Tax Tips for Seniors

Make sure you get every TAX CREDIT and DEDUCTION you are entitled to!

The Canadian tax system has numerous tax credits and benefits which can be used to a person's advantage. In certain circumstances, some of them can be completely wiped out if annual income reaches a certain level. Unfortunately, seniors are among those most affected by the elimination of tax credits and benefits.

Consider income splitting. If you are a senior, you are allowed to split up to half of your eligible pension income with your spouse or common-law partner. If the lower-income spouse has very little income, this can mean serious tax savings. You may be also able to split part of your CPP retirement benefits with your spouse, though you must apply in advance (before tax time) to do this.

File your return on time. Any senior receiving Guaranteed Income Supplement (GIS) through Old Age Security should file on time to ensure their benefits continue uninterrupted.

Check into any pensions from foreign countries. These may be subject to special tax treatment under the terms of a tax treaty.

Share deductions with your spouse. If your spouse is unable to completely offset his or her age amount, pension income and disability amount against payable tax, he or she may transfer the unused portion to your return.

Medical expenses can add up. If you purchase medical insurance for a trip or wintering in another country, it is considered a medical expense. Medical expenses are calculated based on income, so the lower-income spouse should claim them. And if you have to travel to obtain medical treatment that was not available where you live, you may be able to claim the cost of transportation, meals and accommodation. Seniors who do not have any tax deducted on their income are not eligible to claim medical expenses.

Be aware of the Caregiver deduction. If you live with your children, are over 65 and have a disability credit on file at CRA, they may be able to claim a caregiver amount for you if your income is less than $16,405. Age, and income are the deciding factors; an infirmity can also make a parent a dependent. The federal caregiver amount is $4,804 for each dependent, and there are provincial deductions as well.

Share the Disability Tax Credit. If you qualify for the disability credit but do not have sufficient taxable income to take advantage of it, you may be able to transfer the unused amount to your children. You must depend on them for all or some of the basic necessities of life for the transfer to be allowed.

If your children pay for your nursing home fees, they may be able to claim them as a medical expense. However, because you cannot claim both nursing home fees and the disability tax credit, it may be more beneficial to restrict your claim to the attendant care portion of the fees to the extent that they do not exceed $10,000.

Old Age Security

Old Age Security (OAS) provides a basic level of pension for individuals aged 65 and older who meet the residency requirement. For those living in Canada, the eligibility requirements are:

- Canadian citizen or legal resident at the time of pension application
- Lived in Canada for at least 10 years after reaching 18 years of age

Eligibility requirements for those living outside of Canada differ slightly:

- Canadian citizen or legal resident before leaving Canada
- Lived in Canada for at least 20 years after turning 18 years of age

The OAS 'clawback' means that high-income earners over the age of 65 are required to repay OAS pension, either in full or in part. The OAS is reduced for those with taxable income in excess of $75,910. For every dollar above that amount, the OAS pension is reduced by 15 cents, until it is completely eliminated.

Guaranteed Income Supplement (GIS)

The Guaranteed Income Supplement (GIS) is a non-taxable benefit for low-income seniors, which essentially serves as an OAS top-up. The maximum annual GIS benefit is between $10,575.84 and $10,779.84; this can be combined with the OAS annual maximum of $7,039.92 for a grand total of $17,819.76. To be eligible for GIS, one must qualify for OAS and meet the additional eligibility requirements:

- If you are single, income for the previous year must be less than $18,216
- For a couple with one not receiving OAS, income from the previous year must be less than $43,680
- For a couple with both parties receiving full OAS, the combined income from the previous year must be less than $24,048

Once income starts to come in, the GIS is clawed back at 50 cents per dollar. Income will continue to be clawed back until the maximum income threshold is met.

Alberta Seniors Benefit (ASB)

The Alberta Seniors Benefit (ASB) provides a monthly income supplement to federal income sources including Old Age Security (OAS) and Guaranteed Income Supplement (GIS).

Eligibility for this benefit is determined by:

- the type of accommodation you live in
- your marital/cohabitation status
- are 65 years of age or older
- your income (combined with your spouse/partner's income, if applicable, regardless of their age)
- have lived in Alberta for at least 3 months immediately before applying and
- receiving the federal OAS pension (have lived in Canada for 10 years)

In general, for July 1, 2018 to June 30, 2019, a single senior with an annual income of $27,690 or less and senior couples with a combined annual income of $44,965 or less, are eligible for a cash benefit. These income levels are guidelines only and are for **seniors whose income includes a full OAS pension.**

To apply for this benefit you must complete the Seniors Financial Assistance (SFA) application form.

Benefits are retroactive for up to 11 months prior to the date your completed application form is received but not earlier than your 65th birthday or three months of permanent residency in Alberta.

You are no longer eligible to receive this benefit; the month after you leave Alberta to live permanently in another province or country, in the month following when death occurs or if you leave Alberta on a temporary basis for more than six months.

If you do not qualify for, or choose to defer receipt of, the federal Old Age Security pension, you are not eligible for this benefit unless; seniors not eligible for the federal Old Age Security pension, who are residents of designated supportive living and long term care facilities will be eligible to receive the supplementary accommodation benefits to assist with their accommodation costs.

Income received from this benefit program is reported on a T5007 slip issued by the government and must be reported on your personal tax return when you file each year. Your following year benefit will be determined by Line 150 on your personal tax return when you file. You must file a personal tax return each year in order to continue to receive this benefit.

How Can You Avoid the OAS CLAWBACK?

Pension Splitting in Retirement

Spouses can give up to half of their eligible pension income to their partner for tax splitting purposes. Though OAS does not qualify for pension splitting, retirees over the age of 65 with pension income, annuity income and a Registered Retirement Income Fund (RRIF) qualify for pension splitting. Splitting or sharing Canada Pension Plan (CPP) is another income splitting strategy that can help minimize or avoid OAS clawback.

Tax-Efficient Income on Non-RRSP Investments

When it comes to investment income from non-registered investments, varying types of income are taxed differently. Portfolios heavy in Guaranteed Income Certificates (GICs), bonds and term deposits will generate interest income that is fully taxed. Dividend income, although considered tax-efficient because it enjoys a much lower tax rate than interest, can actually get you closer to the OAS clawback threshold as grossed income is used. If income is close to the OAS threshold, caution should be used when selecting investments that produce dividend income. Mutual fund corporations may be an effective alternative to convert income into capital gains as opposed to interest income.

Tax-Free Savings Accounts (TFSA)

This is a good option for many seniors. Funds withdrawn from a Tax-Free Savings Account (TFSA) are not included in your taxable income and will not affect your net income threshold for OAS clawback. This is a good way to save money as growth and income on investments are not taxed; no tax slips are generated, and therefore do not have to be reported as income on your tax return. You can continue to contribute into a TFSA indefinitely, unlike an RRSP. Including 2019 you can contribute up to $63,500 into a TFSA.

Triggering Capital Gains

Though capital gains income is more tax-efficient than interest income, half of any capital gains will be added to your annual net income. If you are considering triggering capital gains in your non-registered portfolio, be sure to keep tabs on any ‘losers’ in the portfolio that you may want to dispose of; the loss they will generate may reduce any capital gains incurred either through non-registered investments or real estate sales.

RRSP Withdrawals

Registered Retirement Savings Plans (RRSPs) do not need to be converted to RRIFs until the holder reaches 71 years of age. It is possible to delay withdrawal of the RRSPs until then, potentially delaying the OAS clawback. Alternatively, RRSPs could be aggressively withdrawn until the holder reaches 71 years of age, leading to a possible reduction in OAS clawback at the age of 72. It should be mentioned that the latter option would necessitate that taxes be paid on the withdrawn RRSP income. You can also use your spouse’s/common-law partner’s age as the required withdrawal if they are younger than you.

Tax Credits

In addition to the effect on OAS and GIS, income thresholds can have an influence on the tax credits that are available to pensioners.

Age Amount

This tax credit is non-refundable and is available to individuals who are 65 years of age or more at the end of the taxation year. The federal age amount for 2018 is $7,333. This amount is reduced by 15 percent of income exceeding a threshold amount of $36,976; it is eliminated if income exceeds $80,000.

Pension Income Amount

The pension income amount offers non-refundable tax credits to seniors over the age of 65 who collect private pension, RRIFs, annuity income out of an RRSP or Deferred Profit Sharing Plan (DPSP) or taxable foreign pensions. The amount of pension tax credit is equal to the amount of the qualifying pension income up to $2,000. Further, pension income that has been split between spouses is considered eligible pension income for the pension income amount.

For those under the age of 65, the pension credit can be available for those who have received pension income either from a private pension or annuity income arising from the death of a spouse under an RRSP, RRIF or DPSP.

Qualifying pensions do not include Canada Pension Plan (CPP), OAS, GIS, lump sum death benefits, lump sum withdrawals from RRSPs, retiring allowances or income from a United States individual retirement account (IRA).

Disability Amount (for yourself)

If you qualify, this non-refundable tax credit allows you to reduce the income tax you owe. You must have a physical or mental impairment for a continuous period of at least 12 months. Examples of qualifying disabilities include:

- blindness,
- a "markedly restricted" ability to speak, hear, walk, feed or dress oneself, control bowel or bladder functions.

How to apply: Complete Form T2201, Disability Tax Credit Certificate. Have it signed by a qualified practitioner, such as a doctor, optometrist or psychologist, depending on the disability.

- If you do not owe any tax, you may transfer the disability amount to your spouse or another person who supports you

Important Federal Changes

Sale of a Principal Residence

Effective January 1, 2016, taxpayers are required to report basic information (date of acquisition, proceeds of disposition and description of the property) on your income tax return to claim the full principal residence exemption. The sale must be reported in order to ensure tax exemption. Failure to do so will result in a penalty (lesser of $8,000 or $100 for each complete month from the original due date to the date your request was made in a form satisfactory to the CRA).