

HOW THINGS WORK ?

THE PENSION CREDIT

If you have clients who receive pension income, you are no doubt aware of the pension income credit. This credit provides a non-refundable reduction in taxes payable on the first \$1,000 of qualified pension income.

If your clients are 65 and over, qualified pension income includes not only normal pension income coming from a formal, registered pension plan (RPP) but can also include:

- Annuity payments; and
- Lifetime annuity payments under
 - › RRSP
 - › Deferred Profit Sharing Plan
 - › RRIF

For Clients Under 65

The definition of qualified pension income is much more restrictive in that it includes only regular pension payments and certain other payments received as a result of the death of a client's spouse or common-law partner.

The recent 2006 federal budget, in an effort "to provide greater tax relief to pensioners" doubled the maximum amount that is used in calculating the eligible pension to \$2,000 from \$1,000, effective immediately (i.e. for the 2006 tax year).

Planning Opportunity

Clients who have heard of the pension credit, perhaps by chatting with fellow retirees at cocktail parties and the like, often fail to understand exactly what they need to do to take advantage of this credit

without actually receiving any pension income in the traditional sense. Perhaps the biggest misunderstanding is while RRIF payments are indeed eligible for the pension credit, they must generally be paid to someone who is at least 65 years old. If someone is under 65 and receiving a RRIF payment, that payment is simply ineligible for the pension credit.

Obviously this invites you to perform a simple financial planning strategy for clients 65 and over: Ensure that they receive at least \$2,000 a year from their RRIFs so they can take advantage of this credit. Clients aged 65 to 68 need not convert their entire RRSPs to RRIFs until the year in which they turn 69.

However, should they wish to take advantage of this credit, you may want to discuss with them the possibility of transferring some of their RRSP money to a RRIF prior to age 69 so they will be in a position to claim this credit.

The recent increase in the qualified pension amount to \$2,000 affords a new opportunity to reconnect with your clients and tell them about this latest tax planning development.

Final Note

There's one final cautionary note which may restrict access to the pension income credit in the year of death.

When the annuitant of a RRIF dies, he or she is deemed to receive the fair market value of his or her RRIF immediately before death. The pension income credit is not available on this deemed receipt because in order to be eligible for the credit, the deceased would have had to actually receive actual RRIF payments prior to death.

Setting your clients up to receive their RRIF payments (or at least \$2,000 worth) early in the year would ensure that they would receive the full pension credit in the year of death.

—*Jamie Golombek*

- **AUGUST 14 to 16**, *Advocis Ontario School, Nottawasaga Inn, Alliston, Ont.*, www.advocis.ca
- **SEPTEMBER 21 to 22**, *Changing Channel: The Future of Mutual Fund Dealers, West Trillium House, Blue Mountain, Collingwood, Ont.*, www.advisorlive.ca
- **SEPTEMBER 25 to 26**, *Institutional Investing for Plan Sponsors and Trustees, Four Seasons Hotel, Toronto*, www.canadianinstitute.com
- **OCTOBER 18 to 19**, *3rd Annual National Registrant Regulation Conference, Grand Hotel & Suites, Toronto*, www.strategyinstitute.com
- **FALL 2006**, *Excellence in Practice Management with Evelyn Jacks*, www.knowledgebureau.com
- **NOVEMBER 6 to DECEMBER 8**, *Master's Certificate in Investment Planning & DFA Designation*, www.knowledgebureau.com
- **NOVEMBER 6 to DECEMBER 8**, *Master's Certificate in Investment Planning, Schulich Executive Education Centre, Toronto*, www.knowledgebureau.com
- **NOVEMBER 7 to 10**, *3rd Annual Distinguished Advisor Conference, San Antonio, Texas*, www.knowledge-bureau.com
- **NOVEMBER 10**, *Dialogue with the OSC, Metro Toronto Convention Centre, South Bldg., Toronto*, www.osc.gov.on.ca
- **NOVEMBER 15**, *8th Annual Canadian Private Equity Markets Summit, The Liberty Grand, Toronto*, www.insightinfo.com
- **NOVEMBER 16 to 17**, *12th Annual Regulatory Compliance for Financial Institutions, Metro Toronto Convention Centre, North Bldg., Toronto*, www.canadianinstitute.com
- **NOVEMBER 20 to 24 (one date per city)**, *2006 Year-End Tax Update (various locations: Ottawa, Toronto, Edmonton, Calgary, Vancouver)*, www.knowledgebureau.com
- **DECEMBER 7**, *Take This Case and Solve It: Retirement Income Planning for Business Owners (Presented by Advisor's Edge and The Knowledge Bureau), Round Up Centre, Calgary Stampede, Calgary*, www.knowledgebureau.com

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