The Stan Clark Financial Team's

PERSPECTIVES

An excerpt from "Perspectives" - Volume 5 – Issue 10

Financial and estate planning

Pension Income Tax Credit could mean more money for you

By Sylvia Ellis - Senior Estate Planning Advisor

Are you retired, or planning to retire, in the near future? If so, are you familiar with the Pension Income Tax Credit? It started out in 1988 as a non-refundable credit on the first $1,000 of pension income. Since then, the 2006 Federal Budget increased the credit to $2,000, and in 2007 pension splitting was permitted. So, today, individuals can claim a federal tax credit based on $2,000 of pension income; and couples on $4,000.

Here's how it works. Individuals who receive eligible pension income can deduct from their federal taxes 15 percent on the first $2,000 of pension income received. This means up to $300 in tax savings at the federal level, plus the provincial tax credits, depending on the province or territory where you live.

Different rules apply to taxpayers who are at least 65 at any time in a taxation year, and to those who are under age 65.

If you are 65 or older, eligible pension income includes:

1. A life annuity payment from a registered pension plan
2. An annuity payment under a Registered Retirement Savings Plan (RRSP)
3. A payment under a Registered Retirement Income Fund (RRIF)
4. A payment from a pooled registered pension plan
5. An annuity or installment payment from a deferred profit-sharing plan
6. The taxable portion of a non-registered annuity payment
7. Income reported from a Guaranteed Income Annuity.

If you are younger than 65, pension income is more limited. It includes:

1. A life annuity payment from a registered pension plan
2. Any points from 2. to 7. above, received as a consequence of the death of a spouse or common-law partner.

Let's look at a couple of simple examples.

If you're 65 and want to use some of your RRSP, you can simply transfer $12,000 to a RRIF and withdraw $2,000 per year from age 65 to 71, and claim the credit.

With non-registered money, you can buy a Guaranteed Interest Annuity (GIA) from a life insurance company. How much you need to invest to claim the full credit is based on dividing $2,000 by the interest rate. So, if you want a five-year term, and the annual interest rate is 2 percent, you would need to invest $100,000. With respect to income splitting where you and your spouse are both age 65, you can invest double the amount in the GIA, and make an election on your tax returns to each claim $2,000.

Let's also say you're at least 65 and are eligible for the Pension Income Tax Credit. However, you're unable to use the credit fully because you have reduced your taxes to zero. In that case, you can transfer the unused portion to your spouse. Only you, as the original recipient of the eligible income, must be age 65 or older. The spouse receiving the transferred credit can claim it at any age and does not need to have eligible pension income to take advantage of the transferred credit. Note that unused portions cannot be carried back or forward.

To find more information to determine if you are eligible to claim the credit, you may want to view the Canada Revenue Agency (CRA) website at www.cra-arc.gc.ca and search for "Pension Income Tax Credit."

Sylvia Ellis is the Senior Estate Planning Advisor for the Stan Clark Financial Team at CIBC Wood Gundy. Sylvia provides support to the team in projecting and planning client financial affairs.

To learn more about CIBC Wood Gundy, the Stan Clark Financial Team and the many ways we can help manage your wealth, please contact us by phone or by email as listed below.

The Stan Clark Financial Team
Where planning, investing and behavioral finance meet

Phone: (604) 641-4361 Toll free: 1 (800) 661-9442 Fax: (604) 608-5211 Email: StanClarkFinancialTeam@cibc.ca www.stanclark.ca

Stan Clark is an Investment Advisor with CIBC Wood Gundy in Vancouver, BC. The views of Stan Clark do not necessarily reflect those of CIBC World Markets Inc. This information, including any opinion, is based on various sources believed to be reliable, but its accuracy cannot be guaranteed and is subject to change. Clients are advised to seek advice regarding their particular circumstances from their personal tax and legal advisors. Transactions in insurance products, including segregated funds, are made on your behalf by CIBC Wood Gundy Financial services Inc., or in the case of Quebec residents, CIBC Wood Gundy Financial Services (Quebec) Inc. If you are currently a CIBC Wood Gundy client, please contact your Investment Advisor. CIBC Wood Gundy is a division of CIBC World Markets Inc., a subsidiary of CIBC and a Member of the Canadian Investor Protection Fund and Investment Industry Regulatory Organization of Canada.