

THE PENSION INCOME TAX CREDIT USING AN INSURANCE COMPANY GIC

**LOUISE GUTHRIE**

B.Math, EPC, FLMI, ACS, CAM, CFP, FDS, CRS

Assistant Vice-President
Tax and Retirement Services Team
Manulife Investments

If you or your spouse are 65 or older and do not have income from a RRIF or private pension plan, there is another alternative to take advantage of the pension income tax credit.

WHAT IS THE PENSION INCOME TAX CREDIT?

If you receive eligible pension income, you are entitled to deduct from your taxes payable, a federal tax credit equal to 15 per cent on the first \$2,000 of pension income received. This means up to \$300 in tax savings at the federal level, plus the provincial tax credits.

WHAT TYPES OF INCOME QUALIFY?

Under age 65, only income received directly from a pension plan or other registered income received because of the death of your spouse qualifies for the pension income tax credit. Income from other registered plans such as RRIFs and RRSP annuities are only eligible for the credit if you are age 65 or older. Government plans such as Canada/Quebec Pension Plan and Old Age Security do not qualify.

Generally, income from non-registered investments will also not qualify for the pension income credit. One exception is the income received from a Guaranteed Interest Contract (GIC) provided by an insurance company. A GIC from a life insurance company reports the interest accrued as annuity income which qualifies for the pension income tax credit beginning at age 65.

CREATING THE INCOME

The following chart shows the amount of non-registered savings required at various interest rates to generate \$2,000 of interest (reported as annuity income) from an insurance company GIC to claim the pension income tax credit.

Annual Interest Rate	Non-Registered Savings Required
3%	\$66,667
4%	\$50,000
5%	\$40,000
6%	\$33,333
7%	\$28,570

INCOME SPLITTING WHERE BOTH SPOUSES ARE AGE 65 OR OLDER*

If both you and your spouse (or common law partner) are age 65 or older, you can invest double the amount of non-registered savings required in an insurance company GIC and make an election on your tax returns to each claim \$2,000. Each of you will then be able to maximize the tax benefits of the \$2,000 pension income amount and thereby double your tax credits.

TRANSFERRING UNUSED CREDITS TO A SPOUSE

If you are at least age 65 and have eligible income but are unable to use the full credit because you have reduced your taxes to zero, you can transfer the unused portion to your spouse (or common law partner). Only you as the original recipient of the eligible income must be age 65 or older. The spouse receiving the transferred credit can claim it at any age and does not have to have eligible income to take advantage of the transferred credit.

*See Tax Managed Strategy #15 for more on pension income splitting



IDEAL CANDIDATES

- Individuals age 65 or older
- Individuals who do not have other sources of eligible pension income
- Individuals with a spouse or common law partner

TAKE ACTION

- Determine the amount you need to invest to get \$2,000 or \$4,000 (if you have a spouse) of eligible pension income
- Contact your advisor to purchase an insurance company GIC

OUR EXPERTISE

With 30 years of experience in retirement planning and wealth accumulation strategies, Louise Guthrie leads the Manulife Investments Tax and Retirement Services (TRS) team – a group of accountants, lawyers and other specialists skilled in proactively identifying opportunities for clients based on changing regulatory environments and the market.

INVESTMENT OPTIONS WITH MANULIFE INVESTMENTS

Manulife Segregated Fund Contracts combine the growth potential offered by a broad range of investment funds, with the unique wealth protection features of an insurance contract. Through these contracts investors can minimize their exposure to risk through death and maturity guarantees, potential creditor protection features and the estate planning benefits – all from a single investment. For conservative investors looking to grow their wealth but who are also concerned about minimizing risk, Manulife Segregated Fund Contracts may provide an ideal solution.

The Manulife Investments Guaranteed Interest Contract (GIC) offers competitive rates plus investment options that include Basic, Escalating Rate and Laddered GIC Accounts. Tax on interest is deferred for up to one year, and for those 65 or older, the interest will qualify for the pension income tax credit and pension income splitting. In the event of death, the entire investment will pass directly to named beneficiaries without surrender, probate, legal or estate fees.

For more information, please contact your advisor, or visit www.manulife.ca/investments



The Manufacturers Life Insurance Company is the issuer of the Manulife Investments Guaranteed Interest Contract (GIC). The commentary in this publication is for general information only and should not be considered investment or tax advice to any party. Individuals should seek the advice of professionals to ensure that any action taken with respect to this information is appropriate to their specific situation. Manulife Investments is the brand name identifying the personal wealth management lines of business offered by Manulife Financial and its subsidiaries in Canada. As one of Canada's largest integrated financial services providers, Manulife Investments offers a variety of products and services including: segregated fund contracts, mutual funds, annuities and guaranteed interest contracts. Manulife and the block design are registered service marks and trademarks of The Manufacturers Life Insurance Company and are used by it and its affiliates including Manulife Financial Corporation.