

To Split or Not to Split?

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Pension Income Splitting has arrived! According to the [Department of Finance website](#), pension income splitting works when:

"Both the individual receiving the eligible pension income and his or her spouse or common-law partner must agree to the allocation in their tax returns for the years in question. The pension income splitting allocation will be available for the 2007 and subsequent tax years and must be made one year at a time. An individual in receipt of eligible pension income will be permitted to allocate up to one-half of this pension income to their spouse or common-law partner."

Many pensioners may pay less in taxes as a result of these change as Canadians pay income taxes on an individual basis through a progressive tax system. By allowing a couple to split their pension income, thereby equalizing or minimizing differences in income, the couple may pay less in tax than they likely would on an individual basis.

The confusion here lies in the details; what is pension income? The Finance Department is relying on the same definition as it applies to the pension income tax credit. That is, income paid from a Registered Pension Plan (RPP) or if over the age of 65, income paid from a RIF (LIF/LRIF) or a Deferred Profit Sharing Plan (DPSP). Income paid from an RSP does not qualify for this incentive and income paid from a RIF only qualifies where the annuitant is 65 or over. An RPP income can be split at any age.

Some have debated for years that the definition of pension income needs to be revisited, as it seems to favor retired members of pension plans. After the introduction of pension income splitting, this debate is surely destined to gain momentum!

For more information about Pension Income Splitting, click [here](#) to be directed to the Department of Finance webpage.

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