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When You Retire

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Please send your comments to:



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La version française de cette publication est intitulée
Vous prenez votre retraite?

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Introduction

This pamphlet gives tax information that may affect you after you retire. We discuss the more common types of income you might receive, as well as deductions and credits you can claim. We also explain how you can pay the income tax you owe by having tax withheld at source, or by paying your income taxes by instalments.

Note

Human Resources and Social Development Canada (HRSDC) provides detailed information for seniors on retirement issues. Follow the “Seniors” link on the www.hrsdc.gc.ca Web site.

What types of income will you have?

The following are the more common types of income you might receive after you retire.

Old Age Security pension

You will not automatically receive the Old Age Security (OAS) pension, the Guaranteed Income Supplement (GIS), or the Allowance. You have to apply for them to HRSDC.

To find out if you are eligible, contact HRSDC at **1-800-277-9914**, or visit their Web site at www.hrsdc.gc.ca. If you use a teletypewriter, call **1-800-255-4786**.

Each year, you will receive a T4A(OAS) slip that shows the OAS pension, GIS, and Allowance paid, plus any income tax that was deducted. The OAS pension is taxable and you have to include it in income on your income tax and benefit return. The GIS and Allowance must also be included in income, but since they are not taxable, you can claim a deduction for these amounts.

If your net income is more than a certain amount, you may have to repay all or a part of the OAS pension, GIS, or Allowance.

Canada Pension Plan or Quebec Pension Plan benefits

You will not automatically receive Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) benefits. You have to apply in writing to HRSDC, or your QPP office. You will receive a T4A(P) slip that will show you the CPP and QPP benefits to include in income on your tax return.

Retiring allowances (severance pay)

A retiring allowance is an amount you receive:

- on or after retiring from an office or employment in recognition of long service;
- for a loss of an office or employment; or
- for unused sick-leave credits.

A retiring allowance is **not** a pension or superannuation benefit, an amount paid because an employee dies, or a benefit received for certain counselling services that does not have to be included in your income.

Your T4A or T3 slip shows the total amount of your retiring allowance that you have to include in income on your tax return.

Transfers

On a T4A slip, box 26 shows the part of the retiring allowance that is **eligible** for transfer to a registered retirement savings plan (RRSP) or a registered pension plan (RPP). Box 27 of your T4A slip shows the part of the retiring allowance that is **not eligible** for transfer. Add the amounts in box 26 and box 27 of your T4A slip to calculate the total amount of retiring allowance you have to include in your income.

On a T3 slip, the total amount of the retiring allowance you have to include in your income is shown in box 26 of the slip. The part of a retiring allowance that qualifies for transfer to an RPP or RRSP is shown in box 47.

You can transfer the **eligible** part of your retiring allowance to your RRSP or RPP. When you complete your return, include the retiring allowance in your income, complete Schedule 7, *RRSP Unused Contributions, Transfers, and HBP or LLP Activities* from your tax package, and claim an RRSP deduction for the amount of the eligible retiring allowance you transferred to your RRSP.

For more information, read the chapter on transfers in Guide T4040, *RRSPs and Other Registered Plans for Retirement*.

Pension or superannuation income

You will get a T4A or T3 slip that will show the amount of benefits from a Canadian pension plan to include in your income on your tax return. The T4A slip also shows how much income tax was deducted.

Foreign pension income

If you receive pension benefits from a foreign country, you will need to include the gross amount of your foreign pension income in Canadian dollars. You can claim a deduction for the part of your foreign pension income that is non-taxable because of a tax treaty. If you do not know whether any part of your foreign pension is non-taxable in Canada, contact us.

If you had an individual retirement account (IRA) from the United States and either received amounts from it or converted it to a Roth IRA, contact us.

Note

Pension income you receive may qualify for the pension income amount. For more information, see line 314 in your tax guide.

Annuity payments

An annuity is a contract or agreement that provides you with a regular sum of money.

You may receive annuity payments from:

- general annuities;
- deferred profit-sharing plans (DPSPs);
- registered pension plans (RPPs);
- registered retirement income funds (RRIF); and
- registered retirement savings plans (RRSPs).

Note

Annuity payments you receive may qualify for the pension income amount.

For more information about annuity payments and the pension income amount, see lines 115, 129, 130, and 314 in your tax guide.

Registered retirement savings plan (RRSP) income

You will get a T4RSP slip that will show the amount of RRSP income to include on your tax return. It will also show how much income tax was deducted. The year you turn 69 is the last year you can make contributions to your RRSP. By the end of that year, you have to either cash in your RRSP (and pay income tax in that year on the money you receive), or use the money in the plan to buy:

- an annuity for life;
- an annuity spread over a number of years; or
- a registered retirement income fund (RRIF).

For more information about RRSPs, see Guide T4040, *RRSPs and Other Registered Plans for Retirement*.

Registered retirement income fund (RRIF) payments

This is a fund you establish with a carrier and that we register. You transfer property to the carrier from an RRSP, RPP, or from another RRIF, and the carrier makes payments to you. You have to be paid a minimum amount from your RRIF each year after the year you set it up.

You will receive a T4RIF slip showing the amount of RRIF payments you received. You have to include payments you receive from a RRIF on your tax return, even though the minimum amount you get each year does not need to have income tax withheld from it.

Investment income

You might receive interest from Canadian sources, as well as foreign interest and dividend income. The amount you include in your income depends on the type of investment.

Bank accounts – Include interest paid or credited to you in the year, even if you did not receive an information slip.

Term deposits, guaranteed investment certificates, and other similar investments – On these investments, interest builds up over a period of time, usually longer than one year. Generally, you do not receive the interest until the investment matures, or you cash it in. However, you have to report the interest you earned during each complete investment year.

Canada Savings Bonds – Interest on a regular interest (“R”) bond is paid annually until the bond matures, or you cash it in. Interest on a compound interest (“C”) bond is not paid until you cash it in. For information on what to report, see line 121 in your tax guide.

Treasury bills (T-bills) – If you disposed of a T-bill at maturity in the year, you have to include as interest the difference between the price you paid and the proceeds of disposition shown on your T5008 slip, or account statement.

If you disposed of a T-bill before maturity in the year, you may also have a capital gain or loss. For more information, see Guide T4037, *Capital Gains*.

Earnings on life insurance policies – Include the earnings that have accumulated on certain life insurance policies the same way you do for other investments. In all cases, your insurance company will send you a T5 slip. For policies bought before 1990, you can choose to include accumulated earnings annually by telling your insurer in writing that you want to do so. For more information on each type of investment income, see line 121 in your tax guide.

Capital gains and losses

A capital gain or loss occurs when you sell or dispose of property such as real estate or shares. If the total of your gains for the year is more than the total of your losses, you have to include a percentage of the difference in your income.

For more information, see Guide T4037, *Capital Gains*.

Retroactive lump-sum payments

You may have received a lump-sum payment of certain income, parts of which were for previous years after 1977. Although you have to include the whole payment on your return in the year you receive it, you can ask us to tax the parts for the previous years as if you received them in those years. We will do this for the parts that apply to years throughout which you were resident in Canada, if the total of those parts is \$3,000 or more (not including interest) and it is more to your advantage for tax purposes.

Eligible income includes:

- employment income and damages for loss of employment received by order or judgment of a competent tribunal, as an arbitration award, or under a lawsuit settlement agreement;
- periodic pension benefits (which do not include Canada Pension Plan or Quebec Pension Plan benefits or the final payment received when leaving a plan);
- wage-loss replacement plan benefits;
- support payments for a spouse, common-law partner, or child; and
- Employment Insurance or Unemployment Insurance benefits.

The payer will give you a completed Form T1198, *Statement of Qualifying Retroactive Lump-Sum Payment*. If you do not receive the form, ask the payer to give you one.

How will you pay income tax after you retire?

After you retire, you may receive income that has no tax withheld by the payer, or does not have enough tax withheld. As a result, you may have to pay a large amount of tax when you file your return.

How you pay the tax you owe will depend on the type of income you receive. For example, if your main source of income is from a pension, you can have enough tax withheld at source to pay the tax you owe. However, if you only receive investment, rental, or self-employment income, or certain pension payments, you may need to pay your income tax by instalments.

Having tax withheld from income

If you are an employee, you probably pay almost all the income tax you owe by having tax withheld from your pay through payroll deductions.

To ensure that income tax is withheld from pension income you will receive, give a completed Form TD1, *Personal Tax Credits Return*, to your employer or pension plan administrator.

To have income tax withheld from Old Age Security (OAS) and Canada Pension Plan (CPP) benefits, send a completed Form ISP3520, *Request for Income Tax Deductions*, to the Income Security Programs office of Human Resources and Social Development Canada (HRSDC).

You can get Form ISP3520 from the HRSDC Web site at www.hrsc.gc.ca or at your local HRSDC office. For the address of that office, see the HRSDC Web site or the listings in the government section of your telephone book. You can also ask to have tax deducted from your monthly OAS or CPP benefits by calling **1-800-277-9914**.

Paying tax by instalments

Instalments are periodic payments of income tax that individuals have to pay to the Canada Revenue Agency to cover tax they would otherwise have to pay on April 30 of the next year.

You have to pay your income tax by instalments for a year if your **net tax owing** is more than \$2,000 (\$1,200 for residents of Quebec) in that year, and in **either** of the two years previous to it. For more information, see Pamphlet P110, *Paying Your Income Tax by Instalments*.

Reducing and deferring tax

In your retirement years, you may have income from several sources, and you may be concerned about the amount of income tax you have to pay. The following are some ways you may be able to reduce and defer tax.

Carrying charges and interest expenses

You can claim the following carrying charges and interest you paid to earn income from investments:

- fees to manage or take care of your investments (other than administration fees you paid for your registered retirement savings plan or registered retirement income fund), including safety deposit box charges;
- fees for certain investment advice (see Interpretation Bulletin IT-238, *Fees Paid to Investment Counsel*) or for recording investment income;
- fees to have someone complete your return, but only if you have income from a business or property, accounting is a usual part of the operations of your business or property, and you did not use the amounts claimed to reduce the business or property income you reported (see Interpretation Bulletin IT-99, *Legal and Accounting Fees*); and
- most interest you pay on money you borrow, but generally only as long as you are using it to try to earn investment income, including interest and dividends. However, if the only earnings your investment can produce are capital gains, you cannot claim the interest you paid. For more information, contact us at 1-800-959-8281.

Registered retirement savings plan (RRSP)

An RRSP is a retirement savings plan that you establish and you (and your spouse or common-law partner) contribute to, and that we register. Any income you earn in the RRSP is generally exempt from tax until you receive payments from the plan.

If you had earned income for RRSP purposes in the previous year, or your current RRSP deduction limit statement shows that you have an amount available for an RRSP contribution, you can deduct up to that limit, either unused contributions or contributions that you make to your or your spouse or common-law partner's RRSP on your current-year return. However, neither you nor your spouse or common-law partner can contribute to your RRSP after the end of the year you turn 69.

Your **RRSP deduction limit** appears on your latest *Notice of Assessment, Notice of Reassessment*, or on Form T1028, *Your RRSP Information*. It shows how much you can deduct for RRSP contributions you make based on your earned income from the previous year.

When you file your tax return, you may also have to complete Schedule 7, *RRSP Unused Contributions, Transfers, and HBP or LLP Activities*, from your tax package.

For details, see line 208 in your tax guide.

Transferring income to an RRSP

You may be able to claim a deduction for eligible amounts, such as a retiring allowance you include in income, that you transfer to your RRSP. However, you **cannot** transfer CPP or QPP benefits, OAS benefits, or periodic superannuation, pension, or deferred profit-sharing plan benefits to an RRSP. For details, see Guide T4040, *RRSPs and Other Registered Plans for Retirement*.

Registered pension plan contributions between 1976 and 1985

A registered pension plan (RPP) is a pension plan that we have registered. It is a plan where funds are set aside by an employer or by an employer and employees to provide a pension to employees when they retire.

If you made RPP contributions from 1976 to 1985, only \$3,500 of those contributions could be deducted in any of those years. Therefore, you may still have contributions that can be deducted. For more information about registered pension plans, see Guide T4040, *RRSPs and Other Registered Plans for Retirement*.

Non-refundable tax credits

Non-refundable tax credits reduce the amount of income tax you owe. However, if the total of these credits is more than the amount you owe, you will not get a refund for the difference.

You can claim the same non-refundable tax credits that you could before your retirement, if they still apply. In addition, you may be able to claim the pension income amount if you included pension or annuity income on your return. If you were 65 or older at the end of the year, you may be able to claim a part or all of the age amount. You may also be able to transfer all or part of your age or pension amount to your spouse or common-law partner if you do not need it to reduce your tax payable to zero. For more information about non-refundable tax credits, see your tax package.

Other credits

Provincial or territorial credits

If you lived anywhere in Canada except in Quebec on December 31, you may be eligible to claim provincial or territorial credits on your return. If you lived in Quebec on December 31, you will have to complete a separate Quebec provincial return. For more information, see your income tax package.

Goods and services tax/harmonized sales tax (GST/HST) credit

You may be eligible for the GST/HST credit, which helps offset all or part of the GST/HST for families and individuals with low or modest incomes. To receive this credit, **you have to apply for it**, even if you received it last year. To apply, **you have to file a return**, even if you have no income to report. On page 1 of your tax return, tick the “Yes” box in the GST/HST credit application area and enter your marital status in the “Identification” area. If you have a spouse or common-law partner, only one of you can receive the credit for both of you. No matter which one of you applies, the credit will be the same.

Generally, eligible individuals who apply for the GST/HST credit may receive payments in July and October in the year they apply, and in January and April of the following year. We will send you a GST/HST credit notice (usually in July of the year you apply). It will show you how much you will receive, if any, and how we calculated the amount.

The Canada Revenue Agency (CRA) administers the following provincial programs that are related to the GST/HST credit:

- Newfoundland Harmonized Sales Tax Credit;
- Newfoundland and Labrador Seniors’ Benefit; and
- Saskatchewan Sales Tax Credit.

You do not need to apply separately for these payments. To get them, you (or your spouse or common-law partner) need to apply for the GST/HST credit on your (or your spouse or common-law partner's) return. For more information, read Pamphlet RC4210, *GST/HST Credit*. You can get the pamphlet by following the "GST/HST credit" link on our Web site at www.cra.gc.ca/benefits, or by calling 1-800-959-1953.

Are you leaving Canada?

If you are planning to spend part of the year in another country, such as the United States, either for health reasons or for a vacation, we will still consider you to be a resident of Canada for income tax purposes. If you earn income while you are there, you have to include it on your Canadian return. For more information, see Pamphlet P151, *Canadian Residents Going Down South*, or Pamphlet T4131, *Canadian Residents Abroad*.

If you are planning on leaving Canada to settle in another country, see Pamphlet T4056, *Emigrants and Income Tax*, for the rules that apply in the year you leave Canada.

Do you need more information?

Contact us if, you would like to get any forms or publications, or you need help. To get forms or publications, visit our Web site at www.cra.gc.ca/forms, or call 1-800-959-2221. For enquiries, visit our Web site at www.cra.gc.ca, or call us at 1-800-959-8281.

My Account – My Account is a secure online service that gives you the convenience and flexibility of viewing and managing your personalized information, such as:

- your identification;
- refund or balance owing;
- instalment account;
- Registered retirement savings plan (RRSP), Home Buyers' Plan (HBP), and Lifelong Learning Plan (LLP);
- direct deposit information; and
- GST/HST credit and related provincial and territorial programs.

My Account also offers you different services such as:

- filing an objection online;
- authorizing a representative;
- changing your address; and
- changing your return.

Register for My Account – To use the services under My Account, you have to register for a Government of Canada epass that will give you a User ID and password. We will mail you a CRA Security Code, which will take approximately five business days to receive. For more information, visit our Web site at www.cra.gc.ca/myaccount.

T.I.P.S. (Tax Information Phone Service) – For personal and general tax information, use our automated service **T.I.P.S. (1-800-267-6999)**.

Teletypewriter (TTY) users – If you have a hearing or speech impairment and use a TTY, an agent at our bilingual enquiry service (**1-800-665-0354**) can help you during regular and evening hours of service.

Community Volunteer Income Tax Program – If you need help to complete your tax return and your income is low and your tax situation is simple, our volunteers are specially trained to help you. For more information about this free program, or if you want to become a volunteer, visit our Web site at **www.cra.gc.ca/volunteer** or call us at **1-800-959-8281**.