PENSION INCOME SPLITTING

Canadian taxpayers receive preferential tax treatment for "pension income."

As a Canadian taxpayer, you can split your pension income with your spouse or common-law partner. In effect, you can allocate up to 50% of eligible pension income. In some cases, this will result in a pension income tax credit.

Claiming a pension income tax credit

A non-refundable tax credit is available to you for the first $2,000 of qualifying income. A similar credit is available in Quebec for up to $2,000 of your pension income. In addition, income qualifying for the pension credit can be split between spouses. Couples, in certain circumstances, could receive a second credit where previously only one was available to them.

In terms of eligible pension income, different rules apply to taxpayers who are age 65 or older at any time during a taxation year and taxpayers who have not yet reached 65.

Eligible pension income for taxpayers 65 or older

Generally, as a taxpayer who is age 65 or over, you have easier access to the pension credit, since many more sources of your income qualify. Types of income that qualify are:

1. A payment in respect of a life annuity out of or under a superannuation or pension plan.
   Note: The Canada Revenue Agency (CRA) generally accepts that amounts from foreign plans qualify, including government plans such as U.S. Social Security, but excludes certain payments such as receipts from a U.S. Individual Retirement Account (IRA).
2. An annuity payment under a Registered Retirement Savings Plan (RRSP).
   Note: RRSP withdrawals do not qualify for the pension credit.
3. A payment out of or under a Registered Retirement Income Fund (RRIF).
4. A payment payable on a periodic basis under a defined contribution or a money-purchase plan within a Registered Pension Plan (RPP), including an Individual Pension Plan (IPP).
5. An annuity payment under a Deferred Profit Sharing Plan (DPSP).
6. An instalment payment under a DPSP.
   Note: Equal instalment payments paid at least annually and not extending beyond 10 years.
7. Prescribed annuities.
8. Other amounts: Annuities reported by the insurer as "Accrued Income: Annuities" qualify for the pension credit. The interest portion does not constitute pension income for the purposes of the credit, only amounts reported as "Accrued Income: Annuities" are eligible.

Empire Life Investments™
stay true

The specific exclusions from "pension income" are:

1. A pension or supplement under Old Age Security (OAS).
2. A benefit under Canada Pension Plan (CPP).
3. A death benefit.
4. An amount included in income as "pension income" or "qualified pension income" but you, as a taxpayer, have taken another deduction for this amount.
5. A payment out of a Salary Deferral Arrangement (SDA), a Retirement Compensation Arrangement (RCA), an Employee Benefit Plan (EBP), an employee trust or a prescribed provincial pension plan (currently, only Saskatchewan Pension Plan falls under this exclusion).

Qualified pension income for taxpayers under 65

As a taxpayer who has not reached 65 in a taxation year, you have fewer opportunities for access to the pension credit. You can only claim the pension credit on income considered "qualified pension income." Types of income that qualify are:

1. A payment in respect of a life annuity out of or under a superannuation or pension plan. Note:
    - No matter how old you are, life annuities out of or under a superannuation or pension plan are considered "qualified pension income."
    - Take care not to lose access to the pension credit because of inter-plan transfers. CRA holds that once pension funds are transferred from an employer pension plan to another vehicle, such as a locked-in RRSP, its identity changes. CRA considers the new RRSP no longer a superannuation or pension plan, but an RRSP, so it has lost its identity and is no longer considered "qualified pension income." You will have to reach 65 before the pension credit is available on this pension income.
    - Since access to the pension credit also determines whether the income may be split under the pension splitting rules, significant additional taxes could be paid because of inter-plan transfers. With the loss of the pension credit and the ability to pension split, additional taxes would be paid each and every year until you reach 65.
2. Other amounts qualifying as "pension income" received due to the death of your spouse or common-law partner.

Want to learn more?

Gaining an in-depth understanding of the pension income splitting rules will provide you with greater tax savings.

For more information, your financial advisor can talk to Empire Life's tax and estate planning professionals about your specific circumstances.

Empire Life Investments Inc. is the Manager of the Empire Life Mutual Funds (the "Funds"). The units of the Funds are available only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such units. This information should not be relied upon as investment, tax or legal advice, as each client's situation is different. Please consult a legal or tax professional.

™ Trademark of **The Empire Life Insurance Company**. Empire Life Investments Inc. is a licensed user of this trademark.