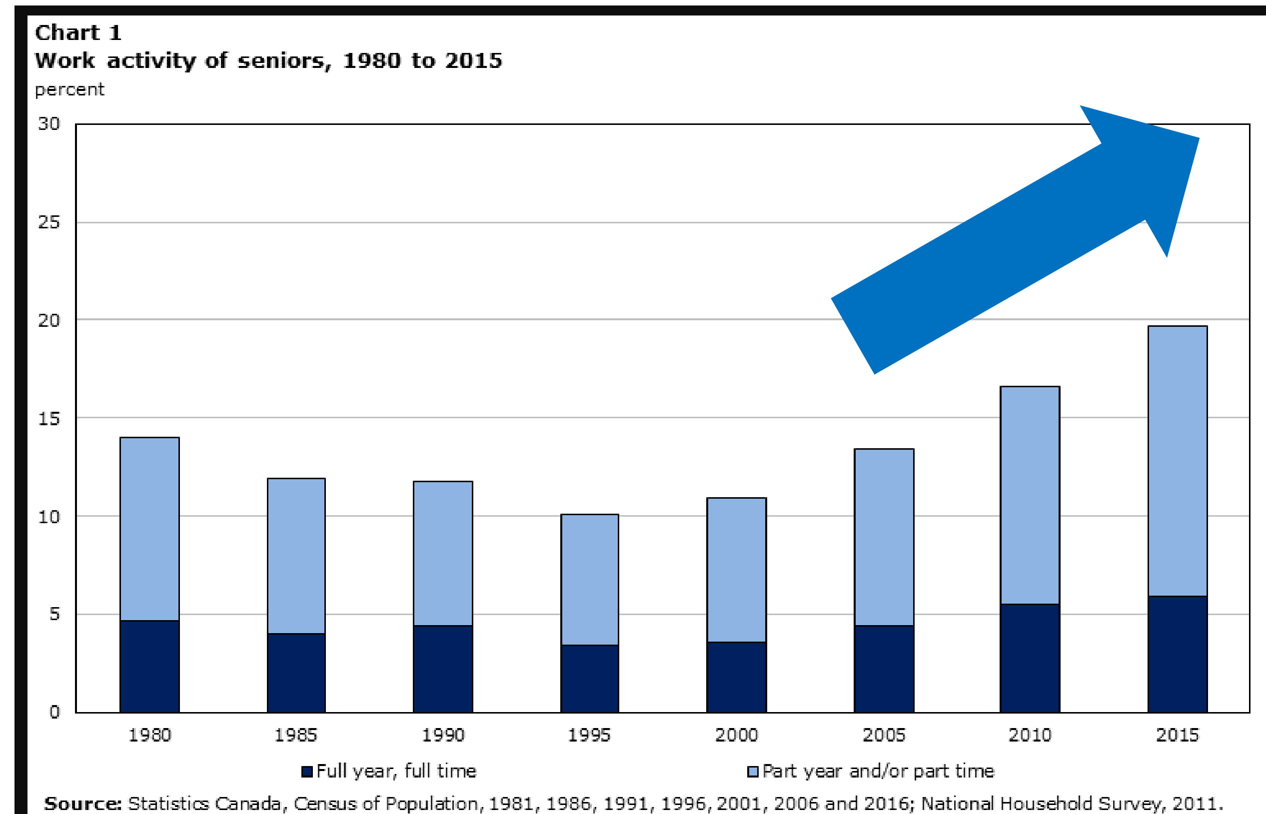
- All OAS benefits are included in the income of the recipient during the year they receive the benefits.
- GIS, the Allowance, and Allowance for Survivors are subject to a full deduction. This deduction makes them, essentially, tax-free.

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)

Corporate – Registered Pension Plans

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)

Taxation:

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

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-free growth for the holder
  - 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 has11 brackets for 2021 income for combined Federal and Provincial taxes.

Taxable Income Levels	Combined Federal and Ontario Tax Rates[1]
first $45,142	20.05%
$45,143 to $49,020	24.15%
$49,021 to $79,505	29.65%
$79,506 to $90,287	31.48%
$90,288 to $93,655	33.89%
$93,656 to $98,040	37.91%
$98,041 to $150,000	43.41%
$150,001 to $151,978	44.97%
$151,979 to $216,511	47.97%
$216,512 to $220,000	51.97%
Over $220,000	53.53%

1) Source: CRA at www.canada.ca

The Three "D's" of Tax Planning

- **D**educt
  - Take deductions to reduce your taxable income
- **D**ivide
  - Divide your tax burden by taking advantage of income splitting
- **D**efer
  - Defer 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 $13,808 ($73,808) would pay $13,244 in combined income tax.

20.05% on the first $45,142 = $ 9,051
25.15% on the next $ 3,878 = $ 937
29.65% on the next $10,980 = $ 3,256
$13,244 total tax owed

Scenario #2

The spouses jointly elect to split 50% of the eligible income of $73,808, or $36,904 each

$36,904 each less $13,808 (2021 personal exemption) = $23,096 taxable income
$23,096 taxed @ 20.05% = $4,631 each x 2 = $ 9,262 total tax

The couple saves $3,982 in tax. ($13,244 less $ 9,262)

**This example was calculated using the 2021 combined Ontario/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.
- 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.

Example

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 the bonus and plan to earn 5% interest income.
And they want to pay the least amount of tax.

The couple could create a spousal loan agreement.
Spouse A could loan Spouse B the $250,000 to invest, while charging 1% interest.
Spouse B would net 4% returns, 5% investment income, less 1% 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 @ 1% interest rate
Spouse A - 250,000 X 1% = $2,500 income
= $2,500 income X 53.53% = $1,338
Spouse B - 250,000 X 4% (5% earned -1% paid)
= $10,000 income x 20.05% tax = $2,005
Total Tax Owed: $3,343

Total Tax Saved: $3,348

**This example was calculated using the 2021 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.

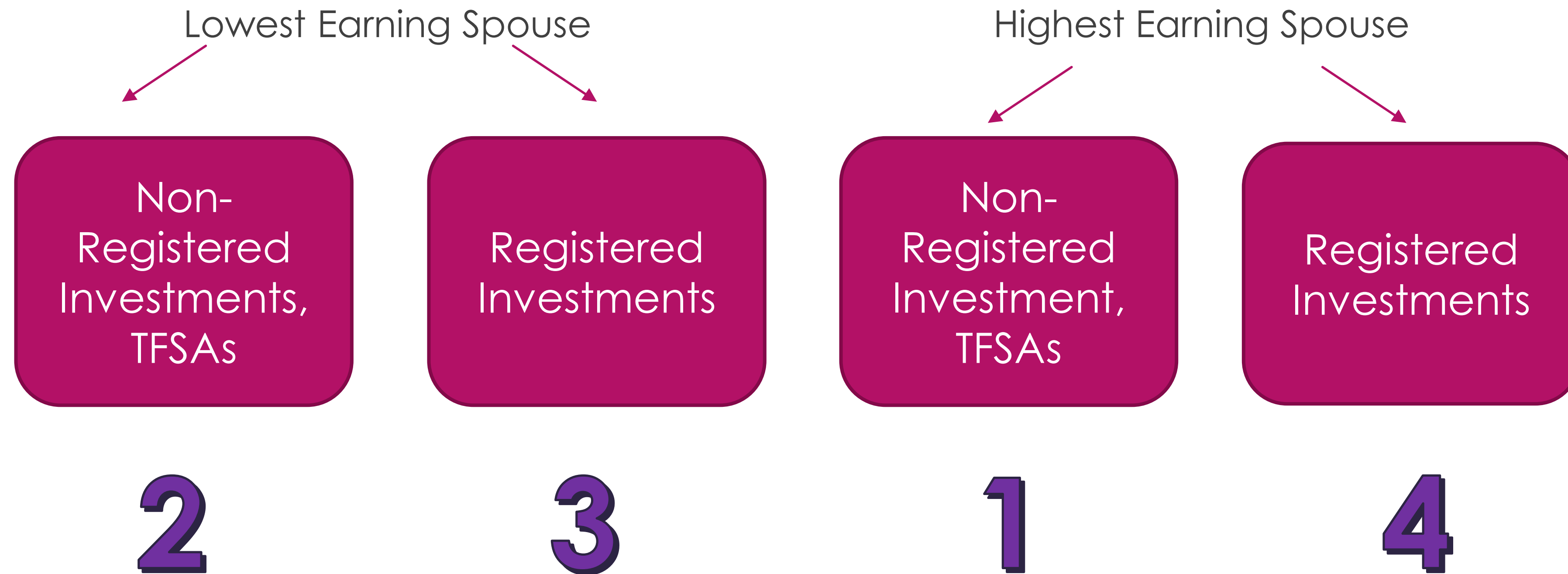
Why Does It Work?

- 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



But 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. 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?