

Life Letter *mature*

A great new opportunity to split income

Buried in the bad news by the Feds on income trusts last fall was some good news for pensioners. Along with the proposals to tax income trusts at the corporate level was a provision for income splitting.

This proposal will allow a resident taxpayer to allocate up to half of his/her eligible pension income to their spouse or common-law partner for tax purposes.

Quite simply, income splitting is a method of taking some of one person's income and having another person report it for tax purposes. The benefit of this strategy is to lower the overall tax burden of both taxpayers. The choice to split income is left up to the taxpayer and can only benefit them.

Income that will qualify for splitting for those age 65 or older includes payments from a registered retirement income fund (RRIF), lifetime annuity payments from a registered pension plan (RPP) or registered retirement savings plan (RRSP), and the taxable portion of a prescribed annuity. For those under age 65, lifetime annuity payments from an RPP and certain payments received as a result of the death of a spouse will qualify as eligible income.

Henry and Martha, both age 65, each received the maximum benefits from Canada Pension Plan (CPP) and Old Age Security (OAS) in 2006. In Henry's name only, they receive \$60,000 of annual RRIF income. The new income splitting proposal will allow Henry to have Martha claim up to one half of his RRIF income. They may enjoy the following tax savings (based on 2006 rates):

Province	Tax Savings
British Columbia	\$3,739
Alberta	\$3,270
Saskatchewan	\$3,601
Manitoba	\$3,476
Ontario	\$3,869
Prince Edward Island	\$4,287
New Brunswick	\$4,106
Nova Scotia	\$4,063
Newfoundland	\$4,174
Yukon	\$3,923
Northwest Territories	\$4,191
Nunavut	\$4,454

If Martha has any RRIF income of her own already, the tax savings would be lower. Still, any reduction in income taxes paid can improve their retirement lifestyle.

Canadian seniors have been offered a significant opportunity to increase their after-tax income by using this new income splitting provision to lower their taxes. These proposals were introduced to improve the fairness of taxation of retired couples.

This article is for information purposes and not intended to provide tax advice.

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