THE GREG UPSON WEALTH MANAGEMENT TEAM | RBC DOMINION SECURITIES

# UPSON'S UPDATE

SPRING 2021

## EARLY 2021 TAX TIPS

*When the end of the year approaches, many individuals place a greater focus on tax planning to minimize their income tax liability. Beyond the end of the year, however, there are some areas of tax planning that often get overlooked. For example, there are tax planning strategies that may only be available early in the new year.*

**COVID-19 benefits**

In 2020, there was the rollout of many COVID-19 related supports and benefits that are taxable but that did not have tax withheld at source by the government. If you've received any government benefits related to COVID-19, you may want to estimate your total income from all sources and set aside funds to pay any potential taxes arising from those benefits.

**2021 RRSP Contribution**

You don't need to wait until the deadline next year to make your RRSP Contribution for 2021. You can now make a contribution for your 2021 taxes.

If you don't have sufficient cash on hand to make an RRSP contribution, you can consider making an in-kind contribution of securities from your non-registered account to your RRSP. If the securities are in a gain position, you will realize a capital gain when you make the contribution. If the securities are in a loss position, you may not want to contribute the securities in-kind, as your ability to claim that loss will be denied.

It's generally a good idea to contribute to your RRSP as soon as possible to maximize the tax-deferred growth in your plan and to avoid the stress of trying to meet a last minute deadline. Keep in mind that January 1st is the earliest day you can make a 2021 RRSP contribution using the new room that's created from your prior year's earned income without triggering an over-contribution penalty.

If you want to make an RRSP contribution early in the 2021, you may need to estimate your 2021 RRSP deduction limit. This is because you may not have received your 2020 notice of assessment (NOA), which states your 2021 RRSP deduction limit. To estimate your 2021 RRSP deduction limit, take 18% of your previous year's (2020) earned income up to the RRSP dollar limit of $29,210 for 2021, and subtract any 2020 pension adjustment.

If you're unsure of your earned income for 2020 or the results of your calculation, consider waiting until you receive your 2020 NOA from the Canada Revenue Agency (CRA) before making an 2021 RRSP contribution.

**Tax-free savings account (TFSA)**

Consider making a contribution to your TFSA early in the 2021 calendar year to maximize the tax-free growth in your plan. The TFSA contribution limit information can be found in the table on page 2.

If you've 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. If you didn't use your contribution room in a previous year, the unused room is carried forward indefinitely. In addition, if you withdrew an amount from your TFSA (that's not a withdrawal of excess TFSA contributions) in 2020, you can re-contribute this amount to your TFSA as of January 1, 2021. Any prior-year with-

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**SPECIAL POINTS OF INTEREST:**

- *If you received Covid-19 benefits from the government in 2020, it is considered taxable income for the year. You may want to set money aside to cover taxes on this income received.*
- *It's a good idea to make your 2021 RRSP contribution early in the year to maximize your tax-deferred growth.*
- *If either you or your spouse is a high income earner while the other has less income in a year, pension splitting may be an advantageous way to lower your tax bill.*

**INSIDE THIS ISSUE:**

drawal (that's not a withdrawal of excess TFSA contributions) is added back to your TFSA contribution room for the following year. Be extra careful when calculating your room when re-contributing to your TFSA, as the CRA can charge penalties for over-contributions.

Like previously mentioned for RRSP contributions, if you don't have sufficient cash on hand to make a TFSA contribution, consider making an in-kind contribution of eligible securities from your non-registered account to your TFSA. As with RRSPs, the noted gain or loss rules would apply for TFSA in-kind contributions as well.

## Business owners

### Paying a bonus

If your corporation declared a bonus in 2020, remember to pay that bonus before 180 days following the corporation's year-end. Canadian tax rules allow a corporation to deduct a bonus declared to an employee on the corporation's previous year's tax return, as long as the bonus is paid before 180 days after the corporation's year-end.

### Sale of private company shares

You may have disposed of "qualified small business corporation" shares in 2020 and realized capital gains that cannot be fully exempt under the $883,384 (2020 threshold) lifetime capital gains exemption. If this is the case, you may be able to defer all or a portion of the taxable capital gains if you reinvest the proceeds in a new eligible small business corporation any time in the year of disposition or within 120 days after the end of that year. It's crucial to consult with a qualified tax advisor if you intend to explore this option.

- Greg

## 2021 Handy Financial Planning Factsheet

| TFSA[1] | |
|---|---|
| **Maximum annual contribution limits** | $5,000 each year 2009 – 2012<br>$5,500 each year 2013 – 2014<br>$10,000 for 2015<br>$5,500 for 2016 – 2018<br>$6,000 for 2019 – 2021 |
| **Maximum contribution limit since inception** | $75,500 from 2009 – 2021, if born in 1991 or earlier and resident of Canada during those years |

1) You automatically accumulate contribution room each year (starting 2009) if you were a tax resident of Canada at any time during this year and you were at least 18 years of age at anu time during the year.

| RRSP / RRIF | |
|---|---|
| **RRSP maximum annual deduction limit** | 18% of the prior year's earned income to a maximum of:<br>$27,830 for 2021 – deadline March 1, 2022<br>$27,230 for 2020 – deadline March 1, 2021 |

| RESP – per beneficiary: | |
|---|---|
| **Maximum contributions** | Lifetime limit of $50,000. No annual limit. |
| **Maximum lifetime CESG limit** | $7,200 |
| **Contribution deadline** | December 31st |

| CANADA PENSION PLAN – maximum amounts | |
|---|---|
| **Retirement benefit at age 65** | $1,203.75/mo |
| **Early retirement benefit at age 60 (36% max reduction or 0.6% per month)** | $770.40/mo |
| **Deferred retirement benefit at age 70 (42% max increase or 0.7% per month)** | $1,709.33/mo |

| OLD AGE SECURITY (OAS) – maximum amounts (as of Q1) | |
|---|---|
| **Benefit at age 65** | $615.37/mo |
| **Deferred benefit at age 70 (36% max increase or 0.6% per month)** | $836.90/mo |
| **Clawback rate** | $0.15 for every $1 of net income above $79,845; the full OAS is elminated at a net income of $129,079 as of Q1 |

| GOVERNMENT CONTACT INFORMATION | |
|---|---|
| **CRA general help line for individuals** | EN: 1-800-959-8281 |
| **Phone number for CPP and OAS queries** | EN: 1-800-277-9914 |

*The information in this article on pages is derived from RBC Dominion Securities Portfolio Advisory Group's Articles *2020 Tax preparation reminders, Early 2021 tax tips, 2021 TFSA quick tips & 2020 Handy financial planning facts, all released January 2021.*

# 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 may outweigh the penalty.

- **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.

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*The information in this article on pages is derived from RBC Dominion Securities Portfolio Advisory Group's *2021 Financial Planning Strategies for Seniors*. *For 2014 and subsequent taxation years, if you live in the province of Quebec, you'll only be able to split pension income for provincial tax purposes if you are age 65 over.

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 us for separate articles.

## Tax credits

- **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.

## 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 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.

## 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 are valid, up to date and still reflect your wishes.

*These articles cover some common financial planning and tax considerations for 2021. Please speak with a qualified tax advisor to determine if implementing any of the strategies is right for you. For more information on any of these topics, please contact us.*

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## CONTACT US

We are committed to providing you with the highest quality of service. If you have any questions, if there is anything we may assist you with, or if you would like to speak in greater detail about anything, please let us know.

Naveed's Note: Tax Packages will be sent out starting in late February and into March. If you have any questions or need assistance with your tax documents, please contact Naveed Azad at 604-257-7653 or naveed.azad@rbc.com.

*Reminder*: We can now have many documents signed using our new eSign application. Please find the user guide for step by step eSign instructions here. If you need any assistance while eSigning forms, please let us know.

### Closing Quote

"AN INVESTMENT IN KNOWLEDGE PAYS THE BEST INTEREST"

-*BENJAMIN FRANKLIN*