

Tax Breaks *for* Seniors: Don't Miss Out!



Saving a few tax dollars is important to everyone.

That can be particularly true for senior citizens who are often on a fixed income. In that regard, this article is intended to bring to your attention a few of the more recent tax changes that may impact seniors. You can then help ensure that the senior citizens close to you are not missing out!

For 2006

The following changes are effective in 2006.

Age Credit Enhancement

The Age Credit, a special federal income tax credit available to Canadians 65 years of age or older, has been increased by \$1000 to \$5066, effective January 1, 2006. As a result of this change, lower and middle income seniors will save up to approximately \$150 per person in 2006 and subsequent years.

As in earlier years, this credit is “phased out” for higher income individuals. For 2006, the reduction in the credit commences at an income level of approximately \$30,270 and will be completely eliminated at an income level of \$64,043. (Before 2006, the credit was fully phased out when income reached \$57,377.)

Pension Tax Credit

Effective from January 1, 2006, the 2006 Federal Budget increased the

pension tax credit of 16 percent on \$1000 of pension income to \$2000 of pension income. When combined with the applicable provincial tax credit, this could mean a credit of approximately 25 percent, depending on the province. Not all pension income, however, would qualify for this credit.

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Pension income that would qualify generally includes the following.

- An annuity from a pension plan
- For persons age 65 or older,
 - the taxable portion of annuities purchased from an insurance company,
 - annuity payments from an RRSP, a RRIF, or a deferred profit-sharing plan
- Annuity payments to a person under 65 years of age, if the annuity payments were inherited from a deceased spouse

Planning Point: If you are at least 65 but under age 70, consider withdrawing \$2000 a year from an RRIF. Sufficient funds could be transferred from your RRSP to your

RRIF to allow for the \$2000 annual withdrawal. Then when the \$2000 pension tax credit is applied, the \$2000 withdrawal may be effectively tax free!

Tax Credit for Public Transit Passes

Many seniors rely on public transit to get around. A new tax credit, effective for transit use commencing July 1, 2006, may help make public transit a little more affordable for everyone. This credit will be available for public transit passes that are valid for a period of at least 1 month. To qualify, the pass must provide the individual with the right to use public transit on an unlimited number of occasions and on any day within an uninterrupted period of at least 28 days. Therefore, commencing July 1, 2006, we should be keeping those monthly transit passes for tax purposes!

Medical Expenses

In November 2006, Canada Revenue Agency released their revised guidebook RC4064, which provides information for persons with disabilities—including medical expenses, tax credits, attendant care—and discusses the claiming as medical expenses of retirement and nursing home costs. Because the rules can be very complex regarding claims for medical expenses and costs with respect to a retirement or nursing home, this guidebook is recommended reading!

For 2007

The following change will commence in 2007.

Pension Income-Splitting

Income-splitting has long been a goal targeted by spouses and families to ensure the lowest overall tax is paid. Some income-splitting has now been facilitated by changes proposed in the government's new plan.

Beginning in 2007, Canadian residents who receive income that qualifies for the existing pension income tax credit will be permitted to allocate up to half of that income to their Canadian resident spouse or common law partner. Since this will increase the transferee's taxes payable in many cases, both persons must agree to the allocation.

The pension income allocated will retain its nature and be treated as income of the lower income spouse or common law partner. This means that some couples may now be able to receive a second pension income tax credit where previously only one could be claimed. Further, splitting income could mean some individuals may reduce their exposure to the Old Age Security "clawback," too.

Note that some types of pension income do not qualify for the pension credit or income-splitting under this plan. For example, Old Age Security payments, Canada or Quebec Pension Plan payments, and payments from certain supplemental retirement compensation arrangements (RCAs) would not qualify.

Caution

Be reminded that each individual's circumstances are different and the general rules may not always apply. Further, tax rules are always subject to change. We recommend that you consult your tax advisor before implementing any particular tax strategy to ensure you understand all the implications and that your plan is appropriate for your specific circumstances and requirements. ▲

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