FROM THE DESK OF:

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As we head into the New Year, we hope that 2014 is full of happiness, health and success. Happy New Year to you and your family.

RRSP DEADLINE 2013 – February 27th, 2014

Check out our websites:
www.davidbardal.com www.juanabaldwin.com
For Market Commentaries,
tax planning guides for 2013 and more!

If you have any questions or would like to book a planning or review meeting, give us a call or pop us an email.

UPCOMING EVENTS

January 15, 2014:
Business Owners & Professionals Luncheon
Market Update – Is this Bull Getting Old?

PENSION INCOME SPLITTING

Source: CLU Institute Comment

Individuals in receipt of eligible pension income can allocate or split up to 50% of the income with their spouse or common law partner, and the allocated income is reported as the spouse's taxable income. This allows the shifting of income from a higher-income spouse to a lower-income spouse, enabling the couple to reduce their combined income tax liability and increase cash flow during retirement.

This income splitting opportunity affords a significant benefit to married and common-law couples, which is not available to others in a joint living arrangement (such as two retired siblings or two long-time friends). The choice to split pension income is made annually as an election when filing the couples' personal income tax returns. Qualifying married and common-law couples have the opportunity to assess their overall income picture after the fact, offering maximum flexibility to optimize tax savings.

"Eligible pension income" that qualifies for pension splitting is a specifically defined term and is dependent upon the age of the individual receiving the payment.

If the individual is age 65 or over before the end of the year,eligible pension income is the total of:
1. a life annuity payment out of a pension plan;

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2. an annuity payment from a registered retirement savings plan (RRSP);
3. a payment out of a registered retirement income fund (RRIF);
4. a periodic payment under a money purchase provision of a registered pension plan (RPP);
5. a payment from a pooled pension plan;
6. an annuity or periodic payment from a deferred profit sharing plan (DPSP); and
7. the taxable portion of a non-registered annuity payment.

If the individual has not attained the age of 65 before the end of the year, eligible pension income is the total of:
1. a life annuity payment out of a pension plan (i.e., the same as (1) above for individuals 65 or over), and
2. any of points (2) to (7) above if they are being received as a consequence of the death of a spouse or common-law partner

As proposed in the 2012 federal budget, the definition of eligible pension income that can be split between spouses was expanded to include payments from a Retirement Compensation Arrangement (RCA). Where the recipient individual has attained the age of 65 sometime in the year, the RCA amount which may be split is the lesser of:

1. the total of all payments made in the year to the individual out of the RCA that provided benefits that supplement the benefits provided under a registered pension plan, and any payments in respect of a life annuity that is attributable to periods of employment for which benefits are also provided to the individual under the registered pension plan, and
2. the amount, if any, by which the defined benefit limit (greater of $1,722.22 and one-ninth of the money purchase limit for the year) for the year multiplied by 35 exceeds the individual's eligible pension income determined without reference to the RCA payment received.

It would appear from a careful reading of the RCA provision that pension splitting will be very restrictive and only allowed in cases where the RCA was set up to supplement a registered pension plan and meets the quantitative restrictions. As such, it would appear that there needs to be clear evidence of an existing registered pension plan in combination with the establishment of the RCA. This new provision has elements that are open to interpretation, which will take time to evolve.

It is important to understand that when spouses opt to split eligible pension income, it does not change the legal ownership of the income but it does change the income tax onus. As such, the pension recipient remains the legal owner of the income flow while the spouse with whom the pension recipient splits the income becomes responsible for the income tax liability that arises on the income allocated. Within the couple as a family unit, this should generally not be a problem but the issue should be addressed to ensure each individual's cash flow is appropriate.

Pension income splitting is a highly valuable element of retirement planning because it offers retirees an opportunity to increase overall family after-tax income through a reduction of the combined income tax liability. Qualified individuals should assess the value of this strategy annually to optimize their financial well-being.

This article was written by Deborah Kraft and Jim Kraft and was published in Edition 282-2013 issue of COMMENT. Posted with permission from the Financial Advisors Association of Canada (Advocis) and The Institute for Advanced Financial Education.

<u>Preparing For the Unexpected</u>

We work hard for our money, here are four ways you can help protect yourself and your family from unexpected events that could affect your family's future.

Protect Yourself: Are you properly insured – What do your group benefits cover? Do you have critical illness coverage? Do you understand your disability insurance?

Make a Rainy Day Fund – Ensuring you have funds in place to cover emergency home or vehicle maintenance, to get you through a sudden job loss, or to help you cope with an illness to you or to a loved one.

Minimize Debt and Expenses – Paying off high-interest debt sooner than later, will help you be in a better position to handle any financial challenges with unexpected life events.

At your next review let's ensure you have a plan in place to be prepared for the unexpected; completing an insurance review, discussing options, such as a tax free savings account or high interest savings account for creating a rainy day fund, and understanding your cash flow, will help ensure we are doing everything now, to protect your future.

A very important topic of conversation that we are having with our clients who are nearing retirement, revolves around tax efficiency. Are you paying enough tax?

Ask us about this important issue when we next meet for a review.

HOLIDAYS & BUSINESS TRAVEL

David Out–of-office:

- January 30th – February 24, 2014

Juana Out-Of-Office:

- January 21st – January 30th, 2014

Office Closed:

- Monday, February 17th, 2014 – Louis Riel Day

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