

**Tax, Retirement & Estate Planning Services** **Tax Managed Strategy 14**

The pension income tax credit using an insurance company GIC

If you or your spouse¹ 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, income received from other registered plans as a result of the death of your spouse or an annuity as a result of the death of your spouse qualifies for the pension income tax credit. Income from other registered plans such as Registered Retirement Income Funds (RRIFs) and annuities purchased from a Registered Retirement Savings Plan (RRSP) or a Deferred Profit Sharing Plan (DPSP) 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 an annuity, including 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. The interest element of a non-registered annuity contract (prescribed & non-prescribed) is another exception for those age 65 or older.

¹ Includes a spouse or common-law partner as defined by the Income Tax Act (Canada).



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 (\$)
2	100,000
3	66,667
4	50,000
5	40,000
6	33,333

For illustration purposes only.

Income splitting where both spouses are age 65 or older*

If both you and your spouse 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.

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

Investment options from Manulife

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. 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.

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

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 Manulife segregated fund contracts, investors can help minimize their exposure to risk through income, death and maturity guarantees, potential creditor protection features, and estate planning benefits – all from a single product or insurance contract.

The Manulife Investments Guaranteed Interest Contract (GIC) offers competitive rates plus investment options that include Basic, Escalating Rate and Laddered GIC Accounts. Investors benefit from a guarantee on their principal investment and from several different investment options that can diversify and add flexibility to their portfolio. Manulife Investments GICs can be an ideal solution for conservative investors looking to help grow their wealth, but who are also concerned about minimizing risk.

**For more information
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