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Helping clients understand income pension amounts with tax planning

Investors frequently ask about the pension income tax credit, how it may affect their retirement income and how to qualify for it.

While the credit doesn't provide significant tax savings, eligibility has implications for some planning strategies that do, such as pension income splitting. As more couples take advantage of this strategy, the pension income amount becomes a focal point of their tax planning.

The pension income amount allows a taxpayer to claim a federal non-refundable tax credit on up to $2,000 of eligible pension income. The federal tax credit rate is 15%, so the maximum federal tax savings available is $300 ($2,000 × 15%).

There are also provincial pension income amounts. By claiming it, taxpayers receive the first $2,000 of pension income on a tax-free basis, but only if they're in the lowest tax bracket (since the tax credit rate is capped at 15%). If they're in a higher bracket pension income is taxable, but at a reduced rate.

Income-splitting rules allow taxpayers to split up to 50% of eligible pension income with a spouse or common-law partner. The important issue is determining what type of pension income qualifies.

Age is an important factor. Those over 65 have easier access to the pension income amount since more sources of income qualify. Taxpayers may be eligible for the pension income amount if amounts are reported on lines 11500, 11600 or 12900 of the T1 federal income tax return.

CRA lines defined

Line 11500	Line 11600	Line 12900
Other pensions and superannuation	Elected split-pension amount	Registered retirement savings plan (RRSP) income

Here's what qualifies for those over the age of 65:

- Life annuity payments from a superannuation or pension plan. This includes income from life income funds (LIFs) and locked-in retirement income funds (LRIFs)
- RRIF payments (any portion that's transferred to an RRSP, another RRIF, or used to purchase an annuity does not qualify for the pension income amount)
- RRIF payments received due to the death of a spouse or common-law partner
- Annuity payments from an insured RRSP (those typically offered by insurance companies) or from a deferred profit-sharing plan (DPSP)
- Payments from a Pooled Registered Pension Plan (PRPP)
- Regular annuities and income averaging annuity contracts (IAAC)
- Certain foreign pension payments (see below)

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For those under the age of 65, the list of qualified pension income for purposes of claiming the pension income amount (and pension income splitting) is more restricted. Only a few of the items listed above are available. They include:

1 Life annuity payments from a superannuation or pension plan.

Taxpayers receiving annuity payments from an employer sponsored pension plan will qualify for the pension income amount regardless of age. But it's important to note that when someone commutes a pension to a locked-in retirement plan, the income from these plans (e.g., LIFs, LRIFs) will not qualify for the pension income amount until the tax filer reaches the age of 65.

CRA's position is that income from a locked-in plan is simply a retirement savings plan, not a pension plan, and that the pension income amount should not be available until age 65. Unless this changes it may impact whether a pension is commuted upon retirement.

2 Payments from a RRIF, or annuity payments from an RRSP, DPSP or PRPP received due to the death of a spouse or common-law partner.

For those under the age of 65, income from a RRIF, DPSP, PRPP, IIAC, RRSP or annuities will only qualify for the pension income amount if it's received due to the death of a spouse or common-law partner.

Some tax filers receive a foreign pension and may wonder if they qualify for the pension income amount. In general, foreign pensions reported on line 11500 may qualify for the pension income amount regardless of age, but only for the portion of pension income that's taxable.

For example, tax filers receiving U.S. social security benefits are permitted a 15% deduction on their Canadian tax returns due to specific provisions in the Canada-U.S. tax treaty. In this case, only the taxable portion of the Social Security Benefit is considered pension income and qualifies for the pension income amount.

It's also important to know what **doesn't** qualify for the pension income amount:

- Old Age Security benefits
- Canada Pension Plan benefits
- Quebec Pension Plan benefits
- Death benefits
- Retirement Compensation Arrangement (RCA) payments
- Benefits from Salary Deferral Arrangements
- Income from a U.S. Individual Retirement Account (IRA)

Mackenzie's Tax & estate planning team can partner with you to help you consider the most effective tax strategies for retirement income to incorporate in your client's financial plan.

For more information please contact your Mackenzie Investment Sales Team or Mackenzie client services team at 1-800-387-0614.

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