
# Planning for Retirement? Don’t Miss This Overlooked CRA Tax Break That Could Save You $300!

### Description

When it comes time to retire, you need all the tax savings you can get.



With CPP paying only $679 a month on average, and OAS maxing out at $613, you’re not likely to make enough on those benefits to cover your expenses. That’s doubly true if your benefit cheques are getting taxed. Under Canadian tax law, both CPP and OAS payments are taxable. That means that you could easily end up being taxed on pension income that you’ve been paying into your entire working life.

There are many ways to lower your taxable income, so you pay as little tax on pension income as possible. In this article, I’ll explore one little-known tax break that could save you up to $300 a year.

## Pension income amount

The pension income amount is a claim amount that can reduce your federal income tax. You can claim up to $2,000 in pension income and get a tax credit on that amount. The federal tax credit rate is 15%, so you can save up to $300 a year with the pension income amount.

This technically doesn’t reduce CPP and OAS taxes in themselves, since they aren’t covered by the claim amount, but it reduces your *total* tax burden if you have eligible RRSP or annuity income coming in.

## How to boost your tax savings even further

$300 a year is a nice sum to knock off your tax bill, but it's ultimately not that much. Fortunately, you can boost your tax savings even further by investing in a Tax-Free Savings Account (TFSA). TFSAs shelter your investments from dividend and capital gains taxes. Further, withdrawals from TFSAs aren't considered taxable income, so they can reduce your marginal tax rate and spare you having to repay CPP benefits.

Consider the case of a TFSA investor holding $50,000 worth of **Fortis** (TSX:FTS)(NYSE:FTS) shares in a TFSA. Fortis is a dividend stock with a yield of 3.3%. That means that the shares pay $1,650 a year in dividend income on every $50,000 invested. Held inside a TFSA, those dividends wouldn't be taxed. Not only that, but the dividends could be withdrawn *without* increasing taxable income, which would lower the investor's overall tax burden.

Now consider the case of an investor holding those same Fortis shares outside a TFSA. First, the $1,650 in dividends would be taxed — minus a tax credit — at the investor's marginal tax rate. Second, all the dividend income would send total taxable income higher, potentially resulting in CPP benefits having to be repaid. By investing in a TFSA, you can skip all of that.

The bottom line is that investing in a TFSA can significantly reduce your tax bill, which, when combined with the pension income amount, can result in you paying a lot less tax in retirement. When you're retired, every penny counts, so these tax considerations are important to keep in mind as you plan for your golden years.



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