RBC Wealth Management Services

The Navigator

2015 Financial Planning Checklist for Seniors

Preserving and growing your wealth means taking advantage of tax, investment and estate planning strategies. While some strategies are available throughout your lifetime, others are available only after the age of 65. This checklist looks at financial planning considerations for seniors, and offers an overview of commonly used tactics. All references to a spouse in this article include a common-law partner.

This article outlines several strategies, not all of which will apply to your particular financial circumstances. The information is not intended to provide legal or tax advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax and/or legal advisor before acting on any of the information in this article.

- **Pension Income Splitting:** If your spouse has a lower marginal tax rate, consider splitting eligible pension income with your spouse to reduce your family's overall tax bill. Examples of eligible pension income when you are 65 years of age or older include withdrawals from RRIF and LIF accounts. Using this strategy may allow you to have up to 50% of your eligible pension income taxed at your spouse's lower marginal tax rate.
- **Forgotten RRSP Contribution:** If you are turning 71 years of age this year and are still earning RRSP contribution room, consider making a final RRSP contribution (based on your earned income for 2015) by December 31, 2015, before converting to a RRIF. Although you will be subject to a 1% over-contribution penalty for the month of December, it is likely that the taxes saved by deducting the contribution on your 2016 (or subsequent) tax return will far outweigh the one-month penalty.
- **Spousal RRSP Contribution:** If you are older than 71 years of age, have remaining RRSP contribution room and have a spouse who is 71 years of age or younger, consider making a contribution to a spousal RRSP to obtain a deduction on your tax return and to maximize your family's retirement savings.
- **Using Your Spouse's Age for RRIF Minimum Payments:** By the end of the calendar year in which you turn 71 years of age, you are required to convert your RRSP into a RRIF. If you have a younger spouse and you do not need the mandatory annual minimum RRIF payments, consider using your spouse's age when setting up the RRIF to minimize your taxable RRIF withdrawals.
- **Tax-Free Savings Account (TFSA) Contribution:** Consider contributing the annual maximum ($5,500 in 2015) to your TFSA. All TFSA investment growth, income and withdrawals are tax-free and do not affect your federal government income-tested benefits such as Old Age Security benefits and the Guaranteed Income Supplement. The income earned or withdrawals you make will also not impact your entitlement to federal tax credits such as the age amount.

  The TFSA can also be used to shelter money that you may not currently need. For example, if you do not require your entire mandatory minimum RRIF payment to fund your expenses, consider contributing any excess after-tax amount to your TFSA. If you have never contributed to a TFSA before, your contribution room could be as high as $36,500 in 2015.

- **Old Age Security (OAS):** OAS benefits are available to anyone 65 years of age or older who meets the eligibility requirements. You can postpone receiving your OAS payments for up to five years. If you postpone taking your OAS, you will receive a higher OAS monthly payment. The maximum benefit for January to March, 2015 is $563.74 per month. This income-tested benefit is clawed back at a rate of $0.15 for every $1 of net income over $72,809 and is fully clawed back once net income reaches $117,909.

  If you expect your OAS to be clawed back this year due to a unique one-time taxable transaction (such as a large severance payment or a large capital gain from selling your business or real estate property), consider requesting a waiver by filing the Canada Revenue Agency (CRA) Form T1213 (OAS) - *Request to Reduce Old Age Security Recovery Tax at Source*. If approved by the CRA, Service Canada will reduce the amount of tax withheld from your monthly OAS payments in the following year.

- **Canada Pension Plan (CPP) and Quebec Pension Plan (QPP):** If you have ever worked in Canada, you may be eligible to receive CPP or QPP payments. The CPP and QPP payments are not income-tested and are not subject to claw back based on your income level. To split income with your spouse and possibly reduce your family's overall tax bill, consider sharing this government pension with your spouse.

  You are also able to delay receiving your CPP or QPP pension. If you delay receiving your pension, your monthly payment amount will increase for each month you delay receiving it up to age 70.

- **Pension Income Tax Credit:** You may be entitled to receive a federal non-refundable pension tax credit on the first $2,000 of eligible pension income you receive in the year. Eligible pension income includes payments from your company's pension plan or Retirement Compensation Arrangement (RCA) as well as payments from your RRIF and LIF. OAS payments as well as CPP and QPP payments do not qualify as eligible pension income. You may also be eligible to claim a corresponding provincial or territorial credit. The pension income tax credit can only offset any taxes payable in the current year. If you do not need to claim all of the credit to reduce your federal taxes to zero, you may transfer any unused amount to your spouse. Any unused amount cannot be carried forward or back to other tax years and will be lost.

- **Inter-vivos Trusts:** Consider the benefits of setting up an inter-vivos trust, such as a family trust. An inter-vivos trust can be used to income split with your children or grandchildren or simply provide ongoing financial support for your adult or disabled children or grandchildren. An inter-vivos trust can also be used as a discrete means of transferring assets to your beneficiaries outside of your estate. Setting up an inter-vivos trust is also a beneficial strategy to avoid probate taxes in most provinces.

If you are older than 71 years of age, have remaining RRSP contribution room and have a spouse who is 71 years of age or younger, consider making a contribution to a spousal RRSP to obtain a deduction on your tax return and to maximize your family's retirement savings.

Consider purchasing an insured annuity as a tax-efficient method to increase your retirement income.

An alter-ego trust or joint partner trust (for married couples and common-law partners) may provide you with additional tax and estate planning opportunities. Ask your RBC advisor for our article titled *"Alter Ego and Joint Partner Trusts."*

- **Testamentary Trusts:** Consider creating a testamentary trust in your Will. A testamentary trust is an alternative to an outright distribution of your estate assets. It allows you to control the timing and distribution of assets to your beneficiaries. Currently, taxable income earned in a testamentary trust is subject to graduated tax rates, which can provide significant tax savings. However, graduated tax rates that currently apply to testamentary trusts will be eliminated, beginning in 2016.

  Despite the changes to the tax treatment of testamentary trusts, they still provide significant estate planning opportunities. Testamentary trusts can be used to create solutions to complex family situations – a disabled child, a spendthrift beneficiary, a grandchild in need, a second marriage, etc. You should consult with a qualified legal advisor to discuss the merits of creating a testamentary trust in your Will.
- **Gifting Assets:** Gifting assets to your children or grandchildren during your lifetime is a simple strategy which avoids probate and achieves income splitting. For tax purposes, you are deemed to have disposed of the assets you gift and you may be subject to taxes on any capital gains realized on the transfer. Also, if you make gifts to minors, beware of the attribution rules which could result in all dividend and interest income being attributed back to you and taxed in your hands.
- **In-Kind Gift of Publicly Traded Securities:** If you have philanthropic intentions, consider gifting your publicly traded securities directly to a qualified registered charity. Any accrued capital gains in these securities should be exempt from tax. You will also receive a donation tax credit equivalent to the fair market value of your in-kind security donation, which will reduce your overall tax bill.
- **Age Amount Tax Credit:** If you are 65 years of age or older you may be able to claim the age amount on your tax return. The age amount is a federal non-refundable tax credit of $1,055 (15% of $7,033 for 2015). The credit is reduced by $0.15 for every $1 of net income above $35,466, and is completely eliminated when your net income is $82,353 or higher. You may also be eligible to claim a corresponding provincial or territorial credit.
- **Insured Annuity:** Consider purchasing an insured annuity as a tax-efficient method to increase your retirement income.
- **Charitable Remainder Trust:** Consider establishing a charitable remainder trust. Throughout your lifetime you will receive income from the trust, and upon your death, the "remainder" will pass directly to the charity you name as the beneficiary. This approach will provide you, instead of your future estate, with immediate tax relief. Consult with your qualified tax and legal advisors to determine whether a charitable remainder trust makes sense for you. It is also important to discuss your plans with the charity to ensure that they are willing to accept this type of gift.
- **U.S. Estate Tax:** If you own any U.S. situs assets (which include U.S. real estate and U.S. securities, both in your non-registered and registered accounts), it is important to examine your potential U.S. estate tax exposure. Consider strategies to minimize or eliminate your potential U.S. estate tax liability. Ask your RBC advisor for our article titled *"U.S. Estate Tax for Canadians"* and speak to your qualified tax advisor for more details.

Please contact us for more information about the topics discussed in this article.

- **Estate Planning:** Ensure that your Will, Power of Attorney for Property and Power of Attorney for Personal Care documents (Mandate in Quebec) are valid, up-to-date and still reflect your wishes.

Conclusion

This article covers some common financial planning considerations that you should consider if you are 65 years of age or older. For more information on any of these topics, please speak with your RBC advisor.

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