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TAX MATTERS

Seven year-end tax planning ideas for retirees

SPECIAL TO THE GLOBE AND MAIL

PUBLISHED OCTOBER 26, 2023

My dad has a great sense of humour. He's getting older but can laugh about it. "Tim, I've been having some issues with incontinence recently. So, I called my doctor to talk about it, and the receptionist asked me if I could hold for a minute." My dad's friends are getting older too, and their memories aren't as good as they once were. Dad told me that he went to a pub with a couple of them last weekend, and one friend went to the bar and started a conversation with a pretty woman. "So," he said, "do I come here often?"

If you can relate to being forgetful because of your age, let me remind you of some clever year-end tax planning ideas for retirees. Here are my top seven.

Get ready for the pension credit

If you're age 65 or over, you're entitled to claim a pension credit on up to $2,000 of eligible pension income (generally, income from a registered pension plan, annuity or registered retirement income fund). It makes sense to create eligible pension income for yourself if you're 65 or older by converting enough RRSP assets to a RRIF to pay out $2,000 annually. Do this before year-end to receive that $2,000 with no or low taxes each year going forward.

Maximize Old Age Security benefits

If your OAS benefits are being reduced because your net income is too high, consider reducing or deferring income for 2023. You can do this by claiming deductions for things like RRSP contributions, interest, carrying charges, losses (like self-employment, partnership or rental losses), pensions split with your spouse, disability supports and more. Also, be aware that dividend income could create a bigger OAS clawback because you have to gross-up the dividends when reporting them (for every dollar of eligible dividends, for example, you have to report $1.38 on your tax return). Rather, consider ways to create more capital gains, which are taxed more favourably (just one half of capital gains are taxable), although be aware of the difference in risk when investing for growth.

Can you have too much invested in RRSPs?

Start some renovations

If you're a senior, or supporting them, you could qualify for the multigenerational home renovation tax credit (MHRTC) which is offered on up to $50,000 of costs to create a secondary unit that allows you to live with a qualifying relative. This can put as much as $7,500 back in your pocket. Seniors can also qualify for the home accessibility tax credit (HATC) on up to $20,000 of renos, saving up to $3,000 in taxes, where costs are incurred to allow you to gain access more easily to, or become more mobile within, your home.

Convert your RRSP to a RRIF

If you're turning 71 during 2023, you only have until Dec. 31, rather than the normal 60 days following the calendar year, to make your final RRSP contribution. You'll need to convert your RRSP to a RRIF – or purchase an annuity with your RRSP assets. Also, if you're 71 in 2023, consider making a 2024 RRSP contribution to your RRSP in December of this year before you wind-up your RRSP. You'll pay a penalty for any over-contribution in excess of $2,000 for the month of December, but you'll be able to claim a deduction in 2024 for that over-contribution if you have sufficient earned income in 2023 (your earned income in 2023 entitles you to RRSP contribution room in 2024 even though you may not have an RRSP any longer).

Split your pension income

You can split up to half of your pension income with your spouse or common-law partner, which can be done when you file your tax returns for 2023. This could save you taxes and even reduce a clawback of OAS benefits. Also, if you're collecting CPP benefits and live with your spouse or common-law partner, you can share your CPP benefits with your spouse. This could save you tax as a couple. You have to apply with Service Canada to share your CPP with your spouse – so do this today if it will save you tax going forward.

Transfer losers from your RRIF

If you have any investments in your RRIF that have declined in value, but you think those investments could grow again, it could make sense to withdraw those securities in-kind (transfer them from your RRIF to a non-registered account). This makes sense if you need to make your minimum withdrawals from your RRIF anyway. The future growth of the investment could be taxed at favourable capital gains rates in your hands in the future.

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