

Top 10 Year-End Tax Planning Strategies for Seniors

As we approach the end of 2011, it is the time to review your tax-saving opportunities before December 31. The following information may assist you in the review process. Please consult a qualified tax advisor or contact me before you implement any tax planning strategies mentioned in this newsletter.

Marginal Tax Rates

The federal tax brackets for 2014 are (for ordinary income and interest):

Up to \$11,138	0%	\$87,908 to \$136,270	26%
\$10,527 to \$43,953	15%	\$136,271 or more	29%
\$43,954 to \$87,907	22%		

Old Age Security (OAS) Repayment

In 2014, 15% of each dollar above \$71,592 will be “clawed back.” The full amount of OAS will be eliminated once the net income reaches \$116,002.

Guaranteed Income Supplement (GIS)

Low-income OAS pensioners may also qualify for the GIS. The benefit amount depends on the marital status and previous year’s income excluding OAS. For a single, the maximum benefit is about \$8,974 and is effectively clawed back at a rate of \$0.50 for every \$1 of income, to a maximum income of \$16,944.

Registered Retirement Savings Plans (RRSP)

The annual contribution limit for 2014 is \$24,270 or 18% of your 2013 earned income whichever is less. The deadline for making a contribution for 2014 is February 28, 2015. For the holder of the plan turned 71 in 2014, the contribution must be made by December 31, 2014.

Medical Expenses

Expenses in excess of the lesser of \$2,171 or 3% of your net income may be eligible for a non-refundable credit. The expenses must have been paid in any 12-month period ending in 2014. Procedures for purely cosmetic purposes are no longer eligible medical expenses.

Estate Planning

If you haven’t updated your will and life insurance during the year, it is the time to review the taxes your estate will be burdened with upon your death.

Create Pension Income

If you are over the age of 65, you are entitled to a tax credit for your first \$2,000 of pension income. If you are not receiving a pension, and do not intend to mature your RRSP, you should consider transferring \$2,000 from your RRSP to a RRIF and immediately withdraw it. The application of the tax credit makes the withdrawal effectively tax-free.

Convert RRSP to RRIF

You must convert your RRSP to a RRIF or purchase a registered annuity before December 31st. Before you make the conversion, consider making a final contribution.

Income Tax Installments

If you are required to make quarterly installment payments, your final remittance for the current year is due December 15, 2014. The government charges interest on late payments.

Loan to Spouse

A prescribed rate loan is an effective income-splitting strategy. The goal is to take advantage of a lower marginal tax rate by shifting investment income from the higher income earning spouse to the lower income earning spouse.