



Taking credit at tax time

As many Canadians can attest, it's not always what you earn that counts, it's what you get to keep. This is especially true if you are currently retired or are planning to retire in the near future. To make the most of your income, it makes sense to become familiar with the numerous tax credits that are made available through the Canada Revenue Agency (CRA). And if you are over age 65, the pension income tax credit is one opportunity that can help you pay less tax.

WHAT IS THE PENSION INCOME TAX CREDIT?

Every person in Canada over the age of 65 is entitled to deduct from their annual tax bill a federal tax credit

that is equal to 15.25 per cent of the pension income actually received, or \$2,000, whichever is the lesser amount.

To claim the tax credit, you must be receiving qualified sources of income as defined by the CRA.

WHAT YOU'LL NEED TO KNOW WHEN CLAIMING THE CREDIT

First of all, the pension income tax credit is non-refundable and cannot be carried forward to future years. This means that if the amount of taxes payable for the year are less than the credit available from the pension tax credit, the unused portion of the credit will be lost – unless you have a spouse. If your spouse has tax payable, you can transfer your unused portion to reduce taxes on their return.



WHAT IF THE INCOME FROM MY INVESTMENTS DOES NOT QUALIFY?

Some Canadians who are eligible to claim the credit do not receive qualified income from their RRSPs or private pension plans. This problem is further aggravated since there are few investments that are commonly held within non-registered accounts that produce qualifying income. It's important to remember that income derived from mutual funds, term deposits and most GICs don't count. If you would like to take advantage of the pension income tax credit and do not currently have income that qualifies, the following suggestions can help.

TRANSFER YOUR RRSP ASSETS TO A RRIF

If you have RRSP savings but do not expect to have other sources of qualifying pension income before age 70, you can transfer \$10,000 to a RRIF in the year you turn 65. You can then withdraw \$2,000 per year for five years (age 65 – 69), which will qualify you for the tax credit.

TRANSFER ASSETS FROM YOUR LOCKED-IN RETIREMENT ACCOUNT TO A LIFE INCOME FUND ASAP AND THEN ANNUITIZE

If you currently have a locked-in retirement account (LIRA) or locked-in RRSP, you can transfer some or all of your savings into a life income fund (LIF/LRIF) at the earliest age permitted by pension legislation. For most jurisdictions, you can do so at age 55. A few jurisdictions allow it earlier.¹ When you purchase an annuity using these funds, the resulting income will qualify for the pension income tax credit at any age. To make the most of this strategy, you will have to invest enough money to create \$2,000 worth of annuity income per year. It is important to note that you must make a transfer from the LIRA to the LIF/LRIF and then purchase the annuity with the LIF/LRIF funds in order for the income to be reported as pension income from a registered pension plan. If you purchase the annuity directly from the LIRA, the annuity will be considered as an RRSP annuity, which only qualifies for the pension income credit at age 65.



1. Certain restrictions apply. You should consult with your financial advisor.



TRANSFER UNUSED CREDITS TO YOUR SPOUSE OR COMMON-LAW PARTNER

If you are in a situation where you have income that is eligible for the pension income tax credit but cannot take full advantage of it because you have little or no taxes payable, the unused portion can be transferred to your spouse. Provided your spouse has tax to pay, the remaining tax credit can be used regardless of age, and even if they don't have any qualifying income themselves.

AN EASIER ALTERNATIVE

There are products that mimic many of the features of a Guaranteed Investment Certificate (GIC), yet produce income that qualifies for the pension income tax credit outside of registered plans.

One example is a GIC offered by an insurance company. It can guarantee your principal investment and pay regular interest like GICs and term deposits issued by your bank, trust company or credit union. But unlike these other income-producing alternatives, it produces income that the CRA classifies as "annuity income" – a designation that allows this income to fully qualify for the pension income tax credit. And since insurance company GICs pay interest at rates that compete with other GICs, you won't have to settle for an under-performing investment in order to take advantage of a tax credit that is rightfully yours.

The pension income tax credit is just one of the many ways to minimize taxes. For more information on how to take advantage of the pension income tax credit through an insurance company GIC, speak with your advisor.

ARE YOU UNDER AGE 65?

Under certain circumstances, you can still benefit from the pension income tax credit if you are under age 65. Pension income payments from a registered pension plan (RPP) qualify at any age. In addition, items 2-7 on the next page under "What's eligible?" qualify for the credit if the income is received because of the death of a spouse.



WHAT'S ELIGIBLE?

The following sources qualify for the pension income credit.

1. Pension income payments from a registered pension plan (RPP)
2. Annuity payments from a registered retirement savings plan (RRSP)
3. Withdrawals from a RRIF
4. Annuity or installment payments from a deferred profit sharing plan (DPSP)
5. Income from some foreign pensions and U.S. Individual Retirement Accounts (IRAs)
6. The interest portion of an annuity purchased with non-registered funds
7. Accrued interest from a non-registered GIC offered by an insurance company

WHAT'S NOT!

The following sources of income do **not** qualify for the pension income credit.

1. Capital gains, dividends and interest from market-based investments, such as mutual funds and segregated funds
2. GICs and term deposits offered by banks, credit unions and trust companies
3. Old Age Security (OAS), Canada Pension Plan (CPP), Quebec Pension Plan (QPP) and the Saskatchewan Pension Plan (SPP)
4. Lump-sum death benefits
5. Lump-sum withdrawals from a pension plan or RRSP
6. Retiring allowances
7. Salary deferral arrangements, employee benefit plans and employee trust plans

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