



# Retiring right: Understanding the taxation of retirement income

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**“The question isn't at what age I want to retire, it's at what income.”**

**– George Foreman, two-time world heavyweight boxing champion and an Olympic gold medalist**

What types of income might you receive in retirement? How will your retirement income be taxed? In a CIBC Retirement Poll<sup>1</sup>, 74% of respondents said they worry about having enough income in retirement. Yet the majority of respondents didn't know how retirement income is taxed, which may result in lost opportunities to implement strategies that might reduce the tax you pay by hundreds or even thousands of dollars annually.

This report provides an overview of the main ways to fund your retirement and describes how each source of funds is taxed. It also outlines some tax credits that are commonly available in retirement and provides some strategies that may help to reduce taxes, as well as to preserve certain government benefits, in your retirement years so as to increase your available funds.

## Funding your retirement

According to the CIBC Retirement Poll, Canadians are most likely to rely on government benefits, private pensions and personal savings for retirement funding. Figure 1 below shows that the majority of respondents expected to receive Canada Pension Plan (CPP) and Old Age Security (OAS) benefits, as well as funds from pension plans or private savings, including a Registered Retirement Savings Plan (RRSP), a Registered Retirement Income Fund (RRIF) or a Tax-Free Savings Account (TFSA).

One in five (21%) of respondents did not know how much annual income they might have in retirement. And some of the participants expected to leave at least a portion of their retirement to chance, relying on windfalls such as gifts or inheritances (27%), or lottery or gaming winnings (7%).

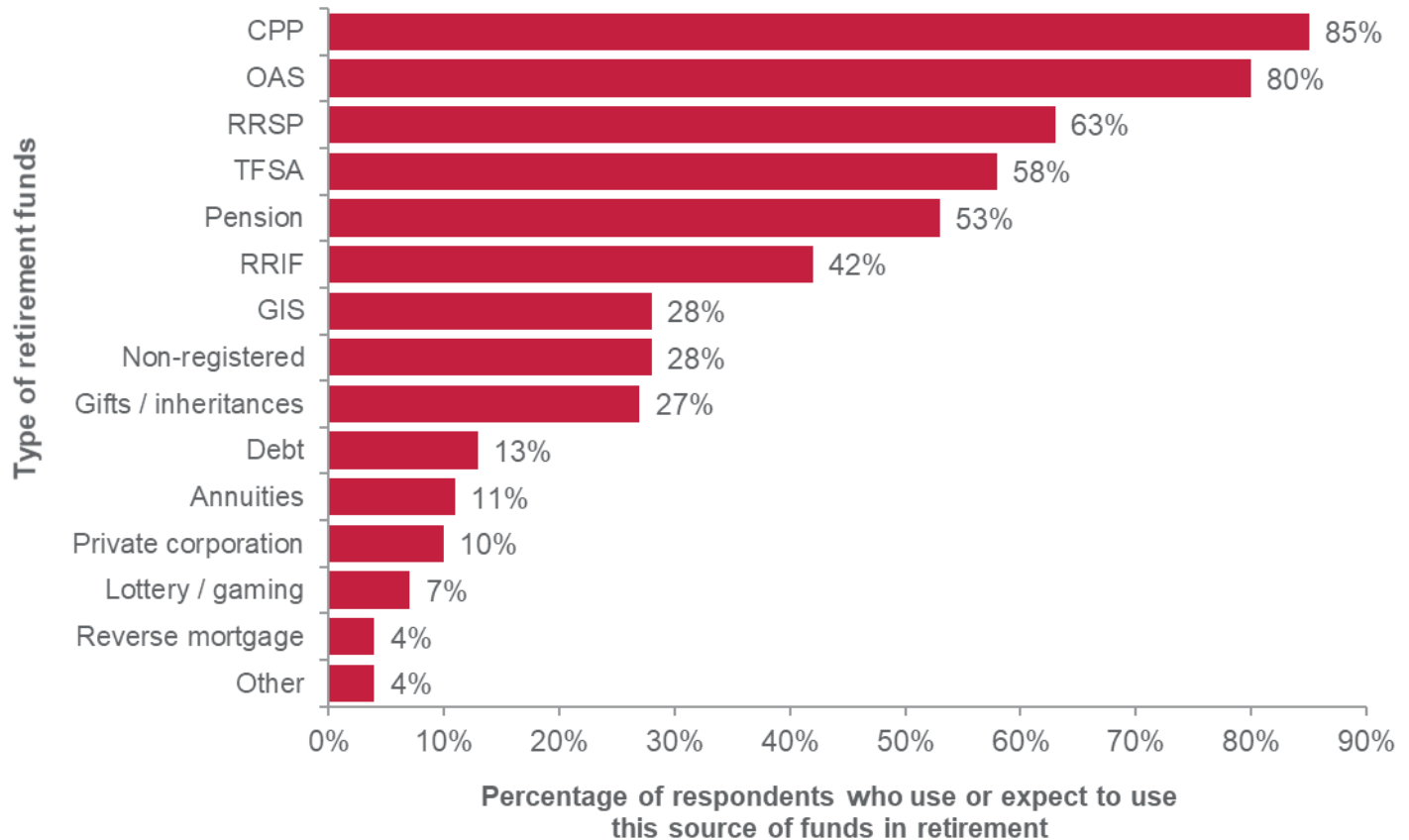
If you are among the many Canadians who worry about having enough money in retirement, this report will help you to understand what types of funds you may receive and how much of those funds would remain after paying taxes.

Let's start by looking at some common types of retirement funds and how each is taxed.

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<sup>1</sup> Information about the January 2019 CIBC Retirement Poll can be found online at [cibc.mediaroom.com/2019-01-30-Retire-or-re-hire-1-in-4-retired-Canadians-regret-retiring-and-want-to-go-back-to-work-CIBC-Poll](https://cibc.mediaroom.com/2019-01-30-Retire-or-re-hire-1-in-4-retired-Canadians-regret-retiring-and-want-to-go-back-to-work-CIBC-Poll).

Figure 1 – Anticipated sources of retirement funds cited by respondents in CIBC retirement poll



## Government benefits

There are two main programs that provide retirement income for most Canadians: the CPP or Quebec Pension Plan (QPP), and OAS.<sup>2</sup> You may also receive other government benefits in retirement<sup>3</sup>, although these are not discussed in this report.

### CPP / QPP benefits

You may receive benefits from the CPP / QPP, based on your contributions to these plans while you were employed or self-employed. You are taxed on CPP / QPP benefits in the year that you receive them. While 85% of respondents in the CIBC Retirement Poll expect to receive CPP / QPP benefits in retirement, over half (53%) of the respondents either did not know how CPP / QPP benefits are taxed or thought that CPP / QPP retirement benefits are tax-free.

### CPP / QPP retirement benefits (pension)

The maximum CPP / QPP Pension you could receive starting at age 65 is \$1,203.75 monthly (\$14,445 annually) for 2021.<sup>4</sup>

<sup>2</sup> Information about public pensions is available at [canada.ca/en/services/benefits/publicpensions.html](https://canada.ca/en/services/benefits/publicpensions.html).

<sup>3</sup> Other government benefits in retirement may include: the GST / HST credit, War Veteran's Allowance, Veterans Disability Pension, or Home Adaptations for Seniors' Independence.

<sup>4</sup> More information about Statistics related to the Old Age Security Program and the Canada Pension Plan is available at [canada.ca/en/employment-social-development/programs/pensions/pension.html](https://canada.ca/en/employment-social-development/programs/pensions/pension.html).

From 2019 to 2023, the CPP / QPP contribution rate is gradually increasing, which may provide you with an enhanced pension in future years.<sup>5</sup> It will, however, take many years (until 2070), for the full impact of increased contributions to be reflected in the benefits received and those who have contributed to the CPP for 40 years will see the maximum increase. Even though there will not be a material impact to CPP benefits for those retiring now or in the near future, one in four (27%) of CIBC Retirement Poll respondents who were at least 65 years of age thought the enhanced CPP would be of benefit to them.

You can apply to start receiving the CPP / QPP Pension as early as age 60, although your pension will be permanently reduced by 0.6% for each month between the start of payments and your 65th birthday. You may also delay the start of the CPP / QPP Pension and the amount you receive will be permanently increased by 0.7% for each month following your 65th birthday until the date when you start receiving payments (up to age 70). Starting in 2020, CPP contributors who have not yet applied for the CPP / QPP Pension will be automatically enrolled at age 70. Once started, your pension is indexed to inflation annually and is payable for your lifetime.

### *Other CPP / QPP benefits*

There are a few other types of CPP / QPP benefits you may receive in retirement. For example, you could get CPP / QPP disability benefits if you have a disability, although these will stop at age 65 when you will start receiving CPP / QPP retirement benefits. If your spouse or partner<sup>6</sup> has died and was entitled to CPP / QPP benefits, you may also receive CPP / QPP survivor benefits and / or the CPP / QPP death benefit (if you are an estate beneficiary).

### **Old Age Security benefits**

In most cases, you will be automatically enrolled for OAS<sup>7</sup> benefits starting at age 65 if you meet certain Canadian residency requirements.

### *OAS pension*

The maximum OAS pension that you may receive starting at age 65 is \$615.37 monthly (\$7,384.44 annually) for the first quarter of 2021.<sup>8</sup>

You may choose not to have automatic enrolment to delay the start of your OAS pension and the amount you receive will be permanently increased by 0.7% for each month following your 65th birthday until the date when you start receiving payments (up to age 70).. Once started, your benefits are indexed to inflation quarterly and are payable for your lifetime.

You must repay (or will not receive) some of your pension due to the OAS pension recovery tax, sometimes rereferred to as “clawback,”<sup>9</sup> which decreases your pension at a rate of 15% once your taxable income exceeds \$79,845 in 2021. You will not be entitled to any OAS pension if your taxable income exceeds \$129,075.<sup>10</sup> Note that CPP benefits are included in taxable income that is taken into account to determine any OAS pension recovery tax.

Your OAS pension is taxable, net of any pension recovery tax, in the year that you receive it.

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<sup>5</sup> More information about the Canada Pension Plan enhancement is available at [canada.ca/en/services/benefits/publicpensions/cpp/cpp-enhancement.html](https://canada.ca/en/services/benefits/publicpensions/cpp/cpp-enhancement.html).

<sup>6</sup> In this article, spouse refers to someone to whom you are legally married. Partner refers to a common-law partner under the *Income Tax Act*, which means someone who cohabits with you in a conjugal relationship, provided the two of you have cohabited for the past 12 months or are jointly parents of a child..

<sup>7</sup> More information about OAS is available at [canada.ca/en/services/benefits/publicpensions/cpp/old-age-security.html](https://canada.ca/en/services/benefits/publicpensions/cpp/old-age-security.html).

<sup>8</sup> More information about Statistics related to the Old Age Security Program and the Canada Pension Plan is available at [canada.ca/en/employment-social-development/programs/pensions/pension.html](https://canada.ca/en/employment-social-development/programs/pensions/pension.html).

<sup>9</sup> Additional information on the OAS Pension Recovery Tax can be found online at [canada.ca/en/services/benefits/publicpensions/cpp/old-age-security/recovery-tax.html](https://canada.ca/en/services/benefits/publicpensions/cpp/old-age-security/recovery-tax.html).

<sup>10</sup> This is the maximum threshold based on the OAS pension for the first quarter of 2021. OAS benefits are indexed quarterly.

### *Guaranteed Income Supplement (GIS)*

The GIS may be available if you are receiving an OAS pension and have relatively low income.

The maximum GIS amount that you may receive in 2021 is \$919.12 monthly (\$11,029.44 annually) if you had no taxable income in 2020.<sup>11</sup> GIS is generally reduced by 50 cents for each dollar of taxable income and you would receive no GIS if your 2020 taxable income exceeded \$18,648. The amount of GIS that you receive is not increased if you delay the start of your OAS Pension beyond age 65.

The GIS is not taxable.

### *Allowances for individuals ages 60 to 64*

When you are between 60 and 65 years of age, there are two allowances that you may receive if you have low income and your spouse or partner is (or was) eligible for the GIS. If your spouse or partner receives the OAS Pension and is eligible for the GIS, you may receive the Allowance for People Aged 60 to 64 if you meet certain residency conditions.<sup>12</sup> If your spouse or partner was eligible for the GIS and has died, you may receive an Allowance for the Survivor if you have low income and meet certain other conditions.<sup>13</sup>

These allowances are also non-taxable.

### **Private pensions**

A private pension is a stream of annuitized payments that comes from your employer or former employer. The most common type of private pension is the Registered Pension Plan (RPP), which must follow rules in the *Income Tax Act* and comply with federal and/or provincial benefits standards legislation. While large employers and unions generally sponsor RPPs that are available only to their own employees or members, smaller employers and self-employed individuals may participate in Pooled Retirement Pension Plans (PRPPs), which are offered by authorized administrators on behalf of multiple employers.

In addition to RPPs, there are a few other types of plans that may be available to select groups of employees. A Supplementary Executive Retirement Plan (SERP) may provide additional pension income for certain key employees. An Individual Pension Plan (IPP), is used most commonly for owners of private corporations. A Retirement Compensation Arrangement (RCA), can provide for pension-like payments after retirement for executives and owners of private corporations.

There are two types of private pension plans: defined contribution (DC) plans and defined benefit (DB) plans. With a DC pension plan, the pension you receive in retirement is based on the amount of contributions and investment income that accumulate in the plan up to your retirement date. With a DB pension plan, the pension you receive in retirement is determined by a formula, usually based on the number of years that you were enrolled in the plan while working, as well as the amount that you earned.

Regardless of the type of plan, the pension income that you receive in retirement will be a regular amount that may be indexed to inflation. If your spouse or partner has died and could receive pension benefits, you may receive a survivor's pension, usually at a reduced amount.

Your private pension income is fully taxable in the year(s) you receive it.

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<sup>11</sup> You would receive no GIS if combined 2020 taxable income for you and your spouse or partner exceeded \$44,688.

<sup>12</sup> Additional information about the Allowance for people aged 60 to 64 is available online at [canada.ca/en/services/benefits/publicpensions/cpp/old-age-security/guaranteed-income-supplement/allowance.html](https://canada.ca/en/services/benefits/publicpensions/cpp/old-age-security/guaranteed-income-supplement/allowance.html).

<sup>13</sup> Additional information about the Allowance for the Survivor is available online at [canada.ca/en/services/benefits/publicpensions/cpp/old-age-security/guaranteed-income-supplement/allowance-survivor.html](https://canada.ca/en/services/benefits/publicpensions/cpp/old-age-security/guaranteed-income-supplement/allowance-survivor.html).

## Personal savings and assets

### RRSPs and RRIFs (including locked-in accounts)

There is no minimal annual withdrawal required from your RRSP. By the end of the year you reach 71, you must either convert your RRSP to a RRIF or purchase a registered annuity to continue the tax deferral or withdraw all the funds and have them included in your income for tax purposes, in which case withholding tax will apply.

You can withdraw unlimited amounts from your RRSP or RRIF unless it is a locked-in plan that was created by a transfer of funds from an RPP. Locked-in plans include a locked-in retirement account (LIRA), locked-in retirement savings plan (LIRSP), life income fund (LIF), locked-in retirement income fund (LRIF), and a prescribed RIF (PRIF). The type of locked-in plans that are available vary by the applicable legislation. The maximum amount that you can withdraw from a LIF or LRIF depends on the specific legislation. Generally, amounts may not be withdrawn from a locked-in plan before age 55; however, should you meet the specific conditions under the applicable pension legislation, you may be eligible to withdraw additional funds from a locked-in plan in cases of shortened life expectancy, or financial hardship, or where there is a small plan balance.<sup>14</sup>

You must start taking minimum withdrawals from your RRIF in the year after the RRIF is established. Minimum withdrawals are calculated as a percentage of the FMV of your RRIF assets at the beginning of the year, and the percentage is based on your age.

Withdrawals from your RRSP or RRIF are taxable. Your financial institution is required to withhold tax at the time you withdraw funds (other than on minimum annual RRIF withdrawals) at the following rates: 10% (20% in Quebec) for withdrawals up to \$5,000; 20% (25% in Quebec) for withdrawals between \$5,000 and up to \$15,000; and 30% for withdrawals over \$15,000. Note that the withholding only acts as a pre-payment towards any tax which may have to be paid on the RRSP / RRIF withdrawal, meaning that you may owe additional tax, or receive a refund, when you file your tax return and report the income withdrawn from your RRSP or RRIF in the year.

### Tax Free Savings Accounts (TFSA)

As the name for this plan suggests, funds you withdraw from your TFSA are completely tax-free.<sup>15</sup>

### RDSPs

If you are the beneficiary of an RDSP, you must start to take withdrawals by the end of the year in which you turn 60. You may need to collapse the plan earlier and withdraw funds if you are no longer eligible for the Disability Tax Credit (DTC).

You may generally withdraw any amount from your RDSP, although there may be maximum payout limits if Canada Disability Savings Bonds (CDSBs) and Canada Disability Savings Grants (CDSGs)<sup>16</sup> exceed contributions to the plan. For the post-age 60 payments, there are mandatory minimums.

There is no tax on the portion of withdrawals that relate to amounts contributed to an RDSP. The remaining portion of RDSP withdrawals are taxed in the year you receive them. A portion of CDSBs and CDSGs may also need to be repaid if they were received in the past 10 years.

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<sup>14</sup> The rules for your locked-in plan are generally set out in an amending agreement required by the relevant pension law. You should receive a copy of it from your financial institution at the time you open your locked-in plan.

<sup>15</sup> This assumes you follow the rules and are eligible to have a TFSA.

<sup>16</sup> CDSBs and CDSGs are provided by the Government of Canada.

## Annuities

You can buy an annuity by paying funds to an annuity provider (such as an insurance company) who will then provide you with scheduled (e.g. monthly) income, which may or may not be indexed to inflation, during retirement. The amount of your annuity income is based on factors such as the amount you paid, life expectancy and interest rates. If your spouse or partner had an annuity with a guarantee period (e.g. 5, 10 or 15 years) and you are the beneficiary, you may receive annuity income if your spouse or partner died before the end of the guarantee period. Since the payments are fixed at the time of purchasing the annuity, they may not be sufficient for your cash flow needs if future expenses are greater than your (fixed) income. Also, when you pass away, your beneficiaries will only receive payments for the guarantee period, if there is one.

If you bought the annuity using funds from an RRSP or RRIF, all amounts that you receive from the annuity will be taxable.

If you bought the annuity using non-registered assets, only a portion of the amounts that you receive from the annuity will be taxable.

Only 11% of CIBC Retirement Poll respondents expected an annuity to provide part of their retirement funds. And 22% of respondents did not know what an annuity is.

## Non-registered financial accounts

Generally, tax is payable on most types of income earned on investments in financial accounts, such as investment accounts or bank accounts, that are not registered plans (such as RRSPs, RRIFs, TFSAs or RDSPs); however, some types of non-registered investment income are taxed more favourably than others.

Although you will be taxed on the full amount of interest income and foreign dividends that you receive, you will be taxed at reduced rates on dividends from Canadian corporations due to the dividend tax credit. Most dividends received from publicly-listed companies qualify as “eligible dividends” that have an enhanced tax credit, which reduces the overall rate of tax even further on this income. Also, you will be taxed on only 50% of your net capital gains. Although you will not be taxed when you receive any amounts that are a return of capital (ROC) from your investments, these amounts are deducted from your tax cost (adjusted cost base) and will increase the capital gain (or reduce the capital loss) when you eventually sell the investment. You may receive a ROC from a mutual fund when the amount paid to investors exceeds the amount of income and gains earned inside the mutual fund.

## Your home

Since your home is often the most valuable asset that you will own in your lifetime, you may want (or need) to use it to help fund your retirement.

One option is to rent your home, or part of it. You will be taxed on rental income that you earn, net of related costs, which may include expenses such as utilities and maintenance. For more information, see the report “[So... you wanna be a landlord? Income tax considerations for rental properties.](#)”<sup>17</sup> You should also consider the Goods and Services Tax / Harmonized Sales Tax (GST / HST), which may apply if your property is used primarily for short-term rentals.

See the section titled “Borrowed funds” below about using your home to fund your retirement by taking out a reverse mortgage.

Downsizing (moving to a smaller / less expensive home) is another option considered by many retirees, particularly if upkeep of a large home becomes onerous. If you sell your home and it qualifies for the principal residence exemption, you will not be taxed on the capital gain; otherwise, you will generally be taxed on 50% of the capital gain. If you can sell your current home and can get more money after-tax than it would cost to buy (or rent) a new home, you may be able to put the difference towards retirement savings.

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<sup>17</sup> The report “So... you wanna be a landlord? Income tax considerations for rental properties” is available online at [cibc.com/content/dam/personal\\_banking/advice\\_centre/tax-savings/landlords-en.pdf](http://cibc.com/content/dam/personal_banking/advice_centre/tax-savings/landlords-en.pdf).

## Private corporation

When you are the owner (shareholder) of a private corporation, there are two main ways that you may get income from your Canadian company in retirement.

If you receive dividends from your company, you will be taxed at preferential rates, as discussed in the section titled “Non-registered financial accounts.” Unlike public company dividends, many dividends received from private companies will not qualify as eligible dividends. Although you can still claim a dividend tax credit on non-eligible dividends, it will not be as generous as it would be for eligible dividends. You may also receive capital dividends<sup>18</sup>, which are generally not taxable.

If you sell the shares of your corporation, you may have a capital gain if the value of the shares exceeds the cost. You may be able to claim the lifetime capital gains exemption (LCGE), so that you will not be taxed during your lifetime on up to \$892,218<sup>19</sup> (2021 amount) of capital gains from qualifying small business corporation shares. You will only be taxed on 50% of any net capital gains in the year that do not qualify for the LCGE.

The Tax On Split Income (TOSI) may apply if you receive dividends or interest from a business, or realize a capital gain, and a related individual (such as your spouse or partner) is either actively engaged in the business or holds a significant amount of equity (with at least 10% of the value) in the business. If TOSI applies, your dividend or interest income from the business may be taxed at the highest marginal tax rate (ranging from 48% to 54% in 2021, depending on your province or territory of residence.) There is an important exception to the TOSI rules when the shareholder who is involved in the business is your spouse or partner who is at least 65 years of age, and TOSI would not apply to income received directly by your spouse or partner. Under this exception, TOSI won't apply to the interest or dividends that you receive from the business so you'll be taxed at graduated rates, which may be lower than the highest marginal tax rate. You may also be able to avoid TOSI on capital gains from shares that qualify for the LCGE. For more information, see the report “[The CCPC tax rules](#)”.<sup>20</sup>

## Borrowing and windfalls

### Borrowed funds

If you don't have enough funds for retirement from your savings and assets, you may be tempted to take on debt, such as borrowing with credit cards or personal loans, to pay for retirement expenses; however, interest rates on these types of credit can be high. You may be able to reduce the interest rate on your debt by using some of your assets as collateral for a loan.

One common example of secured borrowing is a reverse mortgage, which is a loan that allows you to borrow funds using your home as security, without actually having to sell your home. The amount you may borrow will depend on your age (you must be at least 55 years of age), your home's appraised value and your lender. You may receive money as a lump sum, or take some money up front and the rest over time. Interest will be added to the amount that you owe. There are also setup and administration fees, which may be considerable. Although you do not need to make any payments before the loan is due (generally when you move out of your home, sell it or die), you may be charged a fee if you pay off the debt early. You (or your estate) will need to pay the full amount of debt when it is due.

Although you will not pay tax on funds that you borrow, taking on debt to pay for retirement expenses generally should be considered only as a last resort, since adding interest to the amount that you originally borrowed can rapidly cause the amount that you owe to balloon.

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<sup>18</sup> Capital dividends can be paid to the extent that there is a positive balance in the Capital Dividend Account, which is a notional account used to track certain non-taxable amounts, such as 50% of capital gains and the non-taxable death benefit from life insurance policies.

<sup>19</sup> The LCGE is \$1 million in 2021 from shares that are qualified farm or fishing property.

<sup>20</sup> The report “The CCPC Tax Rules” is available online at [cibc.com/content/dam/small\\_business/day\\_to\\_day\\_banking/advice\\_centre/pdfs/business\\_reports/private-corporation-tax-changes-en.pdf](https://www.cibc.com/content/dam/small_business/day_to_day_banking/advice_centre/pdfs/business_reports/private-corporation-tax-changes-en.pdf).

## Gifts, inheritances and windfalls

Some Canadians expect to receive financial gifts or inheritances, often from family members. Still others expect windfalls, such as lottery winnings. While none of these funds are taxable, it is best not to count on these to help fund your retirement expenses, since it is very difficult to predict when (and if) you might receive this “free money.”

## Working in retirement

Although many people aim to stop working in retirement, you may find that you want to continue working, perhaps by turning a hobby into a business, after your retirement date. You may also choose to work so you can have additional funds to support your retirement expenses.

Whether you work full-time or part-time, the income you earn from employment, self-employment or a business is fully taxable. In the CIBC Retirement Poll, 83% of respondents did not know that once you are retired you can continue to claim the Canada Employment Amount of up to \$1,257 (2021 amount) assuming you had at least that much employment income. At a 15% non-refundable credit rate, this credit may yield tax savings up to \$189. You cannot claim this credit for self-employment income.

If you have employment or self-employment earnings, you may still need to make CPP / QPP contributions up to age 70 and pay EI premiums. If you are already receiving a CPP / QPP Pension, your contributions may provide a CPP Post Retirement Benefit or QPP Retirement Pension Supplement; however, these benefits may not be available if you are not yet receiving a CPP / QPP Pension and contribute to the CPP / QPP.

## Tax credits

Although there are many tax deductions and credits that may help to reduce the tax that you may have to pay, two of the more common credits claimed by retirees are the Pension Income Credit and Age Tax Credit.

### Pension income credit

Less than one in four (22%) of respondents in the CIBC Retirement Poll knew that a non-refundable federal Pension Income Credit of 15% may be available on the first \$2,000 of eligible pension income. Provincial credits for pension income are also available.

Eligible pension income includes the taxable part of life annuity payments from a superannuation or pension fund or plan, regardless of your age. It also includes RRSP annuity payments and RRIF or LIF withdrawals once you reach age 65, or if you receive them as a result of the death of your spouse or partner.

By claiming the pension income credit, you could save taxes averaging about \$400 annually, depending on your province or territory of residence.

### Age tax credit

You may be able to claim the non-refundable Age Tax Credit once you reach age 65. The federal credit is calculated as 15% of the Age Amount, which is \$7,713 in 2021. The federal Age Amount is phased out at a rate of 15% with net income above \$38,893 and is completely eliminated with net income of \$90,313.

In 2021 the Age Amount may give you tax savings up to about \$1,700, depending on your province or territory of residence. Despite its potential to provide additional funds during retirement, only half (49%) of respondents in the CIBC Retirement Poll knew that Age Tax Credit is available to individuals age 65 or over.



## Retirement tax strategies

Here are some strategies that may help to reduce the amount of tax you would otherwise have to pay, which would then increase your available funds.

### Shift discretionary income between years

Your income is taxed at graduated rates that increase with your income. Federal tax rates for 2021 are shown in Figure 2.

Figure 2 – 2020 federal tax rates

Taxable income	Federal income tax rate
Not exceeding \$49,020	15.0%
Over \$49,020 and not exceeding \$98,040	20.5%
Over \$98,040 and not exceeding \$151,978	26.0%
Over \$151,978 and not exceeding \$216,511	29.0%
Over \$216,511	33.0%

Provincial income taxes also apply at graduated rates, which differ from the federal brackets.

You may be able to reduce your overall taxes and preserve government benefits in retirement by shifting discretionary income (where you control the timing) from years when you expect to have income in higher tax brackets to years when you expect to have income in lower tax brackets. Discretionary income may include RRSP withdrawals and RRIF withdrawals (above the minimum amount) or selling assets with capital gains.

Here's a simple example to show how this might work. Suppose that in 2021 you expect to have \$55,000 of employment income and are considering taking a \$10,000 RRSP withdrawal. In 2022, you expect to retire and have taxable income of \$35,000. If you wait until 2022 to take the \$10,000 from your RRSP, you will pay federal tax of \$1,500 ( $\$10,000 \times 15\%$ ) on the RRSP income, rather than \$2,050 ( $\$10,000 \times 20.5\%$ ) that you would pay in 2021, a reduction of \$505 [ $\$10,000 \times (20.5\% - 15\%)$ ]. And you may be able to reduce provincial taxes as well.

This strategy can also be useful for estate planning if you wish to maximize the amount available to your heirs. Although 90% of respondents in the CIBC Retirement Poll thought that they will pay tax on the value of an RRSP or RRIF that they might inherit, there are no inheritance taxes in Canada. Instead, the fair market value of RRSPs and RRIFs is generally included in the owner's income in the year of death. And only 31% of poll respondents knew that if you designate your spouse or partner as a beneficiary on your RRSPs and RRIFs, tax may be deferred upon your death.<sup>21</sup>

Let's look at an example of estate planning to reduce taxes. Suppose you have \$500,000 in a RRIF and your income from other sources is \$50,000 annually. On death, the fair market value of your RRIF would be included in your income, pushing you into a higher tax rate on the RRIF value. The combined federal / provincial tax bill on death from the fair market value inclusion of your RRIF would be about \$235,000<sup>22</sup> when you die. If instead, you were to withdraw \$50,000 annually from your RRIF for 10 years during your lifetime, leaving \$0 in your RRIF when you die, some of the RRIF income could be taxed at lower graduated tax rates during your lifetime. The combined federal / provincial tax bill on the RRIF withdrawals during your lifetime would be about \$166,000.<sup>23</sup> As a result, there would be about \$69,000 more for your beneficiaries.<sup>24</sup>

<sup>21</sup> It may also be possible to defer taxes when a financially-dependent child or grandchild is the beneficiary of your RRSP or RRIF.

<sup>22</sup> Using an average of tax rates in the provinces and territories for 2021.

<sup>23</sup> Ibid.

<sup>24</sup> To simplify this illustration, it is assumed there would be no income / growth in the RRSP or RRIF and only the basic personal amount is claimed annually. 2021 tax rates and brackets have been used in the calculations.

If you don't need RRSP or RRIF withdrawals to live on and you have TFSA contribution room, you could contribute funds that you withdrew from your RRSP or RRIF to your TFSA so that future income on the withdrawn funds may be tax-free.

Take note that shifting income among years may also increase or decrease government benefits and tax credits that are based on your net income, such as the GIS, OAS Pension or Age Tax Credit. For example, in 2020 GIS benefits are generally reduced at a rate of 50% when your prior year's net income is up to \$18,600, the OAS Pension is reduced at a rate of 15% when your current year's net income is between \$79,054 and \$128,137, and the Age Tax Credit is phased out at a rate of 15% with net income above \$38,508 and is completely eliminated with net income of \$89,421.

## **Pension splitting**

In the CIBC Retirement Poll, only 44% of respondents knew that you can split up to 50% of any pension income that qualifies for the \$2,000 federal pension income credit with your spouse or partner.<sup>25</sup> For each \$10,000 of pension income that you split with your spouse or partner, tax savings may be up to about \$3,000 annually, depending on your province or territory of residence and the difference between the tax rates of you and your spouse or partner.

If you are at least 65 years of age, you may want to consider converting a portion of your RRSP to a RRIF before age 71 if you don't already have pension income so that you can benefit from pension splitting.

Since allocating pension income to your spouse or partner merely reduces your net income while simultaneously increasing net income of your spouse or partner, benefits and credits that are income-tested based on the combined net income of you and your spouse or partner, such as the GST / HST credit, will not be affected.

On the other hand, for benefits that are based solely on your own net income (and not combined net income for you and your spouse or partner), splitting income may affect the amount of benefits you receive. As described in the section titled "Shift Discretionary Income Between Years," if splitting your pension income lowers your net income, you may be able to preserve some or all of your GIS, OAS Pension or Age Tax Credit. While your spouse or partner may also be able to claim the Pension Income Credit, net income for your spouse or partner will increase when you split your pension income, which could result in a loss of GIS or OAS benefits for your spouse or partner.

## **CPP pension sharing**

You can also apply to share your CPP / QPP pension with your spouse or partner. If you were the only one who made CPP / QPP contributions, you can share your pension. If both you and your spouse or partner contributed, you and your spouse or partner may receive a share of both of your pensions. The combined total amount of the two pensions stays the same whether you decide to share your pensions or not. You can apply to cancel CPP / QPP sharing if it no longer makes sense in the future. See the section titled "Pension Income Splitting" above for information about government benefits and credits that may be reduced when you split income with your spouse or partner.

Although sharing is not available for OAS benefits, one-third (33%) of respondents in the CIBC Retirement Poll incorrectly thought they could elect to income split OAS benefits with a spouse or partner.

## **Withdraw tax-free or low-tax funds**

Withdrawals from RRSPs or RRIFs or selling assets with a capital gain can all increase your income and potentially cause you to lose benefits such as your OAS pension, GIS, or Age Tax Credit. In years when this could be a concern, consider withdrawing funds from your TFSA or disposing of some non-registered investment accounts with little or no accrued capital gains.

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<sup>25</sup> In Quebec, the pension recipient must be at least 65 years of age for any type of pension income to be split for Quebec provincial tax purposes.

## Choose investments with lower tax rates

In non-registered accounts, you may wish to choose investments with income that is taxed at lower rates, such as Canadian dividends or capital gains, or that have tax-deferred distributions (ROC). Income from non-registered annuities also produce income that is only partially-taxed. You should always consider whether the investments are right for you, based on your risk tolerance.

## Leaving Canada (non-residents)

If you leave Canada (become a non-resident), you will usually only pay withholding tax in Canada on various types of retirement income, generally at a rate of 25%. In some instances, lower withholding tax rates may apply under a tax treaty. For example, withholding tax on periodic pension income you receive is often taxed at a rate of 15%. You may, however, need to file a tax return and pay tax in Canada on certain types of income, such as capital gains on Canadian real estate. You may also need to pay tax in your country of residence.

If you are a U.S. citizen or green card holder, you may also face U.S. tax on your worldwide income, including retirement income from Canada, regardless of whether you reside in Canada or elsewhere.

The tax rules for non-residents and U.S. individuals are complex and you should consult with your tax advisor to determine taxes that may apply.

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