

Can income splitting save you money?



Income splitting is the practice of reducing your family's tax burden by shifting earned income from a higher-earning spouse or common-law partner to a lower earning (or non-earning) one. There are a number of policies in place that restrict how this works. However, there are a number of ways to take advantage of income splitting to find significant tax savings.

How does income splitting apply to my retirement plan?

Your retirement plan should consider multiple sources for your retirement income. That income can be from a company pension plan, deferred profit-sharing plan, RRIF payments, annuity payments, or Canada Pension Plan benefits. Most have restrictions in terms of age limits. For example, RRIF income and RRSP annuity payments have an age limit of 65 and older, while CPP benefits have an age limit of 60 and a company pension has no age limits.

CPP Sharing

With the CPP, if a couple opts for income splitting and one receives \$700 a month and the other receives \$200, they can both receive a monthly cheque of \$450.

Pension Splitting

Additional sources of income can be split, including RRIF payments, annuity payments from an RRSP or deferred profit sharing plan.

Tip: to share these kinds of pension income, both partners must file a joint election:

<http://www.cra-arc.gc.ca/E/pbg/tf/t1032/README.html>

Spousal RRSPs

Income splitting has made some wonder if contributing to a spousal RRSP still makes sense. The short answer is, yes. But as always, your situation is unique and you should have a financial expert help you to ensure your plan is working as hard as you are to save you money. Some

things to consider would be the age limits for some income splitting and potential future changes to pension-splitting rules.

Tax-free Savings Accounts

These investments are funded with after-tax income; therefore a higher-income earning spouse can give the lower-income spouse or adult children funds toward their TFSAs provided they have contribution room available.

Learn more by meeting with one of our financial experts. They can help you find the right solutions to manage and preserve your retirement income and save you money.