The Stan Clark Financial Team's

PERSPECTIVES

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Financial Planning

Are you a retiree? The Pension Income Tax Credit may reduce your taxes

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Many tax deductions and credits can help you reduce the amount of taxes you have to pay each year. For retirees, one of the more common credits is the *Pension Income Tax Credit* (PITC).

How many individuals actually take advantage of PITC? Not many – because not many are aware of it. In the January 2019 CIBC Retirement Poll, only 22% of respondents knew that a non-refundable federal PITC of 15% may be available on the first $2,000 of eligible pension income. Provincial credits for pension income are also available.

This apparently not-widely-known tax credit is worth discussing in more detail. PITC is available if you are 55 years or older. It allows you to deduct a tax credit equal to the lesser of your pension income or $2,000.00. By claiming the pension income credit, you could save taxes averaging about $400 annually, depending on your province of residence.

In order to claim the credit, you as a taxpayer must be in receipt of certain types of income, which also depends on your age.

- If you are 65 or older in the applicable year, pension income includes:
- income from a superannuation or pension fund
- annuity income out of a Registered Retirement Savings Plan (RRSP) or a Deferred Profit Sharing Plan (DPSP)
- income from a Registered Retirement Income Fund (RRIF)
- interest from a prescribed non-registered annuity
- income from foreign pensions
- interest from a non-registered Guaranteed Investment Certificate (GIC) offered by a life insurance company.

If you are younger than 65 for the entire year, pension income includes only income from a superannuation or pension plan or annuity income arising from the death of your spouse under an RRSP, RRIF or DPSP.

What is *not* eligible pension income?

- investment income from market based investments
- interest income from GICs with banks, trust companies and credit unions
- Old Age Security (OAS) and Canada Pension Plan (CPP)
- Lump-sum death benefits
- Lump-sum withdrawals from RRSPs
- Retiring allowances.

How can *you* take advantage of PITC?

If you are over age 65 and not part of a superannuation or pension plan, you can do any of the following:

1. **Convert an RRSP to a RRIF.** At age 65, transfer $12,000 to a RRIF and take $2,000 out per year from age 65 to 71 (inclusive). This allows you to get $2,000 out of your RRSP tax-free for six years.
2. **Transfer Locked-in Retirement Account (LIRA) assets to a Life Income Fund (LIF) and then annuitize.** In most cases, you can transfer your LIRA to a LIF or Locked-in Retirement Income Fund (LRIF) once you reach age 55. To make the most of this strategy, you must transfer the LIRA to the LIF and then to an annuity in order for the income to be reported as eligible pension income. If you purchase the annuity directly from the LIRA, the annuity is considered an RRSP annuity, which only qualifies for the pension income credit after age 65.
3. **Life insurance company GIC.** You purchase a GIC through a life insurance company because it is considered eligible pension income. To determine how much principal you would require to be able to claim the full credit, divide $2,000 by the applicable interest rate for the term you want. For example, if you wanted a five-year term and the current annual rate was 2.0%, you would need to invest $100,000 ($2,000 divided by 2.0% = $100,000).
4. **Split income.** If you want to lower your overall household tax bill, you can split up to 50% of your eligible pension income (which includes an RRIF from age 65 onwards) with your spouse or common-law partner.
5. **Transfer of unused credit to a spouse.** Unused pension income credit is transferable to a spouse or common-law partner. The ability to transfer this credit should be explored in circumstances where one spouse is earning pension income in excess of $2,000 and the other spouse is not otherwise fully utilizing their pension income credit.

The pension income tax credit is non-refundable and may not be carried forward each year. If you are over age 65, look at line 314 in your tax return to see if you are taking advantage of the Pension Income Tax Credit. If not, consider one of the tax savings strategies described above. ■

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