Making Sense of Taxes for Boomers:
Things You Need to Know

Presented by Mike Kee, Partner

SB Partners LLP

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10 Things to Know - Summary

1. Marginal Tax Rates
2. Pension Splitting
3. CPP Sharing
4. OAS Clawback
5. Non-Refundable Credits
6. Specific Non-Refundable Credits
7. Medical Credits
8. Disability Credits
9. Unusual Items
10. Available Publications through CRA

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1. Understand Marginal Tax Rates

- **Federally:**
  - First $44K is taxed at 15%
  - Next $43K is taxed at 22%
  - Next $48K is taxed at 26%
  - Anything above is taxed at 29%
- **Provincially:**
  - First $40K is taxed at 5%
  - Next $30K is taxed at 9%
  - Next $10K is taxed at 11%
  - Next $3K is taxed at 13%
  - Anything above taxed at 17%*

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*Income over $509K provincially is taxed at 20%

Why are marginal tax rates important?

- Consider spouses with differing incomes – one with $69K of income; one with $30K of income
- If we can "move" $10K of income from the higher income spouse, to the lower income spouse, income goes from being taxed at 31% (22% Fed + 9% Prov) to being taxed at 20% (15% Fed + 5% Prov)
- Savings is 11% x $10K - $1,100 in tax saved

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2. Understand Pension Splitting

- Introduced in 2007, CRA allows spouses to migrate pension income from one spouse's return to another by way of an election filed with each spouse's return
- Allows tax savings by moving income from higher income earner to lower income earner to have income taxed at lower tax rates
- Pensions that qualify include taxable part of annuity payments from a pension fund or plan, including RRSP annuity payments
- Not qualifying: Old Age Security, CPP, foreign pension subject to deduction based on tax treaty

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3. Understand CPP Sharing

- Although CPP is not subject to the pension splitting election, spouses can elect to equalize the CPP that they receive each year
- This is beneficial if a spouse in a higher tax bracket is receiving more CPP than a spouse in a lower income tax bracket
- Application to share CPP can be found on the Service Canada website

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4. Understand the OAS Clawback

- An individual receiving Old Age Security benefit loses a portion of the benefit when their income is in excess of $70K
- The impact to a taxpayer of the clawback is that it effectively raises their tax rate to 43% (Fed/Prov combined) for any income over $70K
- Thus, pension splitting and CPP sharing can be significantly beneficial in cases where one spouse has over $70K in income and the other less than $70K
- Other considerations to manage the clawback:
  – Defer sales of portfolio investments at year-end if it will cause income to rise above $70K
  – Defer withdrawals (if possible) of excess RRSP and RRIF amounts to next year if it will cause income to rise above $70K
  – Manage types of income (wage/interest/dividend/capital gains)

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5. Understand Non-Refundable Credits

- All Canadian residents are eligible for a variety of non-refundable credits
- These credits reduce taxes payable by 20% of the credit amount (15% Fed; 5% Prov)
- If credits reduce taxes to nil, any excess credit does not create a refund
- If one spouse has nil taxes, some credits can be transferred to a spouse (or relative) to reduce taxes on their return

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6. Understand Specific Credits

- Examples of credits include (all of which reduce tax by 20% of the credit)
  – Basic Personal Amount - $10.5K
  – Age Amount (65 and over) - $6.5K, reduced by 15% of net income over $33K
  – Pension Credit - $2K, if received pension income (not CPP or OAS)
  – Caregiver Credit - $4K for individuals residing with and providing in-home care for a parent or grandparent age 65 or over – limited application as credit not available if dependant has over $19K of income

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7. Understand Medical Credits

- May be claimed by either spouse
- May be claimed for relatives that are dependant on you during the year
- Medical expenses must exceed lower of $2K or 3% of net income for the year
- Medical expenses can be claimed for any twelve month period ending within the calendar year

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8. Understand Disability Credits

- The disability deduction is available to persons who have a "severe and prolonged" mental or physical impairment
- Canada Revenue Agency's position is that severe means that "an individual's ability to perform the basic activity of daily living is markedly restricted
- Disability period should be in excess of 12 months
- Requires Form T2201 (CRA) requiring a doctors certification
- Credit is $7,500 – at 20%, reduces taxes by $1,500 and can be transferred to a spouse or relative (assuming the individual was dependant on them)
- Credit can be applied retroactively up to 10 years

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9. Understand Unusual Items

- **Involuntary Separation** – where one spouse is forced to move into a separate residence (senior/nursing home), a special form can be filed to obtain Ontario Trillium Benefit (credit for occupancy costs) for each spouse – based on form, income calculation for credits is limited to individual (not both spouses)
- **Guaranteed Income Supplement** – where individual's income is significantly low, OAS program provides "top up" amount to provide additional income support – contact Service Canada for qualification
- **Ontario Healthy Homes Credit** – 15% refundable credit to individuals over 65 completing renovation work to make your home safer and more accessible – for more information call 1-866-ONT-TAXS (668-8297)

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10 . Review Available Publications through CRA

- CRA and Service Canada have numerous publications/webpages available to assist in understanding various considerations for tax and income planning including:
  - "When You Retire" (P119 - CRA)
  - "Medical and Disability – Related Information" (RC4064 – CRA)
  - "RRSPs and Other Registered Plans for Retirement (T4040 – CRA)
  - "Canada Pension Plan (CPP) and Old Age Security (OAS) – Connecting to Life's Events" – Service Canada
  - Guaranteed Income Supplement – Service Canada
  - Involuntary Separation – Service Canada

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In Closing

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