

Beware of the “Clawback”!

How to keep more of your retirement income for yourself

As a senior, you have access to tax assisted programs and can take advantage of a variety of tax credits that are not available to others. For instance, as a senior, you have access to the Old Age Security (OAS) program and the age credit once you are 65 years of age and older. But, did you know that both OAS and the age credit are income tested? Once your income exceeds a certain level, these two benefits start to diminish and after a certain point, these benefits are eliminated entirely. This is what is referred to as the “clawback” and there are strategies you can implement to ensure you keep more of these benefits for yourself.

Old Age Security

The Old Age Security (OAS) program is a monthly pension available to most Canadians 65 years of age or older. Applicants who have lived in Canada for at least 40 years beyond their 18th birthday are eligible for the full pension, while those with at least 10 but less than 40 years of residence in Canada after turning 18 are eligible for partial benefits.

While everyone meeting these eligibility requirements is eligible for an OAS pension, higher income pensioners must repay part or all of their benefit. The repayment is equal to 15% of the person’s net income that exceeds a stated “threshold amount” which is increased each year based on increases in the cost of living. Once your net income exceeds a maximum

threshold amount, your entire OAS pension will be subject to the “clawback”. See an Investors Group Consultant for the current net income threshold amounts.

Age Credit

The age credit is a non-refundable tax credit only available to Canadians 65 years of age and older. You may be eligible for at least a portion of this credit, providing your net income does not exceed a predetermined threshold. If you don’t need all of your age amount to reduce your taxable income to zero, the unused portion can be transferred to your spouse. See an Investors Group Consultant for the current net income and credit threshold amounts.

Strategies to keep more

For both OAS and the age credit, it is clearly advantageous to explore strategies that allow you to report on your tax return only as much income as you require to meet your needs. A thorough assessment of your income needs should be completed before you consider implementing the following strategies, which can assist in keeping your taxable income to a minimum:

- ▶ **Pension income splitting.** You are able to allocate up to 50% of your “eligible pension income” to your spouse for taxation purposes. “Eligible pension income” includes payments received from a regis-

tered pension plan irrespective of your age and RRIF payments once you have reached age 65. Taking advantage of the pension income splitting provisions may reduce your family’s overall tax bill and could reduce the affects of the OAS “clawback”.

- ▶ **Other income splitting strategies.** You should consider strategies such as: gifting or loaning assets to your spouse for investment purposes; spousal RRSPs; and decisions regarding who pays for daily living expenses and who invests. The goal is to move as much taxable income into the hands of the lower income spouse to benefit from their lower tax rate while at the same time minimize any “clawbacks” which may apply to you. These strategies can be difficult to implement and tax advice is necessary to ensure you are following the rules regarding income attribution.
- ▶ **Withdrawing the minimum from your RRIF.** Again, depending on your income needs, given the fact that RRIF withdrawals are fully taxable provides a real incentive to leave as much of your registered assets tax-sheltered for as long as possible. To get the most tax deferred growth from your RRIF, and keep your reported taxable income as low as

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possible, consider withdrawing only the minimum each year and if you have a younger spouse, base your withdrawals on their age, as this will produce a smaller minimum withdrawal. Note however, that at age 65 RRIF income is eligible for pension income splitting.

- ▶ **Seek out non registered investments that offer preferential tax treatment.** The goal of this strategy is to keep taxable investment income to a minimum. A strategy to consider is investing in equities rather than fixed income investments, as capital gains are 50% taxable versus interest income which is 100% taxable. However, caution is advised. You should keep in mind the balance between equities and fixed

income investments over your whole registered and non-registered portfolio. Also, from a tax and “clawback” perspective, you want to ensure you are not investing in investments that produce large amounts of dividends as the reported taxable income from dividends is the “grossed up” amount before the dividend tax credit. Another strategy to consider is tax advantaged or switch funds for your non – registered portfolio, as you report capital gains for tax purposes only when you leave the structure.¹ Keep in mind that your investments should be chosen based on your individual goals and risk tolerance first and not based solely on the tax consequences.

Reporting less net income is the key to avoiding the “clawback” on OAS and the age credit. Remaining vigilant in paying less tax can not only assist in avoiding the “clawback”, but can also assist in preserving your wealth for years to come, and ultimately, make your retirement as fulfilling and worry-free as possible.

Why not ask us today how to structure your retirement income in the most tax efficient way possible. Since these decisions are often irreversible, a few minutes invested today could turn out to be your smartest tax choice this year.



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1. You may also be taxed on capital gains dividends that may be periodically paid by the Fund.