STEPUP

Sales Tax Estate Planning Underwriting & Product Newsletter

Turning Interest Income into Pension Income

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Interest income, generated from Guaranteed Investment Certificates ("GICs"), is reported as "interest from Canadian sources" in Box 13 of a T5 slip and fully taxable on your personal income tax return.

Empire Life Guaranteed Interest Contracts, also referred to as GICs, sold under the Insurance umbrella, are subject to special rules under Section 12.2 of the Income *Tax Act Canada (ITA).* Amounts reported pursuant to Sec 12.2 qualify as "pension income" for taxpayers who are age 65 or older at the end of the year, making them eligible for the Federal Non-refundable Pension Tax Credit of 15% of qualifying pension income covering up to of $2,000 of income received. By claiming it, investors receive the first $2000 of eligible pension income on a tax-free basis if they are in the lowest tax bracket (since the tax credit is capped at 15%). If they are in a higher tax bracket, they will pay tax on the eligible pension income at a reduced rate.

Provincial tax credits may be available in addition to this.

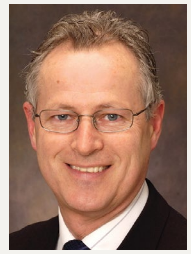
In Quebec, the pension income tax credit is available to individuals age 55+.

This can mean $100s of dollars in tax savings at the federal level plus provincial tax credits. If a married or common law couple are both age 65+, they can effectively double the amount of non registered savings in an insurance based GIC and each claim up to the maximum pension credit.

The pension credit can also be claimed by spouses under the age of 65 who are receiving insurance company GIC income because of the death of his or her spouse. It is claimed on line 31400, Pension income amount of the Worksheet for the individual's income tax return.

Insurers report this annual policy accrual income as "Accrued Income: Annuities" in Box 19 of the T5 slip. This is how interest income becomes "pension income" once an individual turns age 65.

Up to 1/2 of eligible pension income as described under s. 118(7) ITA (Canada)may be allocated to the taxpayer's spouse when the tax returns are filed according to s 60.03(a) ITA (Canada). Eligible pension income may be split with a spouse, thereby doubling use of the $2,000 pension credit. If the owner of the GIC is at least age 65 and has eligible income but is unable to use the full credit because taxes were reduced to zero, the unused portion can be transferred to his/her spouse or common



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Peter works with independent advisors and other professionals raising awareness on issues and concerns faced by affluent individuals, professionals and business owners. He supports efforts in researching and developing optimal solutions for clients aimed at improving their financial well-being and supporting their personal wishes and lifestyles. He has provided 1000s of workshops, seminars and technical support throughout the country on tax, retirement income and estate planning issues, concepts and strategies to both advisors and consumers. As an accredited Registered Financial Gerontologist, a good deal of his time is spent on building awareness and educating people of all professions who work with or specialize in the needs, expectations and issues of elders. Comprehensive lifestyle planning is an important element of these processes.

The Sales, Tax, Estate Planning, Underwriting & Product (STEPUP) team provides internal and broker support, including seminars, education, advanced concept illustrations & Client case technical consultations.

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Empire Life Investments

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law partner. The monies are not actually transferred; they are allocated to the spouse in order to reduce the taxable income of the owner/recipient of the eligible pension income. That spouse can claim the credit at any age. Note that taxpayers in Quebec under the age of 65 are no longer eligible to split pension income with a spouse for provincial income tax purposes. The transferor retains ownership rights to the pension income. The transferee is simply reporting the income on his or her income tax return. Please refer to the following chart that shows the amount of non registered GIC savings you would need to generate interest income that would maximize the pension credit.

Annual interest rate	Non-registered savings needed
2%	$100,000
3%	$66,667
4%	$50,000
5%	$40,000
6%	$33,333

Comparison of features for non-registered investments		
	Empire Life GICs	**Bank GICs**
Guaranteed Interest Income	✓	✓
Deposit Protection	✓	✓
Designating a Beneficiary	✓	
Bypass Probate (no delays or costs associated with probate, including legal, accounting fees)	✓	
Potential Creditor Protection	✓	
Potential Pension Tax Credit	✓	
Pension Splitting Opportunities	✓	
Laddered GIC Accounts	✓	?
Redeemable/ Cashable (may be subject to market value adjustment)	✓	Not always and may be penalties
Daily, simple or compound interest	✓	✓

Empire Life GICs offer an interest income generating alternative to bank GICs and Government of Canada Bonds as well as being more tax effective without increasing exposure to investment risks. The ideal candidates for this are individuals age 65+ who do not have other sources of eligible pension income, certainly not income that they are receiving at age 65. (They may be deferring eligible pension income or registered retirement savings income). They may wish to have some conservative investments where they can accumulate money while minimizing risk.

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