



CESTNICK

TAX MATTERS

Demystifying the questions around retirement income

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When I was in high school, I played on a few teams – including the debate team. I remember the time a kid had to argue that the earth was flat and debated me on that point. He eventually walked angrily out of the room saying that he'd travel to the edge of the earth to prove me wrong. I knew he'd come around, eventually.

Another topic of great debate is how to best draw income in retirement. I wrote about this last week, sharing one person's example and an approach to planning retirement income. There were plenty of comments online – and some good ones at that. There was also some confusion around a few issues.

Given the interest, I think it's worth talking about the topic this week and next. Let's expand on a few points and clarify some issues.

Single or couple

In my example last week, I shared the story of William – a man in his mid-sixties. If you happened to be married or have a common-law partner (I'll use the term "spouse" to keep it simple), it would be easy to assume that the

example is not relevant. But remember, we file tax returns separately as Canadians. If each spouse is looking to minimize the tax on the income they draw in retirement, as William did, you'll be in good shape as a couple.

Where you need to think about planning together is when there's an opportunity to split income. You'll be able, for example, to have up to one half of your eligible pension income (most commonly benefits from a registered pension plan, and withdrawals from a registered retirement income fund, and certain other plans) taxed in the hands of your spouse. This will affect which tax bracket you fall into (see my [article](#) last week for more on tax bracket management).

Role of a corporation

Is it really worth setting up a corporation solely for the purpose of earning consulting or similar income in your later years, and thereby control your personal income? It depends. If you can earn enough income over several years where you're able to leave \$30,000 to \$40,000 each year in the corporation and not withdraw those

funds, the deferral of tax on that money left in the corporation can be valuable. The costs of administration and tax filings could be covered by the taxes deferred. But speak to a tax professional to do the math for you.

The corporation can especially make sense if you're using it for other purposes as well, like completing an estate freeze, minimizing U.S. estate taxes, or providing protection from potential liability. And if you already have a corporation and don't need to set one up, then it's an even easier decision.

As an aside, your incorporated business will be entitled to a deduction for any reasonable costs incurred to earn income from your business – including things you're paying for anyway, like home office and vehicle costs (unless it's a personal services business (PSB), which generally won't be the case if you're working for more than one customer or client; avoiding PSB status should not be difficult).

Estate planning issues

When you contemplate how to draw tax-efficient income in retirement, there's also a need to consider the impact your approach has on your estate planning. Is your goal to maximize what you leave the kids? For some, this is a priority. For others, they'd rather enjoy life today and aren't concerned about what they leave to the next generation.

If you want to leave more to the kids, you might consider making withdrawals early from your registered retirement savings plan (RRSP) or registered retirement income fund (RRIF) if you're in a lower tax bracket today than you'll be upon death. You could gradually transfer those funds to your TFSA. (see my [article](#) from Sept. 20, 2023).

If you own a corporation that provides income in retirement, you'll need to think about the double-tax problem that can arise at the time of death (see my [article](#) from Sept. 11, 2024). There are ways to solve the issue – but be aware of it.

Needs in retirement

My article last week didn't address the shifting needs of folks as they get older. And it's true, as one reader observed, that women typically live longer than men and this could affect not only how long your investments need to last, but the amount that is spent each year on long-term care costs.

There's also a psychological reality that switching from being a saver of capital to a spender can be a tough adjustment for many. As one reader suggested “enjoy your life” and “live well,” but “spend the money wisely.”

I'll have more to say on this topic next time.

Tim Cestnick, FCPA, FCA, CPA(IL), CFP, TEP, is an author, and co-founder and CEO of Our Family Office Inc. He can be reached at tim@ourfamilyoffice.ca