

FineAnswers

Answers to questions on Tax, Finance and Management

Pension Splitting – Vol. 6 Issue 4 – February 2008

By Joseph Tavana CA, CFP

Splitting Pensions, Annuities, RRSP's and RRIF's etc with a Spouse

1) Can spouses split their pension income between them?

As from the beginning of 2007 pensioners can deduct any amount up to 50% of their pension income and their spouses can add it their income

2) Can one of the spouses NOT be a resident of Canada?

No. Both have to be residents of Canada on 31st of December.

3) Do both spouses have to agree on the split?

Yes, and form T1032 has to be signed by both and be attached to both their tax returns.

4) What if the spouses were separated at year-end?

If the separation was the result of marriage breakdown and has lasted 90 days and commenced during the year, the pension cannot be split between the spouses.

5) What if the spouses were not married or living common law for the whole year?

The amount, which can be split, will be prorated based on the number of months they were living together.

6) If taxes were deducted from the pension and part of the pension was allocated to the spouse will part of the taxes deducted also be transferred to the spouse?

Yes.

7) Can spouses split Old Age Security (OAS) and Canada Pension Plan (CPP) in this manner?

No!

8) What pensions are eligible for splitting rules?

All pensions received by individuals who are entitled to claim the \$2,000 non-refundable credit. (Pension income amount)

9) What pensions are eligible for the \$2,000 pension income amount (PIA)?

If the pensioner or spouse is under 65:

Life annuity from a superannuation pension fund or plan will qualify.

If the pensioner or spouse is older than 65:

Life annuity from a superannuation pension fund or plan, Registered Retirement Income Fund (RRIF) (including life income fund) payments and Registered Retirement Savings Plan (RRSP) annuity payments qualify.

10) If the spouse is under 65 and the pension transferred from the pensioner is from a RRIF, RRSP or a Deferred Profit Sharing Plan will the spouse be able to claim the \$2,000 PIA?

No!

11) If the spouse is over 65, but the pensioner is under 65, and the pension transferred is from a RRIF, RRSP or a DPDP will the spouse qualify for \$2,000 PIA?

No, the pension does not qualify for splitting altogether. It will qualify if the pension was from a life annuity from a superannuation, a pension fund or plan payments.

12) Should the pension split be done in all cases?

In the following cases the pension split is usually advisable:

- If the pensioner is in a higher tax bracket,
- If the marginal rate of the pensioner is about the same as the spouse and the spouse can use the \$2,000 non-refundable credit,
- the pensioner avoids the Old Age claw back,
- the pensioner avoids the OAS claw back .

Of course the final test is to actually calculate the total of the taxes of both spouses before and after the split and decide whether the split renders any tax savings.

Note: This newsletter cannot replace professional advice. The reader is invited to contact the writer to discuss the contents of the newsletter. Readers are advised to seek professional advice before acting on the material in this newsletter.

Tavana & Co. Professional Corporation

Email: tavana@tavana.ca Web: www.tavana.ca Tel: 416-229-2221 Ext 25 Fax: 316-229-2234

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