

Tax Tip
Week of January 25, 2010

Splitting Pension Income

There are two opportunities to reduce taxes based on the splitting of pensions. There is a pension credit of \$2,000 but it can only be claimed against pension income. If only one spouse has income from a pension, by transferring a portion of the pension to one's spouse, both spouses can claim the credit of \$2,000. In addition to the pension credit, transferring income to the other spouse results in the pension being taxed as her lower tax rate.

In order to split pension income, both spouses or common-law partners must make a joint election on *Form T1032, Joint Election to Split Pension Income* and submit it with their tax returns. An individual can elect to split up to 50% of the eligible pension income. Since income tax is withheld at source on pension income, it must also be allocated between spouses on the same proportion as the pension income is allocated.

Another factor to consider when splitting pensions is the impact upon an individual's quarterly instalments. The high income individual that splits his or her pension may be able to reduce or eliminate quarterly instalments.