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CESTNICK

TAX MATTERS

Year-end tax strategies for seniors to avoid bigger tax bills

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My grandfather used to tell me that you know you're getting old when everything hurts, and what doesn't hurt doesn't work. But just because you're getting older doesn't mean that your tax bill needs to hurt. If you're a senior, or you're heading in that direction quickly, consider these year-end ideas that can put more money in your pocket.

Withdraw funds in a low-income year. It could make sense to withdraw money from your registered retirement savings plan or registered retirement income fund before year-end even if you don't need the money. This makes sense if you have little or no other income in 2021 since you won't face much, if any, tax on the withdrawals in this case. You could simply reinvest those dollars in your tax-free savings account or a non-registered account if you don't need the money to spend.

Maximize your 2021 earned income. It's not too late to increase your earned income for 2021, in order to provide greater RRSP contribution room for 2022. This is particularly easy where you own your business and can easily control your compensation. Once your earned income for 2021 reaches $162,277, you'll reach the maximum RRSP contribution limit of $29,210 for 2022.

Contribute to a spousal RRSP. If your spouse is in a lower tax bracket you can use your RRSP room to contribute to a spousal RRSP under which your spouse is the annuitant. Contribute by year-end to maximize the benefits associated with spousal RRSPs.

Convert to a RRIF before year-end. If you turned 71 in 2021, any RRSP you have will mature at the end of this year and should be converted to a RRIF (or an annuity) by Dec. 31. Further, withdrawals from a RRIF count as eligible pension income if you're over 65, which will entitle you to a pension credit that can offset the tax on the first $2,000 of RRIF withdrawals each year. So, even if you aren't yet 71 years of age, but you're over 65, consider converting some of your RRSP assets to a RRIF to take advantage of that credit.

Base withdrawals on the younger spouse. If you do convert all or part of your RRSP to a RRIF by the end of this year, be sure to base the mandatory (that is, minimum) RRIF withdrawals on the age of your spouse, if he or she is younger. This will reduce the required minimum annual withdrawal and will allow you to defer tax longer.

Withdraw losers from your RRIF. If you must make withdrawals from your RRIF but don't need the cash to live on, consider making in-kind withdrawals of investments that have declined in value and holding those outside your RRIF, particularly if you think those investments might increase in value again. This way, any future gains will be taxed at capital gains rates outside of your RRIF. If you leave the assets in your RRIF and make withdrawals of an increased value later, the amounts will be taxed at higher rates as regular income.

Split pension benefits. If you receive eligible pension income (including RRIF withdrawals if you're over age 65, and any pension benefits from an employer pension plan), you're able to split that income with your spouse by reporting up to one half of that income on your spouse's tax return. If you make RRIF withdrawals, consider withdrawing enough so that both you and your spouse can claim the pension credit I mentioned earlier.

Maximize OAS benefits. If you reach age 65 in 2021, you can apply for Old Age Security benefits. If you're turning 65 in 2022, you can apply for OAS up to 11 months before you want your benefits to start – so you may want to apply today. Keep in mind that you can defer receipt of your OAS benefits for up to five years, which will increase your monthly benefit by 0.6 per cent for every month of deferral past your 65th birthday. This likely makes sense if you don't need the money now. Finally, if your OAS benefits are being clawed back because your income is too high, consider ways to reduce this clawback by, for example, adjusting the allocation of pension income to your spouse that I talked about.

Apply for CPP benefits. If you reach age 60 in 2021, you're now old enough to apply to receive CPP benefits. If you apply for benefits under age 65, however, there's a reduction in your benefit by 0.6 per cent for each month, or 7.2 per cent annually. Conversely, your benefit is increased by 0.7 per cent each month, or 8.4 per cent annually if you wait past your 65th birthday (you can defer payments up to age 70). You can arrange to have your CPP benefits split with your spouse, which can save taxes if one spouse is in a lower tax bracket.

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