

Questions or comments? Email us at office@logankatz.com or call 613-228-8282 ext 0.



PENSION INCOME SPLITTING



Many seniors face challenges in planning and managing their retirement income. If you or members of your family receive pension income, the pension splitting income rules may be good news.

Beginning for the 2007 taxation year, taxpayers will be permitted to allocate up to one-half of eligible pension income to their spouse or common-law partner ("spouse").

What is Income Splitting?

The term "income splitting" refers to strategies for shifting income from a higher tax bracket family member to a family member in a lower tax bracket. The resulting savings in tax provide a higher level of after-tax income for the family.

What is Eligible Pension Income?

Eligible pension income generally includes the following amounts received by the pensioner in the year:

- Annuity payments from a superannuation or pension fund or plan (registered pension plan (RPP); and
- If received as a result of the death of a spouse, or if the pensioner is age 65 or older at the end of the year:
 - Annuity and Registered Retirement Income Fund (RRIF) (including Life Income Fund) payments; and
 - Registered Retirement Savings Plan (RRSP) annuity payments.

All of these amounts qualify for the pension income tax credit of \$2,000.

Eligible Pension Income excludes:

- Old Age Security (OAS)
- Guaranteed Income Supplement (GIS)
- Canada Pension Plan/Quebec Pension Plan (although existing CPP/QPP splitting will remain)
- RRSP withdrawals
- Income from retirement compensation arrangements

How does Pension Income Splitting Work?

Couples are permitted to pension split provided that they are residents of Canada and living together at the end of the year. The rules still apply if a couple is not living together at the end of the year because of medical, educational or business reasons. If the couple is married in the year or one of them dies in the year, pension splitting is only available for the period during which they were together in the year.

How to Elect

The higher income spouse can allocate up to 50% of the eligible income to the lower income spouse. While the ability to split income may impact the tax returns of the spouses, the individual registered with the pension plan will continue to receive the pension payments as usual.

The income splitting spouses have to file an annual joint election using new prescribed form T1032 with their income tax returns for the year. They must also split the income tax withheld at the source in proportion to the split of the pension income. The decision to pension split will be made each year based on circumstances for that year.

Planning Considerations

Benefits and tax credits that are calculated based on the total of the net incomes of both spouses — such as the GST/HST credit and related provincial or territorial benefits — will not change as a result of pension splitting.

However, tax credits and benefits that are calculated using one individual's net income, such as the age amount, the spouse or common-law partner amount, and medical expenses, will be affected. In addition, splitting pension income could mean higher OAS entitlements for some couples, as a result of reduced clawbacks.

There is no age restriction for the spouse who receives the income allocation. Couples may receive a second pension income tax credit of up to \$2,000 where previously only one was available since all of the income will be eligible for the pension income tax credit, except cases where the individual receiving the income is under the age of 65 and the amount split was RRSP or RRIF payments not received as a consequence of the death of a spouse.

For individuals under 65 years of age receiving the income allocation, the major type of qualifying income that can be allocated is income from a RPP.

Are Spousal RRSP's Still Relevant?

- *If you are under the age of 65, planning to retire, and your only source of income is from an RRSP or a RRIF*, a spousal plan will still allow you to split your pension income to the extent the spousal plan is utilized. The withdrawal of the funds would be taxed in the other spouse's hands.
- The pension income splitting rules only allow up to 50% of the pensioner's income to be split. Spousal RRSP's will provide a mechanism to allow individuals to *split more than 50% of their pension income*.
- Once *you are over age 71*, you can no longer have an RRSP in your own name. If you have a spouse under the age of 71 and you still have unused contribution room, you can contribute to a spousal RRSP.
- The spousal RRSP can still be utilized by couples wanting to save money for a down payment on their first home. *Contributions to spousal RRSP's can be planned so that each spouse can take advantage of the \$20,000 Home Buyers' Plan withdrawal limit.*

Talk to Your Chartered Accountant

Be sure to consult with your chartered accountant to determine whether pension splitting could result in tax savings for you and your spouse or senior members of your family.

This 'n That at Logan Katz...

EXTRA ! EXTRA !

We are extremely proud to announce that Logan Katz's very own **Li Kun Tang** successfully completed the most challenging step towards obtaining the *Chartered Accountant* designation – the Uniform Final Examination. The results for the three-day exams written in September were announced throughout the country on November 30. Please join us in congratulating Li Kun and wishing her the very best in her professional accounting career.

Our Clients in the Spotlight !

Logan Katz is extremely pleased to congratulate four distinguished clients who received prestigious *Business Achievement Awards* from the **Greater Ottawa Chamber of Commerce** on November 22:

Amika Mobile Corporation – *Small Business of the Year Silver* award

InRound Innovations – *Professional Services of the Year Silver* award

Michael LeClair of Ottawa Business Interiors – *Business Person of the Year Bronze* award

Exit Certified Corporation – *Mid-Market Business of the Year Bronze* award

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