January 26, 2012

FINANCIAL ADVISORY SUPPORT

2012 Financial Planning Checklist for Seniors

You should obtain professional advice from a qualified tax advisor before acting on any of the information in this article. This will ensure that your own circumstances have been considered properly and that action is taken on the latest information available.

If you are 65 or older, the following is a checklist of key financial planning considerations that may help you preserve and grow your wealth. Please note that while this checklist covers the most common situations, it is not meant to be exhaustive.

- You may be able to claim a federal non-refundable age amount tax credit up to $6,720 on your tax return. This age amount tax credit is income-tested; it is reduced by 15% for every dollar above a net income of $33,884, and it is completely eliminated when your net income reaches $78,684. You may also be eligible to claim a corresponding provincial or territorial credit. Also, since this is a non-refundable tax credit, it is important to note that it can only be used to offset any tax payable in the current year. If you have no taxes payable this credit will be wasted.

- Old Age Security (OAS) benefits are available to anyone age 65 and over who meets the eligibility requirements. The maximum benefit for January to March, 2012 is $540.12 per month. The OAS benefit is clawed back at a rate of $0.15 for every $1 of net income over $69,562 and is fully clawed back once your net income reaches $112,772. If your OAS is expected to be clawed back this year due to a unique one-time taxable situation (e.g., a large capital gain from selling your business or real estate property or your receipt of a severance payment) and your net income will be substantially lower next year, 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.

- If you worked in Canada, you may be eligible to receive Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) payments. Unlike OAS benefits, CPP/QPP payments are not income-based and are therefore not subject to any clawback. To even out retirement incomes and possibly reduce your family tax bill, consider sharing this government pension with your spouse.

- If your spouse is taxed at a lower rate, consider splitting any eligible pension income with your spouse to reduce your family's overall tax bill. This also includes RRIF payments that you receive in the year if you are 65 years or older.
- You may be entitled to receive a maximum federal non-refundable pension tax credit on your first $2,000 of eligible pension income. If you are 65 and older, eligible pension income includes company pension plan retirement benefit payments, certain annuities, RRIF and LIF payments, but excludes OAS, CPP and QPP payments.
- If you have a younger spouse and you are required to set up a RRIF as you are turning 71 this year but you will not require the mandatory annual minimum RRIF payments, consider using your younger spouse's age when setting up the RRIF to minimize taxable RRIF withdrawals.
- If you are 71 this year and still earning income, consider making a final RRSP contribution in December 2012 (based on your earned income from 2012) to maximize your RRSP before you convert to a RRIF and limit the 1% over-contribution penalty to a single month. This is often known as making your "forgotten RRSP contribution".
- If you are 72 or older and can no longer contribute to your own RRSP but have a married or common-law spouse who is 71 years or younger, consider making an RRSP contribution to their Spousal RRSP, subject to your unused RRSP contribution room.
- Consider taking advantage of the $5,000 annual maximum contribution to a Tax-Free Savings Account (TFSA). All TFSA investment growth, income and withdrawals are tax-free and do not affect your eligibility for federal government income-tested benefits such as OAS, the Guaranteed Income Supplement (GIS) and credits (e.g. the age credit). The TFSA allows you to continue tax sheltering money that you may not need to meet current expenses. For example, consider contributing your after-tax mandatory minimum RRIF payment that you do not require to fund lifestyle expenses to your TFSA account (subject to your TFSA contribution room).
- Consider purchasing an insured annuity as a tax-efficient method to increase your retirement income. Your advisor can help you explore this option.
- A simple method of avoiding probate or achieving income splitting is to gift assets to your children or grandchildren. As these gifts are considered transfers of property for tax purposes, the "deemed disposition rules" may result in your being subject to capital gains tax. Also, beware of attribution rules that could result in dividend and interest income being attributed back to you if gifts are made to minors.
- Consider the benefits of an inter-vivos trust which may include minimization of probate tax (note: does not apply in the case of a notarial Will in the province of Quebec) and income-splitting possibilities with your children or grandchildren. If you are age 65 and older, an alter-ego trust may provide you with additional opportunities.

- Consider creating a testamentary trust in your Will, which may allow for tax savings for the beneficiaies in high tax brackets as the trust is taxed as a separate taxpayer and subject to graduated tax rates. Testamentary trusts can also give you the ability to control the timing of your estate distributions and may be helpful if you are in a second marriage with children from a previous marriage.
- If you have philanthropic intentions, consider gifting publicly traded securities in-kind to a qualified registered charity for a twofold benefit. First, the capital gains will be exempt from tax; and second, you will receive a donation tax credit equivalent to the fair market value of your in-kind security donation, which could help you reduce your tax bill.
- Consider establishing a charitable remainder trust to get the tax benefits now for making a charitable donation upon death.
- If you own any U.S. situs assets (which includes, among other things, real estate in the U.S. and U.S. securities both in your non-registered and registered accounts), it is important to examine your potential U.S. estate tax exposure and consider strategies to minimize or eliminate your potential U.S. estate tax liability.
- Ensure 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.