



When planning for retirement, there are a number of strategies people consider to ensure their savings last their lifetime – timing of retirement, amending spending plans or increasing savings during their working years to name a few. But there is a further strategy that very few people pay attention to: achieving tax efficiency.

Given that April is tax season, this month's edition of the Monthly Compass is based on a study that was completed by the BMO Wealth Institute and the subsequent report titled "Mind Your Taxes in Retirement".

The study found that:

- Only 21% of respondents understood capital gains taxes
- Just 20% of respondents understood how eligible dividends are taxed
- While 65% understand the taxation of interest income

The key with tax-efficient retirement income planning is personalization. However, there are some common considerations that everyone shares. Those include:

1. Tax-Efficient Allocation of Assets

How you allocate your individual investments in different account types as well as the values of your RRSP, TFSA, and non-registered accounts, matters for both your tax bill today, and tomorrow.

2. Eligible dividend income – over age 65, it may not be the friend you think it is

The tax rate of eligible dividends is lower than income. However, if you are in or near the OAS claw back zone, eligible dividends may actually significantly increase your OAS claw back compared to other income sources.

3. Tax-Efficient Withdrawal from RRIF Assets – you may not want to defer to 71

Aging has its benefits. Delaying RRIF withdrawals may lead to higher RRIF income later, potentially causing you to lose out on the Age Tax Credit benefit as well as having more OAS clawed back.

4. Is it always better to minimize current year taxes?

The survey found that over 25% of retirees reported that post-retirement they are in the *same or higher* tax brackets than before they retired! As you near retirement, it is important to consider both your current tax situation well as future tax consequences of your current actions.

Monthly Compass: April 2015

"The hardest thing in the world to understand is the income tax" – Albert Einstein



Income tax may be hard to understand, but every successful retirement income plan must be tax efficient. After all, it's not what you make, it's what you keep. The biggest expense in most Canadians' lifetime is their tax bill. It can exceed the combined cost of your mortgage, children's education, travel and cars. Keeping your tax bill low and protecting your savings is a critical component in our RoadMap Process to help you Retire on Your Own Terms™.

To get started on your personal RoadMap, contact us today at: farwellwealthmanagement@scotiamcleod.com or (416) 863-7123.

