

# Investor Education

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CANACCORD Wealth Management

## Making More of your Pension Income

### Spousal pension income splitting

In retirement you may find that you and your spouse have much different levels of pension and retirement income. As a result, one of you may be paying a disproportionately high amount of taxes compared to the other, ultimately pushing your combined tax burden higher. As a result of changes to pension income reporting in recent years, you and your spouse could enjoy significant tax savings while in your retirement years.

Because we have a progressive tax system in Canada, the more you make, the higher your tax rate is. This is often a concern for couples when one is receiving pension income and the other has very little income. If a couple were able to split their pensions, they could potentially pay less income tax between both spouses, something they were unable to do — until now.

When the 2007 Budget passed, pension income splitting became an option for many couples. This allows pensioners to allocate up to half of their income that qualifies for the existing pension income tax credit to their resident spouse, who may ultimately be taxed on this income at a lower tax rate.

Eligible pension income is generally:

- The taxable part of annuity payments (pension payments) from a company or union pension fund/plan
- Annuity and registered retirement income fund (including life income fund) payments
- Registered Retirement Savings Plan annuity payments
- Deferred Profit Sharing Plans annuity payments

*Note: Old Age Security and Canada or Quebec Pension Plan payments do not qualify for pension income splitting.*

To illustrate how this strategy can benefit a typical couple, let's assume that one spouse receives \$60,000 in pension income, while the other receives \$20,000:

	Spouse A	Spouse B
Pension Income	\$60,000	\$20,000
Federal Income Tax	\$8,992	\$1,444

Now let's evaluate how splitting their pension income can bring their combined income tax expense down. We will assume both of these pensions qualify for pension income splitting and both spouse's agree to split half of their pension income.



**YOU AND YOUR SPOUSE  
COULD ENJOY  
SIGNIFICANT TAX SAVINGS  
WHILE IN YOUR  
RETIREMENT YEARS.**

	Spouse A	Spouse B
Pension Income	\$40,000	\$40,000
Federal Income Tax	\$4,592	\$4,592

As you can see, the federal taxes in 2007 for both spouses combined would have been \$10,436 without splitting. By splitting their pension income, the couple would owe \$9,184 in taxes — a 12% savings.

Tax forms to declare your wish to split taxable pension income include a line for the pensioner to deduct the amount of pension allocated to the spouse or common-law partner, as well as a line for the spouse or common-law partner to report the allocated pension income.

Unlike splitting your Canada Pension Plan income, which is permanent for the rest of your life, this new pension splitting option provides great flexibility to retirees, as you can change this allocation each and every year.

**For more information about retirement tax strategies, or planning for your retirement, please contact your Canaccord Advisor.**

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May 2010

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