

Tax Tip
Week of December 14, 2009

Creating Pension Income

Individuals can claim a tax credit of up to \$2,000, if they have qualifying pension income. The type of pension income will determine if and when it will qualify for the credit. The rules can be summarized as follows:

Under age 65 – Qualifying pension income is from a life annuity, such as a payment from a corporate pension plan. Payments from a RRIF or RRSP do not qualify.

Age 65 or over – In addition to life annuities, annuity income from a RRIF or RRSP will qualify for the credit.

Non-qualifying Income – Canada Pension Plan and Old Age Security will not qualify for the credit, regardless of age.

Individuals that are not a member of a company pension plan and do not intend to collapse their RRSP until age 71, the pension credit will not be utilized between the ages of 65 and 71. An individual could consider transferring a portion of the RRSP to a RRIF at age 65, in order to generate approximately \$2,000 per year of qualifying pension income. Another option would be to purchase a life annuity, rather than a RRIF that would generate approximately \$2,000 per year in pension income. The pension credit would be claimed to eliminate the tax on this newly created income.