Wealth Management

the Navigator

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC FAMILY OFFICE SERVICES

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2023 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 at any age, 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. Generally, you can allocate up to 50% of eligible pension income to your spouse. Withdrawals from your RRSP are not considered eligible pension income. 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 your income at retirement is expected to be higher than that of your spouse, consider making a spousal RRSP contribution. If you have unused RRSP contribution room and your spouse has not 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 to 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 Canada Pension Plan (CPP) or 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 benefits if both you and your spouse are at least age 60. If you apply for pension sharing, Service Canada or

Retraite Québec will recalculate the pensions paid to you and your spouse. Pension sharing may be beneficial where some of the higher-income spouse's CPP or QPP is paid to the lower-income spouse and taxed in their hands at their lower tax rates.

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, before you convert your RRSP to a RRIF or another RRSP maturity option, consider making a final RRSP contribution (based on your earned income for 2023) by December 31, 2023. Although you'll be subject to a 1% over-contribution penalty tax 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 2023 is $6,500. If you lived in Canada since 2009 and were eligible to open a TFSA but have not yet contributed to one, your contribution limit would be $88,000 as of January 1, 2023. 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 living 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 an annual minimum amount. Among other factors, the minimum amount is based on your age at the beginning of the year. 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 is determined based on how long you've lived in Canada after age 18. You can postpone

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receiving your OAS payments for up to five years with the benefit of receiving a higher OAS monthly payment. Assuming you previously did not defer your OAS payments, the maximum benefit for January to March 2023 is $687.56 per month. If you are 75 years or older, the maximum monthly OAS benefit is $756.32 in the first quarter of 2023.

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 $86,912 (for the 2023 tax year). 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 can submit a request to reduce the amount withheld on your future OAS pension payments if you expect your current year's income to be lower. 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 benefits. 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 the payments before age 65. You're also able to delay your CPP or QPP pension payments in order to receive an increased monthly amount in the future. Your pension payments 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.

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 $1,259.40 (15% of $8,396 for 2023). The credit is reduced by $0.15 for every $1 of net income above $42,335, and it's completely eliminated when your net income is $98,308 or higher. You may also be able to claim a corresponding provincial or territorial age credit. If you don't need to use all of the age credit to reduce your federal taxes to zero, you can transfer any unused amount to your spouse. If you and your spouse can't use the amount because you have no taxes to pay, the age 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 use all of the credit to reduce your federal taxes to zero, you can 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 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 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 a qualified legal advisor to discuss the merits of creating a testamentary trust in your Will.

> 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.

Gifting

Gift assets

Gifting assets to your children or grandchildren during your lifetime is a simple strategy that may help 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, be careful of the attribution rules, which could result in the 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 charitable donation receipt 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 can consider setting up a charitable remainder trust. You're considered to have made the donation when you first set up and gift property to 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.

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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.

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