Strategy UPDATE
Issue 45

Taking advantage of the Pension Income Credit

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What's inside

Those of you who have already "retired" will be aware that by taking advantage of the Pension Benefits Tax Credit (the "pension credit") you can save income tax on "pension income". The benefit may, at first glance, appear fairly straightforward, but you need to understand the rules.

The first $2,000 of your eligible pension income - or a lesser amount if you do not have $2,000 - qualifies. What qualifies depends on the source of the income, and your age.

For those age 65 and over, eligible pension income can originate from a number of sources, the more common ones being a life or term certain to age 90 annuity from an RRSP, a life annuity from a registered employer pension, an annuity or instalment payment from a Deferred Profit Sharing plan, or a payment from a Registered Retirement Income Fund (RRIF). Less prevalent, but an alternative strategy to obtain the credit for those who have no employer pension plan and do not wish to touch their RRSP until age 72, is using an annuity purchased from non-registered (non-RRSP) monies. Here only a portion of the annuity is taxable, and it's that portion that qualifies for the credit.

Let's say you will turn 65 in 2015. How do you take advantage of the credit if you aren't already doing so? Let us help you set up an annuity or RRIF that pays you $2,000 annually on, say your birthday, or prior to the holiday season at year end. What a great way to celebrate! Alternatively, you individually could have $4,000 of pension income and elect to "split" that 50/50 with your spouse

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or common-law partner if that person does not have income qualifying for the credit.

One caveat. Be careful not to try to get the pension credit by simply withdrawing cash from your RRSP as that won't be allowed. Nor can the credit be obtained if your beneficiary takes cash from your RRSP and tries to claim the credit. In both cases, these withdrawals are not viewed as an "annuity payment" because there was no requirement to do so on a regular periodic basis.

For those under age 65, the rules are more restricted. Here the pension credit is only available for what is termed "qualified pension income". What qualifies? A life annuity from an employer pension plan is one source. Or, if you are widowed following the death of a spouse or common-law spouse, any of the payments referred to above for ages 65 and over.

If you are married or have a common-law spouse, remember that not only can you both benefit from the pension credit, but you also have the added potential benefit of "pension income splitting" as in our earlier example. The rules are simple: For those of you age 65 and over, income from the sources listed can be "split" up to 50% with your partner. Again, for under 65s, to split pension income, the source must be from a pension plan, or from other registered plans as the result of the death of your spouse or common-law partner.

Bringing your last income tax return to your regular progress meetings with your Certified Financial Planner® at Polson Bourbonniere is always a good idea. We can determine your eligibility for this tax saving credit, as well as look at other ways to improve your cash flow while minimizing taxes.

Year-end dates and limits

Derek Polson, CFP®

RESP deadline

Dec. 31 is the deadline to make an RESP deposit to get a matching government grant for 2014. For every dollar you deposit to your RESP, the government will add a 20 per cent matching Canada Education Savings Grant (CESG) of up to $500 annually to boost your savings.

RRSP deadline

March 2, 2015 is the deadline to make your 2014 RRSP contribution. The maximum contribution for 2014 is $24,270. However, the amount you can deduct on your tax filing is based on a percentage of your previous year's earnings and any eligible deduction room carried forward from the previous year. Please check your 2013 Notice of Assessment for your eligible contribution amount.

If you plan to get a head start and want to contribute early for the 2015 tax year, the maximum contribution amount is $24,930. Again, this number will be based on your earned income and will be reported on your 2014 Notice of Assessment.

For 2015, consider making monthly RRSP contributions through automatic deposits to avoid the last minute RRSP rush and take advantage of dollar cost averaging.

TFSA limits

The limit for 2015 is again $5500. As with previous years, unused contribution room may also be carried over. Although there is no deadline for TFSA contributions, we encourage you to make your deposit early.

Cheques can be made payable to HollisWealth or you can take advantage of technology and submit your contribution online. Either way, please let us know if you're submitting a contribution so we can direct it appropriately.

Happy Retirement to Allan

It seems like just yesterday that Allan Kalin joined the team at Polson Bourbonniere Financial, and yet here we are saying "Goodbye and Good Luck"!

Allan retires at the end of the year and will be missed by his colleagues, and the many clients and industry contacts with whom he has formed lasting and rewarding relationships over the years.

Although he is approaching retirement with a little trepidation, Allan is no stranger to change. Following a successful career in the health services field, Allan sold his medical supply company in the early 90's to embark on a career in financial services.

What a choice that was! Over the last two decades, Allan has been part of an ever-changing financial landscape. Against that backdrop, he has been an active participant in the lives of his clients, there for the good times and the bad. Nothing during his career has given Allan more satisfaction than spending time with a retired client, knowing he was instrumental in helping that client achieve their retirement goals.

During his own retirement, Allan intends to maintain his long-standing relationship with the Baycrest Foundation. Allan is part of the committee responsible for developing professional development programs for financial advisors, with the focus on advising aging clients.

But it won't all be work! Allan is looking forward to more time at the cottage, visits with his adult children, Nelson, Michael and Debbie, and just for the fun of it – he is taking up the piano. Allan's wife, Suzy, will be the recipient of some nice home-cooked meals, so it may be awhile before she chooses to join Allan in retirement!

When Allan joined Polson Bourbonniere in 2006, he knew that this was an important step toward planning for his personal Worry Free Retirement Experience™. Eight years later, he is passing the baton to Michael Derby, to continue caring for - and caring about – the clients he has been honoured to serve for so many years.

We wish Allan nothing but success and happiness as he begins life's next adventure!

Sign up for e-delivery of statements and confirmations

All individual and joint accounts are now eligible for electronic delivery of monthly statements, and will soon be enhanced with the online delivery of Trade Confirmations.

For those of you who had previously signed up for e-Delivery, you will be happy to know that joint accounts are now available. To add your joint account, just go into your WealthTracker account and select online delivery for the joint account. Over the next few weeks, trade confirmations will also be available with e-Delivery services. Anyone who is already signed up for e-Delivery will automatically receive their trade confirmations in electronic format.

Corporate accounts are not eligible for e-Delivery at this time, but work is underway to add them soon.

Signing up is easy!

- **Step 1** Go to www.holliswealth.com and click on **WealthTracker login** at the top right corner.

The **WealthTracker** login box will appear in the middle of the page, where you will enter your username and password. If you cannot remember your login credentials, use the links available or contact our office.

- **Step 2** Once logged into **WealthTracker**, click on Preferences.
- **Step 3** Accept the **Consent to Electronic Delivery** and the **Terms & Conditions**
- **Step 4** Switch "Delivery Method" to "Online" instead of "Mail" and save update. Please verify that your email address is correct and select "Yes" or "No" to indicate if you want to receive email notification when your online documents are available.

If you have any problems with the process, just give us a call and we'll be happy to assist.

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