Wealth Management

the Navigator

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC WEALTH MANAGEMENT SERVICES

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2021 Financial planning strategies for seniors

Preserving and growing your wealth may involve implementing tax, investment and estate planning strategies that suit your circumstances and goals. While some strategies are available throughout your lifetime, others are only available in the year you turn age 65 and beyond. This article discusses financial planning considerations for seniors and offers an overview of commonly used strategies.

Please note that all references to a spouse in this article include a common-law partner.

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, but is not limited to, life annuity payments from a pension plan and, when you're age 65 or over, it also includes withdrawals from your RRIF, LIF, RLIF, LRIF and prescribed RRIF 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. Please note that you must be age 65 or over in order to split eligible pension income for Quebec tax purposes.
- **Spousal RRSP contributions:** 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 has not yet reached the year in which they turn 72, you can continue to make spousal RRSP contributions even if you're over age 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 age 60 or over and are receiving or are eligible to receive the Canada Pension Plan (CPP) or the Quebec Pension Plan (QPP) benefits, consider sharing your CPP or QPP benefits. If only one of you is eligible for CPP or QPP benefits, it may still be possible to share the pension benefits if both of you are at least age 60. Service

Canada or Retraite Quebec will recalculate the pensions paid to you and your spouse if you apply for pension sharing. Pension sharing may be beneficial where you can have some of the higher-income spouse's CPP or QPP be paid to the lower-income spouse so it's taxed in their hands.

Tax minimization strategies

- **Forgotten RRSP contribution:** If you're turning age 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 2021) by December 31, 2021, before converting to a RRIF or other RRSP maturity option. Although you'll be subject to a 1% over-contribution penalty for the month of December, the benefit of the tax-deferral and compounding growth in the RRIF may outweigh the penalty.
- **Tax-free savings account (TFSA) contributions:** Consider contributing to your TFSA. The annual TFSA contribution limit for 2021 is $6,000. If you've lived in Canada and been eligible to open a TFSA since 2009 and have not yet contributed to one, your contribution limit would be $75,500 as of January 1, 2021. 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 the 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 don't require your entire mandatory minimum RRIF payment to fund your lifestyle expenses, consider contributing any excess after-tax amount to your TFSA.
- **Use your spouse's age for RRIF minimum payments:** If you choose the maturity option of converting your RRSP to a RRIF, starting in the year after the year you establish the RRIF, you have to be paid a yearly minimum amount. The minimum amount is based on your age at the beginning of the year, among other factors. If you have a younger spouse and do not need the mandatory annual minimum RRIF payments based on your age, you can elect to use your spouse's age when setting up the RRIF. Doing so will reduce your annual taxable RRIF withdrawals.

Government benefits

- **Old age security:** OAS benefits are available to individuals who are age 65 or over where certain eligibility requirements are met. The amount of your OAS pension will be determined by how long you've 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 2021 is $615.37 per month, assuming you didn't previously defer your OAS payment.

  OAS is an income-tested benefit that's subject to a recovery tax, more commonly known as OAS clawback. The clawback is at a rate of $0.15 for every $1 of net income over $79,854 and is fully clawed back once your net income reaches approximately $129,075. The net income you report on your tax return for the prior year is used to estimate your OAS clawback amount for the current tax year.

  If your income in the prior 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), you may expect your income for this year to be substantially lower than your income for last year. In this case, 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.*
- **CPP and QPP:** If you've 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'll receive a reduced pension if you choose to receive your pension before age 65. You're 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 percentage for each month you delay receiving it, up to age 70. For additional information on these pension plans, please ask your RBC advisor for separate articles on CPP and QPP.

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Tax credits

- **Age amount:** If you're age 65 or over, you may be able to claim the age amount on your tax return. The age amount is a federal non-refundable tax credit of $1,157

(15% of $7,713 for 2021). The credit is reduced by $0.15 for every $1 of net income above $38,893, and it's completely eliminated when your net income is $90,313 or higher. Keep in mind that you may also be eligible to claim a corresponding provincial or territorial credit. If you don't 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 can't use the amount, the amount can't be carried forward or back to other tax years and will be lost.

- **Pension income:** 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, but is not limited to, life annuity payments from a pension plan and, when you're age 65 or over, it also includes withdrawals from your RRIF, LIF, RLIF, LRIF and prescribed RRIF accounts. OAS payments and 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 don't 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 can't 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 may be used to income split with your children or grandchildren or to 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 and territories.

  If you are age 65 or over, an alter ego trust or a 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 may be 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 may be used to create solutions to complex family situations, for example, when planning for a child with a disability, a spendthrift beneficiary, minor children or a second marriage. You should consult with a qualified legal advisor to discuss the merits of creating a testamentary trust in your Will.

Gifting assets to your children or grandchildren during your lifetime is a simple strategy that may help you reduce the size of your estate and therefore possibly reduce probate and taxes on these assets during your lifetime and on death.

Gifting

- **Gift assets:** Gifting assets to your children or grandchildren during your lifetime is a simple strategy that may help you reduce the size of your estate and therefore possibly reduce probate and taxes on these assets during your lifetime and on death. For tax purposes, it's important to recognize you're deemed to have disposed of the assets you gift at fair market value (FMV). Further, if you make gifts to minors, beware of the attribution rules, which could result in the dividend and interest income earned on the gifts attributing back to you and being taxed in your hands.
- **In-kind donation of publicly traded securities:** If you have philanthropic intentions, you may want to consider gifting your publicly traded securities directly to a qualified donee. Qualified donees may be charitable organizations, public foundations or private foundations. Typically, a registered charity is a qualified donee. Any accrued capital gains on these securities may be exempt from tax. You will also receive a donation tax credit equal to the FMV of the securities you donate, which may reduce your overall tax bill. If you're interested in this option, remember to discuss your plans with the intended charity to ensure they're willing and able to accept this type of gift.
- **Charitable remainder trust:** If you wish to make a large gift to a qualified donee but are also interested in maintaining use of the gifted property during your lifetime, you might consider setting up a charitable remainder trust. You're considered to have made a donation when you first set up and gift property into the trust. Throughout your lifetime, you'll 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's also important to discuss your plans with the charity to ensure they're willing and able 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 registered and non-registered accounts), it's important to examine your potential U.S. estate tax exposure. You may be subject to U.S. estate tax even if you're not a U.S. person. 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 and power of attorney documents (mandate in Quebec) are valid, up to date and still reflect your wishes.

Conclusion

This article covers some common financial planning considerations for seniors. Depending on your particular situation and objectives, you may want to consider implementing some of the strategies discussed to help in organizing and securing your financial future. For more information on any of these topics, please speak with your RBC advisor and a qualified tax advisor and/or legal advisor.

This article may contain 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.

Wealth Management

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