What's the best retirement income tax strategy for you?

10 retirement income tax strategies that you need to know

The shift from accumulating wealth for retirement to tapping into your retirement income can be confusing. For many, there may be tax implications. Here are 10 retirement income tax strategies that can maximize your income in retirement.

1 When's the best time to start collecting CPP/QPP and OAS?

Deciding when you start receiving benefits can have lasting consequences for your retirement income. Before taking your benefits early or choosing to defer, you need to consider: your life expectancy, cashflow needs, the impact on income-sensitive benefits, whether you will spend or invest the benefit, if you're receiving CPP disability benefits, as well as changes to current and future tax rates.

2 Should you share CPP/QPP benefits with your spouse or partner?

If you and your spouse/common law partner (CLP) are at least age 60, living together and have contributed to CPP during your time together, sharing your CPP or QPP benefits may provide significant tax savings. You simply transfer your benefit to the spouse/partner in a lower tax bracket.

3 How splitting your pension income can reduce your taxes

If you reside in Canada and live with a spouse/CLP at the end of the year, you can allocate a maximum of 50% of your pension income to that spouse/CLP. This strategy works best when the pension income recipient is in a higher tax bracket.

Key takeaways

1 | Deciding when you start receiving benefits can have lasting consequences for your retirement income

2 | Retirees need an exit strategy with their RRSP that includes both a short-term and long-term approach to using these assets in retirement.

3 | Advice from an advisor is worth it. You could retire 2x wealthier when you partner with an advisor.*

*Source: More on the Value of Financial Advice. CIRANO (2020).

4 How contributing to spousal RRSPs can reduce your tax

A spousal RRSP is an RRSP where the high-income spouse makes contributions on behalf of the low-income spouse/CLP. The goal with spousal RRSPs is to equalize income in retirement for each spouse, lowering your tax burden.

5 Strategies to reduce taxation when converting an RRSP to a RRIF

After age 71, you can no longer own an RRSP. Unfortunately, simply withdrawing money from an RRSP can lead to high taxation. Several strategies can lower these tax obligations and increase your cash flow. For example, you can use the younger spouse's age, invest the RRIF minimum, split pensions with RRIFs, designate beneficiaries, make one final RRSP contribution before conversion, and more.

6 Getting the most out of TFSAs in retirement

While a TFSA is not traditionally viewed as a retirement savings vehicle, it can serve as an integral part of your retirement income plan. Unlike a RRIF, you may continue to make contributions to your TFSA after age 72. The funds in it can continue earning tax-free growth and income. High income retirees can also tap into TFSAs to create additional tax efficient cash flow in retirement.

7 A spousal loan can lead to considerable tax savings

A spousal loan is another powerful income-splitting strategy for couples in retirement. The goal is to shift investment income that would be taxed from the high-rate spouse to the low-rate spouse. This is typically best suited for those with sizeable non-registered investments.

8 Utilize family trusts for income splitting

You can use family trusts to provide flexibility, control, protection, management and distribution of assets. Many retired Canadians need income to fund their own personal lifestyle and to help fund their children's or grandchildren's expenses and obligations. Utilizing a family trust can be an effective way to increase after-tax cash flow to the family.

9 Generate tax-preferred income for non-registered investments

This is ideal for retirees who own securities like stocks and bonds and rely on interest payments from fixed-income securities and consistent dividend payments from stocks. Alternatively, retirees can generate a more tax-efficient cash flow by incorporating systematic withdrawal plans (SWPs), or Series T mutual funds (that is, a return of capital) as part of their retirement income plan.

10 Strategize your retirement income with asset withdrawals

The most common financial assets are those that have been accumulated in RRSPs/RRIFs and TFSAs, as well as non-registered investments. There are two challenges:

- How to maximize the use of these various financial accounts in providing the most tax-efficient source of retirement income; and
- Choosing which assets to draw from first.

Ultimately, every retiree's situation must be evaluated based on their personal circumstances. The traditional approach of deferring RRSPs as a last source of retirement income, to maximize tax-deferred RRSP/RRIF growth, may be suitable for some retirees, but not all. Retirees need an exit strategy with their RRSP that includes both a short-term and long-term approach to using these assets in retirement.

For more information about these retirement income strategies and if they're right for you, speak to your financial advisor.

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