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Retirement Income Splitting

Are you aware of strategies to split retirement income?

You and your spouse or common-law partner may have an opportunity to split your eligible pension income received during the year. Income splitting involves you shifting income from an individual in a higher tax bracket to a spouse in a lower tax bracket in order to reduce the overall tax burden.

Eligible pension income can only be split between the pensioner and his/her spouse and includes:

- the taxable part of life annuity payments from a pension fund or plan; and
- if the pensioner is age 65 or older at the end of the year (or if income is received as a result of the death of a spouse or common-law partner):
 - Annuity, Registered Retirement Income Fund and Life Income Fund payments; and
 - Registered Retirement Savings Plan (RRSP) annuity payments.

Pension income that is not eligible

Variable pension benefits paid from a Defined Contribution Pension Plan are not considered life annuity payments and do not qualify unless the pensioner is age 65 or older at the end of the year (or, the variable benefits are received as a result of the death of a spouse or common-law partner).

The following amounts are also not eligible for pension income splitting:

- Old Age Security payments;
- Canada Pension Plan, Quebec Pension Plan or Saskatchewan Pension Plan payments; and
- amounts received under a retirement compensation arrangement.

In order to split income, you and your spouse are required to complete form T1032 Joint Election to Split Pension Income with your income tax return.

Spousal Registered Retirement Savings Plan

The intent of a spousal RRSP is for the higher income-earning spouse to receive the tax deduction on the amount contributed and for the lower income-earning spouse to accumulate funds for retirement. Funds are normally withdrawn at retirement when income has been reduced and both spouses are in a lower tax bracket, and, only the owner/annuitant of the RRSP can withdraw funds from the plan.

However, if funds are withdrawn from a spousal RRSP to which contributions were made in the current or two preceding taxation years, the opportunity to income split may be lost as the contributing spouse (not the RRSP owner) may have to include any amounts withdrawn on their taxable income received for the year.

If you have questions regarding these income splitting opportunities, please contact our office at 1-800-666-0142 or retire@reuterbenefits.com. Alternatively, additional information can be found on the Canada Revenue Agency website at <http://www.cra-arc.gc.ca/tx/ndvdl/tpcs/pnsn-split/xmpi-eng.html> or <http://www.cra-arc.gc.ca/tx/ndvdl/tpcs/ncm-tx/rtrn/cmpltng/rprtng-ncm/lns101-170/129/menu-eng.html>.