

TAX ALERT



TAX ALERT is a commentary on topics of current interest – usually topics relating to recent changes in tax law, new CRA administrative practices or current interpretations arising from tax cases. Professional advice should be obtained before acting on any of this information. ed.3/07

PENSION INCOME SPLITTING

The Federal budget in the spring of 2006 made several changes to personal income taxes. Among them was an increase in the pension income tax credit for individuals 65 and over from \$1,000 to \$2,000 per year commencing in 2006 for Qualifying Pension Income. Individuals who are not able to use the full pension income tax credit (now \$2000) can elect to transfer it to a spouse.

For individuals 65 and over, Qualifying Pension Income includes lifetime annuity payments under a registered pension plan, a registered retirement savings plan, payments out of or under a registered retirement income fund and the income portion of a regular annuity. For individuals under 65, Qualified Pension Income is more limited and only includes lifetime annuity payments under registered pension plan and certain payments received as a result of the death of the individual's spouse or common law partner.

The October 31, 2006 Tax Fairness Plan announced an additional method for pensioners to reduce income taxes through income splitting of Qualifying Pension Income starting in 2007. The proposal will allow up to 50% of such pension income to be allocated to a spouse or common law partner. The amount allocated will be deducted from the income of the transferor and included in the income of the transferee. Because the income allocated will increase the recipient's tax for the year, both spouses must agree to the reallocation in their tax returns for years in which the allocation takes place.

Qualifying Pension Income does not include income from Old Age Security, Canada Pension, death benefits, retiring allowances or lump sum withdrawals from RRIF's in excess of minimum withdrawal levels. It would also not include other lump sum withdrawals from pension plans and registered retirement savings plans.

The deduction for Qualified Pension Income is shown on Schedule 1 on line 314 of your personal tax return and is discussed on page 37 of the 2006 General Benefit and Income Tax Guide.

Planning

If you are over 65 and under 70 with no pension income, you should consider moving part of your RRSP to a RRIF to receive \$2,000 tax free. Both spouses with RRSP's can do this so there can be a good tax savings. Contributing to a spousal RRSP continues to be good tax planning for many reasons.

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