FINANCIAL POST

Three tips to help retirees minimize their taxes and maximize their cash flow

Jamie Golombek: Don't miss out on opportunities to claim tax credits or implement strategies that might save thousands of tax dollars annually

A recent survey showed that 89 per cent of respondents don't fully know how their retirement income is taxed.*Getty Images/iStockphoto*

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Two-time heavyweight boxing champion and, later, grill aficionado George Foreman once quipped: “The question isn’t at what age I want to retire, it’s at what income.”

A new CIBC retirement poll out this week found that 74 per cent of respondents worry about having enough income in retirement. According to the poll, Canadians’ top anticipated sources of retirement income include: Canada/Quebec Pension Plan benefits (85 per cent), Old Age Security benefits (80 per cent), RRSPs (63 per cent), TFSAs (58 per cent) and income from a pension plan (53 per cent).

Yet the vast majority of those surveyed — 89 per cent — didn’t fully know how their retirement income is taxed, which may result in lost opportunities to claim various tax credits or implement strategies that might save thousands of tax dollars annually.

Here are three tax tips that retirees may wish to consider to minimize their tax and maximize their cash flow upon retirement.

Claim your credits

Individuals who work, either full- or part-time during retirement, may continue to claim the “Canada Employment Amount” of up to $1,222 (2019 amount), assuming they had at least that much employment income. At a 15 per cent non-refundable rate, this credit may yield tax savings up to $180.

Retirees who are at least 65 may also be able to claim the non-refundable age tax credit. The federal credit is calculated as 15 per cent of the age amount, which is $7,494 in 2019. The federal age amount is phased out at a rate of 15 per cent once your net income is above $37,790 and is completely eliminated once 2019 net income reaches $87,750. Combined with provincial savings, the age credit can be worth up to $1,600, depending on your province of residence.

For individuals with eligible pension income, a non-refundable federal pension income credit of 15 per cent is available on the first $2,000 of annual eligible pension income. Provincial credits for pension income are also available.

Eligible pension income includes annuity-type payments from a Registered Pension Plan (RPP), regardless of your age (age 65 in Quebec), and also includes RRIF (or LIF) withdrawals once you reach age 65. By claiming the pension income credit, you could save taxes averaging about $400 annually, depending on where you live.

Also, as I suggested in an earlier column, if you're at least 65 years of age but don't have any pension income, consider moving $14,000 ($2,000/year X 7 years) of your RRSP to a RRIF in the year you turn 65. You can withdraw $2,000 annually from age 65 through age 71 to take advantage of the annual pension income credit. Remember — if you don't use it, you lose it (at least for that year).

Don't need the funds you withdrew prematurely from your RRIF? Well, you can always contribute the after-tax amount right into your TFSA (assuming you have the contribution room) so that future income or growth on the withdrawn funds may continue to accumulate tax-free.

Shifting/spreading income across tax years

Due to the progressive nature of our tax system, you may be able to reduce your overall tax bill and preserve income-tested government benefits by shifting discretionary income (i.e. income where you control the timing) from years when you expect to have higher income to years when you expect to have lower income. Discretionary income may include RRSP or RRIF withdrawals (beyond the annual, required RRIF minimum amount) or selling assets with accrued capital gains.

This strategy can also be useful for estate planning if you wish to maximize the amount available to your heirs by lowering your tax bill on death. For example, for someone in a lower- or middle-income tax bracket, it may make sense to strategically withdraw more than the mandatory minimum annual amount from your RRIF. These withdrawals might be taxed at lower rates while you're alive, rather than have the entire fair market value of your RRIF (or RRSP, for that matter) taxed as income in the year of death (absent a tax-deferred transfer to a surviving spouse or partner). With combined federal/provincial tax rates as high as 54 per cent in some provinces, that could mean less than half of your RRSP/RRIF goes to your beneficiaries upon your death. And, as above, if you don't need all the funds from your RRIF withdrawal, consider contributing them to your TFSA.

Pension Splitting

Retirees who receive a pension can split their eligible pension income with a spouse or partner. Any pension income that qualifies for the federal pension income credit (above) also qualifies to be split.

Pension splitting allows you to save income tax due where one spouse is in a lower tax bracket upon retirement than the other. But it may also allow you to preserve income-tested government benefits and credits, such as the guaranteed income supplement (GIS), your OAS pension or the age credit.

As above, if you don't already have pension income and you are at least 65, you may want to consider converting a portion of your RRSP to a RRIF before age 71 so that you can benefit from pension splitting for the seven tax years from age 65 to 71.

You can also apply to the government to share your CPP/QPP pension with your spouse. This is distinct from pension splitting, which is done through the tax return filing process. If you were the only one who made contributions, you can share your CPP/QPP pension. If both you and your spouse contributed, each of you can receive a share of both of your pensions. The combined total amount of the two pensions stays the same whether you decide to share your pensions or not. You can always apply to cancel CPP/QPP sharing if it no longer makes sense in the future.

Finally, although sharing is not available for OAS benefits, one-third of respondents in the CIBC poll incorrectly thought they could elect to income split OAS benefits with a spouse or partner. You cannot.

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