



BABY BOOMERS: These 3 CRA Tax Breaks Can Save You Money When You Retire!

Description

Are you a baby boomer getting ready to retire?

If so, then taxes should be the number one thing on your mind. When you reach retirement age, you can take advantage of many tax breaks that most people don't know about. Some of these only require that you claim them on your tax return, while others will require that you take active steps to benefit from them. Either way, there are plenty of tax breaks up for grabs that can save you money in retirement. The following are three that you should know about.

Pension income splitting

Pension [income splitting](#) is when you elect to split your pension income with a spouse or common-law partner. If your spouse earns less than you, it can lower your taxable income. Basically, if one spouse has a higher marginal tax rate than the other, splitting pension benefits can lower the household's average tax rate. The reason is that splitting causes a lower percentage of benefits to be taxed at the higher marginal rate.

One great thing about pension income splitting is that RRSP income is eligible. If you're like most retirees, you may hold investments like the **BMO Mid-Term US IG Corporate Bond Index ETF (TSX:ZIC)** in an RRSP. All the income you earn from such an investment is tax-free *while still in your RRSP*. However, it becomes taxable on withdrawal. By splitting your pension income, you lower the amount of tax you pay on the withdrawals.

Pension amount

While we're on the subject of pension tax breaks, the pension amount is another great one you can take advantage of. It's a 15% tax credit on up to \$2,000 in pension income that can result in tax savings of \$300. That may not seem like much, but it can add up after a few years.

To return to the ZIC corporate bond fund for a minute: let's imagine you hold a \$100,000 position in it in your RRSP. At a yield of 3%, that will produce \$3,000 a year in income. If you're withdrawing that full amount from your RRSP every year, and that's the only pension income you're withdrawing, you can get a credit on 66% of it. The \$300 savings you'll get as a result could give you a nice refund after you file your taxes.

Age amount

A final tax break you can take in retirement is the [age amount](#). This has nothing to do with your pension: it's a simple tax credit you can claim on income less than \$87,750 if you're 65 or older. If you earned \$37,790 or less, you can claim \$7,494. Otherwise, the amount is calculated by subtracting \$37,790 from your net income and applying a 15% tax credit to the difference. To get the age amount, you need to claim it on line 30100 on your tax return.

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