RBC Wealth Management

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC WEALTH MANAGEMENT SERVICES

2018 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 discusses financial planning considerations for seniors and offers an overview of commonly used strategies. All references to a spouse in this article include a common-law partner.

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

Income splitting

- **Pension Income Splitting:** If your spouse has a lower marginal tax rate, consider splitting eligible pension income with them to reduce your family's overall tax bill. Eligible pension income includes life annuity payments from a registered pension plan and, when you are 65 years or older, also includes withdrawals from your RRIF and LIF accounts. Withdrawals from your RRSP are not considered eligible pension income. Generally, you can allocate up to 50% of your eligible pension income to your spouse.

- **Spousal RRSP Contribution:** If you expect your retirement income to be higher than that of your spouse, consider making contributions to a spousal RRSP. If you have unused RRSP contribution room and your spouse is not yet 71, you can continue to make spousal RRSP contributions even if you, yourself, are over 71. Making a spousal contribution will provide you with a deduction on your tax return and may help you equalize your family's future retirement income.

- **Pension Sharing:** If you and your spouse are both 60 years of age or older and are receiving or are eligible to receive the Canada Pension Plan (CPP) or the Quebec Pension Plan (QPP) benefits, consider sharing your pension with your spouse. By electing to share your pensions, a portion of the higher income spouse's pension may be received by the lower income spouse and taxed in their hands.

Tax minimization strategies

- **Forgotten RRSP Contribution:** If you are turning 71 this year and are still earning RRSP contribution room or have unused room carried forward, consider making a final RRSP contribution (based on your earned income for 2018) by December 31, 2018, before converting to a RRIF. Although you will be subject to a 1% over-contribution penalty for the month of December, the benefit of the

Consider contributing to your TFSA. The annual TFSA contribution limit for 2018 is $5,500. Any income earned (including capital gains) in the TFSA and any withdrawals you make from the account are generally tax-free.

tax-deferral and compounding growth in the RRIF may outweigh the penalty.

- **Tax-Free Savings Account (TFSA) contribution:** Consider contributing to your TFSA. The annual TFSA contribution limit for 2018 is $5,500. Any income earned (including capital gains) in the TFSA and any withdrawals you make from the account are generally tax-free and do not affect your federal government income-tested benefits such as Old Age Security (OAS) and the Guaranteed Income Supplement (GIS). The income you earn 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 $57,500 in 2018.

- **Use your spouse's age for RRIF minimum payments:** By the end of the calendar year in which you turn 71, you are required to convert your RRSP into a RRIF, purchase an annuity with the RRSP assets or take the value of the RRSP as a taxable lump-sum payment. If you choose to convert to a RRIF, have a younger spouse, and do not need the mandatory annual minimum RRIF payments, consider using your younger spouse's age when setting up the RRIF to minimize your taxable RRIF withdrawals.

Government benefits

- **Old Age Security:** OAS benefits are available to anyone 65 years of age or older who meets the eligibility requirements. The amount of your OAS pension will be determined by how long you have lived in Canada after age 18. You can postpone receiving your OAS payments for up to five years and in turn receive a higher OAS monthly payment. The maximum benefit for January to March, 2018 is $586.66 per month. This income-tested benefit is clawed back at a rate of $0.15 for every $1 of net income over $75,910 and is fully clawed back once your net income reaches $122,843 if you are entitled to the maximum OAS benefit.

  If your income in the previous year was uncharacteristically high due to a unique one-time taxable transaction (for example, a large severance payment or a large capital gain from selling your business or real estate property), your OAS payments may be clawed back. If you expect the your income for this y ear will be substantially lower than your income for last year, you can submit a request to reduce the amount withheld on your future OAS pension payments. You can submit the request by completing CRA *Form T1213 (OAS), Request to Reduce Old Age Security Recovery Tax at Source*.

- **Canada Pension Plan and Quebec Pension Plan:** If you have ever worked in Canada, you may be eligible to receive CPP or QPP payments. The CPP and QPP payments are based on your past contributions to these programs and are not income-tested. You can start receiving CPP and QPP as early as age 60 but you will receive a reduced pension in this case. The monthly amount you receive will be reduced by a certain percent for each month you receive your pension before age 65. You are also able to delay receiving your CPP or QPP pension in order to receive an increased monthly amount. Your pension will be increased by a certain percent for each month you delay receiving it up to age 70.

Tax credits

- **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 $1,100 (15% of $7,333 for 2018). The credit is reduced by $0.15 for every $1 of net income above $36,976, and is completely eliminated when your net income is $85,863 or higher. You may also be eligible to claim a corresponding provincial or territorial credit. 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. If you and your spouse cannot use the amount, the amount cannot be carried forward or back to other tax years and will be lost.

- **Pension income tax credit:** You may be entitled to receive a federal non-refundable pension income tax credit on the first $2,000 of eligible pension income you receive in the year. Eligible pension income includes life annuity payments from a registered pension plan and, when you are 65 years or older, also includes withdrawals from your RRIF and LIF accounts. OAS payments, CPP and QPP payments do not qualify as eligible pension income. You may also be eligible to claim a corresponding provincial or territorial credit. 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.

Trust planning

- **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 children or other family members. An inter-vivos trust can also be used as a discrete means of transferring assets to your beneficiaries outside of your estate. Since assets in an inter-vivos trust do not pass through your estate, you may be able to avoid probate taxes in most provinces.

  If you are age 65 or older, an alter ego trust or joint partner trust (for you and your spouse) may provide you with additional tax and estate planning opportunities. Speak to a qualified tax advisor to determine if these types of trusts are right for you.

- **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. Testamentary trusts can be used to create solutions to complex family situations – a disabled child, a spendthrift beneficiary, a grandchild in need, or a second marriage. There was a time when testamentary trusts could be used for income splitting, but this advantage has been eliminated. If you set up a testamentary trust to minimize taxation, you may want to review your estate plan. You should consult with a qualified legal advisor to discuss the merits of creating a testamentary trust in your Will.

Gifting

- **Gift assets**: Gifting assets to your children or grandchildren during your lifetime is a simple strategy which avoids probate and may reduce taxes on these assets during your lifetime and on death. For tax purposes, you are deemed to have disposed of the assets you gift at fair market value. 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 donation 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 on 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 may reduce your overall tax bill. Discuss your plans with the intended charity to ensure that they are willing to accept this type of gift.

- **Charitable remainder trust:** Consider establishing a charitable remainder trust by contributing cash or other property to the 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 may provide immediate tax relief to you, instead of your future estate. Consult with a qualified tax and legal advisor 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.

Estate planning

- **U.S. estate tax:** If you own any U.S. situs assets (which includes, but is not limited to, 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. Speak with a qualified tax advisor regarding strategies to minimize or eliminate your potential U.S. estate tax liability.

- **Estate planning:** Ensure that your Will, beneficiary designations, Please contact us for more information about the topics discussed in this article.

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 checklist covers some common financial planning considerations for seniors. Consider taking advantage of some strategies noted above to ensure your financial future. For more information on any of these topics, please speak with your RBC advisor.

This article may contain several strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal, tax, or insurance 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, legal, and/or insurance advisor before acting on any of the information in this article.