Retirement Income Splitting - What You Need To Know!!

News from the Budget - Bill C-52 received Royal Assent on June 22nd - Changes introduced in the 2007 Federal Budget

The Federal Government introduced measures to allow Canadians to split retirement income in order to reduce their overall tax bills. Income splitting is one of the most powerful options retired couples have to reduce their overall tax burden. Retirement income splitting can result in thousands of dollars of annual tax savings for eligible Canadian households. It can lower taxes paid as well as it impacts tax credits and government benefits. The government is allowing any Canadian residents with income that qualifies for the existing pension income-tax credit to allocate up to half of that income to a spouse or common-law partner. For those under age 65, eligible income includes lifetime annuity payments made under a registered pension plan, as well as certain death benefits in the form of an annuity payment arising by virtue of the death of a spouse under an RSP, RIF, or specified plan which includes payments from foreign government pension plans. For clients over the age of 65, it also includes registered retirement savings plans and deferred profit sharing plans as well as registered retirement income funds.


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The amount to be split would be deducted by the transferor spouse and would be included in income by the receiving spouse. As a result both individuals must agree to the allocation in their tax returns for the applicable year. The pension income splitting will be available in 2007.

The greater the difference between a couple's income and marginal tax rates, the greater the savings that can be achieved through retirement income slitting. Income splitting can generate higher OAS benefits, take greater advantage of available tax credits and reduce applicable surtaxes. Clients circumstances are unique so each individual needs to evaluate their own potential benefits of income splitting.

Retired couples can also balance their income levels through a spousal RRSP. One spouse makes contributions and takes the tax deduction, and the other spouse reports the income. Even though the new income splitting greatly enhances your ability to income split, it does not eliminate the use of a spousal RSP as the new legislation only allows income splitting of up to 50%. If the higher income spouse has other sources of income during retirement, a spousal RSP would allow for greater income splitting overall as all of the payments out of the spousal RSP are taxed in the hands of the lower income spouse not just 50%. Remember, however, that income attribution rules must be honored. Couples who expect their income levels to be very different in retirement should start a spousal RRSP several years beforehand. This will ensure a suitable accumulation of assets that can be used to produce income for the lower-income spouse.

Retirement income splitting can also benefit with regards to OAS, which is available to you at age 65. This year, Canada Revenue, will start clawing back these benefits once your net income exceeds $63,511. OAS benefits are completely eliminated once net income reaches $102,865. If you can split your incomes to keep both partners below the $63,511 net income, you will receive the maximum OAS household benefit.

Once both spouses are 60 or older, you can share up to 50% your CPP benefits also. You simply add your qualifying benefits together and split them evenly. This applies only to benefits arising from CPP contributions made while you and your spouse were living together.

The potential benefits and risks of implementing any given strategy based on the new legislation can vary greatly from client to client depending on personal circumstances.

The Age Credit Amount is increased by $1,000 from $4,066 to $5,066 retroactive to January 1, 2006. This credit is eliminated when net income reaches $64,043. For someone in the lowest tax bracket, the credit would result in a federal tax savings of approximately $150.00

The 2007 Federal Budget has also extended the maturity or conversion age to the end of the year in which the annuitant turns 71 years of age to convert RRSP's to a RRIF. The new age limit applies for 2007, thus the requirement that the minimum amount be withdrawn from a RRIF each year after the RIF is established will be waived for 2007 and 2008 if the annuitant turns 70 or 71 years of age in 2007 and 71 years of age in 2008. Any RRIF payments you receive in 2007 may be contributed (fully or in part) back to the RRIF by February 29, 2008.

Your Advisor can assist you with understanding the benefits of these new tax rules to you and your family and which strategies may be appropriate. However, before proceeding, you should consult your own professional tax advisor to get an opinion concerning your own personal tax situation for yourself and your spouse.

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