Budget 2009: Modest tax-planning opportunities for retirees

Mark Noble / January 27, 2009

The 2009 budget doesn't offer much specifically for retirees. Nonetheless, the changes to tax brackets, increase on the senior age credit, and the home renovation tax credit are all advice opportunities to address with retired clients.

The most significant long-term change is the 7.5% increase in the lowest income tax brackets, which will be increased to $40,726 and $81,452 respectively. This will lower the marginal tax rate for a good number of Canadians.

While not specifically directed at retirees, it changes the retirement planning assumptions slightly, says James Kraemer, a CFP, CA and senior financial planner with TFI Financial Services in Winnipeg.

"Tax bracket management is a big part of tax planning," Kraemer says. "The increase in the tax brackets will allow them to withdraw more retirement income without kicking into the next bracket. They are going to be able to earn more income at a lower marginal tax rate."

In addition, the government introduced a $1,000 increase to the senior age credit exemption, making the total $6,408. The increase will provide $150 in tax savings for those clients who qualify. In combination with the tax-bracket changes, certain clients could save up to a maximum $316 on their federal income taxes this year, says Bruce Flexman, the chair of the Tax Policy Committee for Canadian Institute of Chartered Accountants.

"Most seniors making $40,000 will save about $166 dollars in federal taxes," he says. "If they qualify for the pension credit, they will get another $150, they will save about $316 dollars."

Unfortunately the senior age credit is means tested, so clients who make $80,000 will receive higher tax-bracket savings, but the pension credit would be rolled back.

"At that level of income they lose the pension credit. They aren't going to save more than $316," he says.

Frank Wiginton, a CFP and senior financial planner with TriDelta Financial in Toronto, says over time the savings could accumulate, particularly for married couples who participate in income splitting.

"What we do is control the tax rate by maximizing income splitting and making sure we keep the incomes from creeping into the next tax bracket," says Wiginton. "Depending on their income level, rather than providing a $70,000 combined income, we can now provide an $80,000 combined income and keep it in the same tax-bracket."

The tax bracket changes could also give individuals more flexibility to get money out of their RRSPs faster and at a lower tax rate, he notes.

"If I can pull out an extra $5,000 a year for every single retiree with increasing their overall average tax rate, that's significantly going to reduce the value of their RRSP at death, which can be taxed at higher marginal rate," Wiginton says. "In this case, we might as roll it in the TFSA if they don't need that money immediately."

Also important for registered investment plans is the one-time 25% reduction in the mandatory RRIF withdrawals, which was announced in November by the federal government. If they have already withdrawn more than the reduced 2008 minimum, clients will be permitted to re-contribute the 25% back into their RRIF, says Denis Berthiaume, senior vice-president of retail markets of Standard Life.

"Advisors can talk with clients about how to manage that one-time 25% exemption," he says. "There may be an opportunity to sit with clients and question how you want to utilize that 25%.You can talk about whether it's necessary for the client, or maybe how it will factor into their market [outlook]," he says.

In nominal terms, the biggest one-ticket rebate for retirees will be the home renovation tax credit. The 15% credit may be claimed on the portion of eligible expenditures exceeding $1,000, but not more than $10,000, for a maximum tax credit of $1,350.

Home renovations are not purely a younger client's purview. This could also become a powerful tax rebate for senior citizens looking to retro-fit their home or make structural adjustments that improve their mobility within their homes.

Peter Merrick, a CFP and president of MerrickWealth.com, says it's small discussions about some of these value-added topics that will go a long way with retired clients.

"The budget is always a great opportunity to sit down with your clients. Call them up and say, â€˜Let's sit down because yes you've lost money in the markets, but I've found some new ways in how you can save money on your taxes, ' " he says. "Advisors always have to be looking for these types of opportunities for advice and planning."

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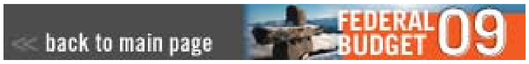

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