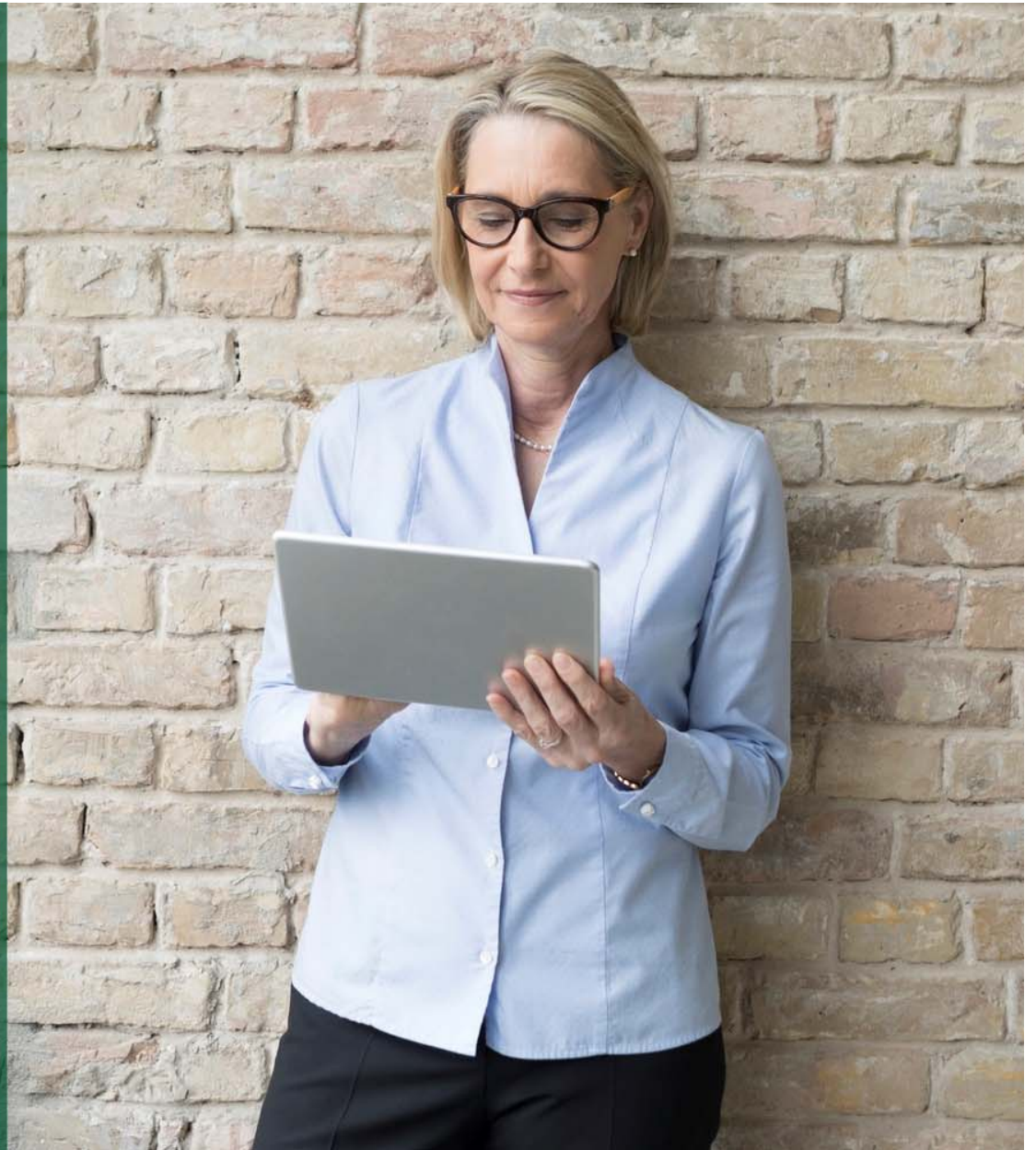


THE BOTTOM LINE ON RETIREMENT INCOME

John Natale, B.Comm. LL.B.

Head of Tax, Retirement & Estate
Planning Services, Wealth
Manulife



DID YOU KNOW ...

It's possible for investors to have too much income reported in retirement



HOW IS THAT POSSIBLE?



Line 234 on your tax return is the key



Source of income determines how much is included on line 234



Line 234 determines eligibility for many government benefits & credits



Total income			
Employment income (box 14 of all T4 slips)		101	
Commissions included on line 101 (box 42 of all T4 slips)	102		
Other employment income		104 +	
Old Age Security pension (box 18 of the T4A(OAS) slip)		113 +	
CPP or QPP benefits (box 20 of the T4A(P) slip)		114 +	
Disability benefits included on line 114 (box 16 of the T4A(P) slip)	152		
Other pensions or superannuation		115 +	
Elected split-pension amount (attach Form T1032)		116 +	

Taxable amount of dividends (eligible **and** other than eligible) from taxable Canadian corporations (**attach** Schedule 4) **120 +**

Canadian corporations (attach Schedule 4)		120 +	
Taxable amount of dividends other than eligible dividends			

Interest and other investment income (**attach** Schedule 4) **121 +**

Net partnership income: limited or non-active partners only (attach Schedule 4)		122 +	
Registered disability savings plan income		125 +	

Taxable capital gains (**attach** Schedule 3) **127 +**

Taxable capital gains (attach Schedule 3)		127 +	
Support payments received	Total 156		Taxable amount 128 +
RRSP income (from all T4RSP slips)			129 +
Other income	Specify:		130 +
Self-employment income			
Business income	Gross 162		Net 135 +
Professional income	Gross 164		Net 137 +
Commission income	Gross 166		Net 139 +
Farming income	Gross 168		Net 141 +
Fishing income	Gross 170		Net 143 +
Workers' compensation benefits (box 10 of the T5007 slip)	144		
Social assistance payments	145 +		
Net federal supplements (box 21 of the T4A(OAS) slip)	146 +		
Add lines 144, 145, and 146 (see Line 250 in the guide).	=		▶ 147 +
Add lines 101, 104 to 143, and 147.		This is your total income.	150 =

Net income

Enter your **total income** from line 150.

150

Pension adjustment

(box 52 of all T4 slips and box 034 of all T4A slips)

206

Registered pension plan deduction (box 20 of all T4 slips and box 032 of all T4A slips) 207

RRSP deduction (see Schedule 7, and **attach** receipts) 208 +

Deduction for elected split-pension amount (**attach** Form T1032) 210 +

Annual union, professional, or like dues (box 44 of all T4 slips, and receipts) 212 +

Universal Child Care Benefit repayment (box 12 of all RC62 slips) 213 +

Child care expenses (**attach** Form T778) 214 +

Disability supports deduction 215 +

Business investment loss Gross 228 Allowable deduction 217 +

Moving expenses 219 +

Support payments made Total 230 Allowable deduction 220 +

Carrying charges and interest expenses (**attach** Schedule 4) 221 +

Deduction for CPP or QPP contributions on self-employment and other earnings (**attach** Schedule 8) 222 +

Exploration and development expenses (**attach** Form T1229) 224 +

Other employment expenses 229 +

Clergy residence deduction 231 +

Other deductions Specify: 232 +

This is your net income before adjustments. 234 =

Social benefits repayment (if you reported income on line 113, 119, or 146, see Line 235 in the guide).

Use the federal worksheet to calculate your repayment.

235 -

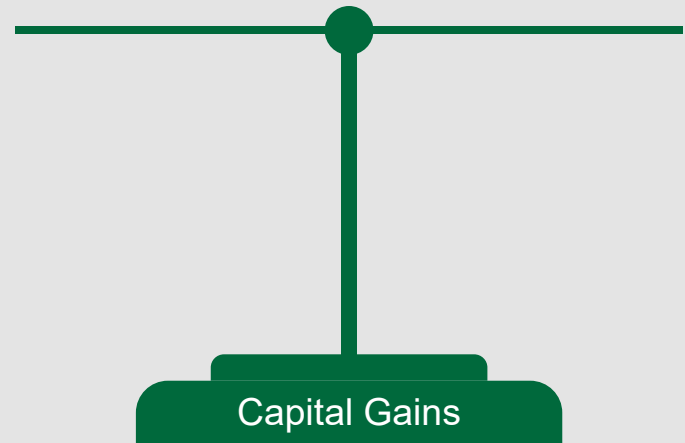
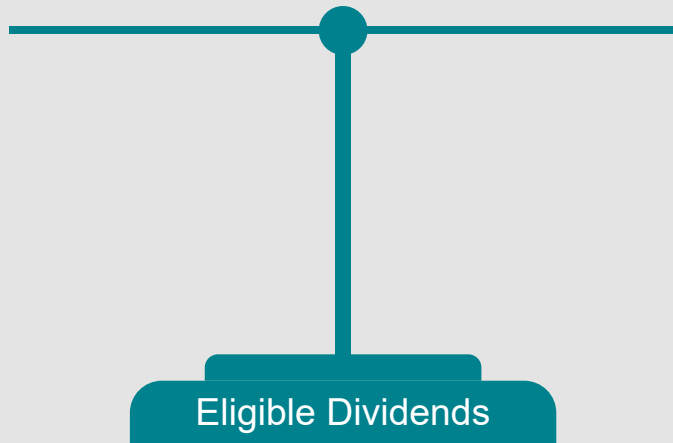
Line 234 minus line 235 (if negative, enter "0")

If you have a spouse or common-law partner, see Line 236 in the guide.

This is your **net income**.

236 =

WHAT YOU EARN AND WHAT YOU REPORT MAY NOT ALWAYS BE THE SAME



NOT ALL INCOME IS CREATED EQUALLY !

CONSIDER THE INCLUSION RATE

Gross income: \$10,000 source of income	Inclusion rate	Income reported
Eligible dividends ¹	138%	\$13,800
GIC/RRIF/Pension/Salary	100%	\$10,000
Capital gains	50%	\$5,000
Prescribed life annuity	≈ 15% ²	\$1,500
Mutual / Seg fund SWP ³	2.5% ⁴	\$250
Series T mutual fund	0% ⁵	\$0
TFSA	0%	\$0

For illustration purposes only. GIC refers to both Guaranteed Interest Contract and Guaranteed Investment Certificate

¹ Dividends paid by public corporations qualify as "eligible dividends". Non-eligible dividends may be paid by Canadian private corporations and are included at 115%. ² Taxable percentage approximated for a 65 year old female. ³ Systematic withdrawal plan (SWP). Certain assumptions apply. ⁴ Taxable percentage in year one, grows to 20% in year 10. ⁵ 5% rate of return assumed on an investment of \$200,000. Doesn't include year end distributions/allocations. ⁵ Income is considered a return of capital until ACB falls to zero then it is all capital gains. Does not take into account year end distributions

THE “BIG 3” INCOME TESTED BENEFITS

Old Age Security (OAS)

- \$7,217 annually for 2019
- 15 cents of every dollar is “clawed back” if reported income on line 234 is above \$77,580. At \$125,696 the full amount will be fully clawed back

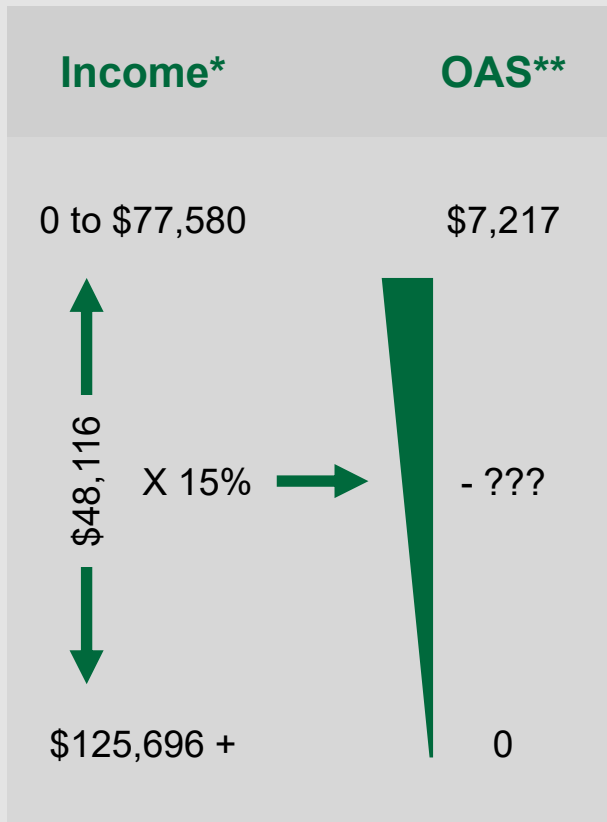
The Age Credit – Non-Refundable Tax Credit

- \$1,124 federal credit for 2019 (provincial credit amount varies by province)
- 15% of every dollar clawed back if reported income on Line 234 is above \$37,790 and fully clawed back at \$87,750

Guaranteed Income Supplement (GIS)

- Available to low income seniors who are receiving OAS and report less than \$18,240 in income (not including OAS pension)

OAS CLAWBACK



Eligible Dividends (138%)	Non Eligible Dividends (115%)	Interest/Pensions/RRSPs/RRIFs (100%)	CG (50%)	ROC/TFSA's (0%)
\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
Taxable Income***				
\$13,800	\$11,500	\$10,000	\$5,000	\$0
OAS Reduction				
\$2,070	\$1,725	\$1,500	\$750	\$0
Difference				
	\$345	\$225	\$750	\$750
% of Income				
	3.45%	2.25%	7.5%	7.5%

For illustration purposes only. *Income at line 234 of federal income tax return. This income includes OAS. **OAS value is an approximation. OAS is taxable. *** Non eligible dividends gross-up at 116% and eligible dividends gross-up at 138%.

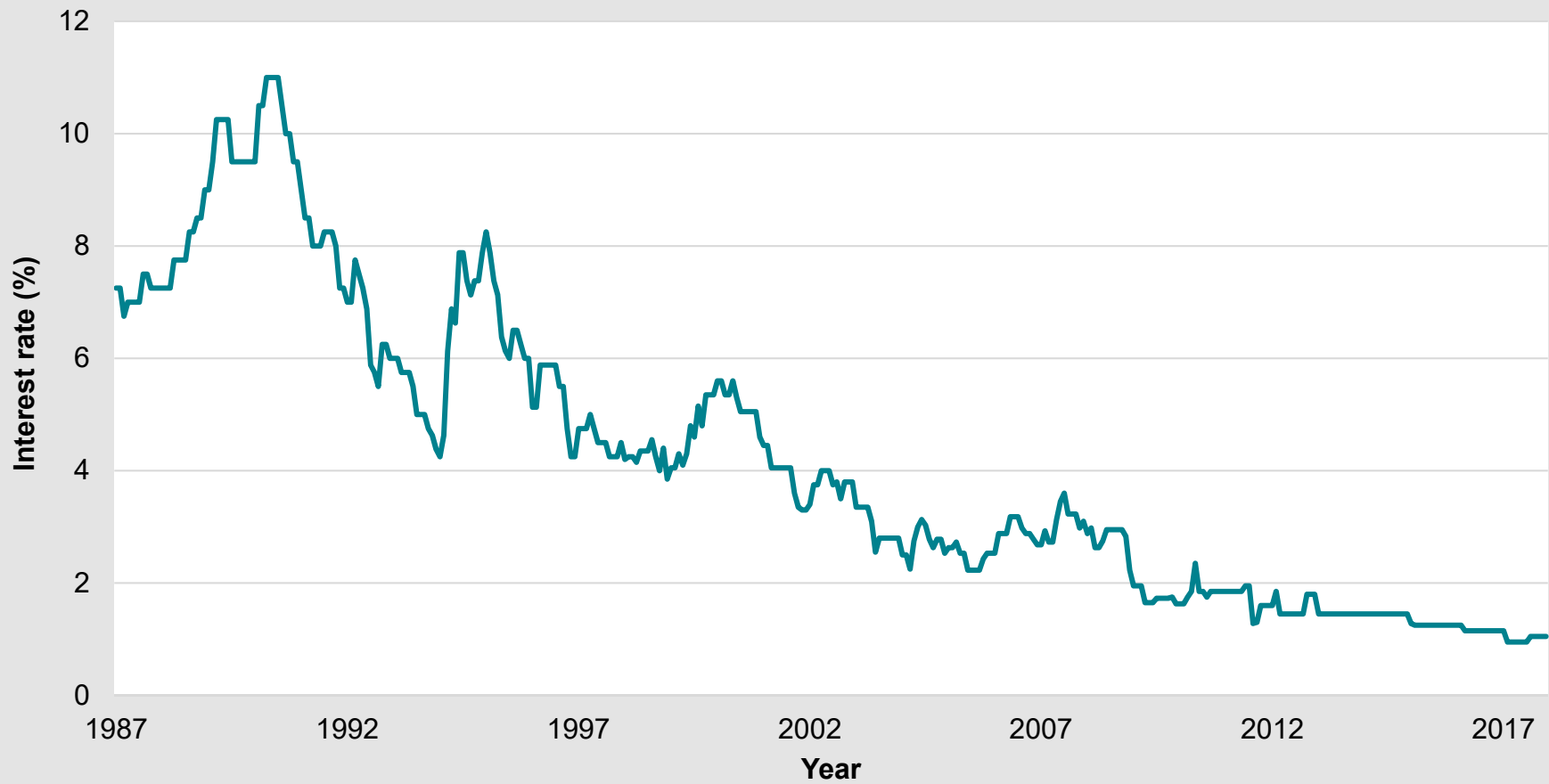


LET'S TAKE A CLOSER LOOK

Two tax efficient types of income:

- Mutual/segregated fund contract SWP
- Series T Mutual Fund

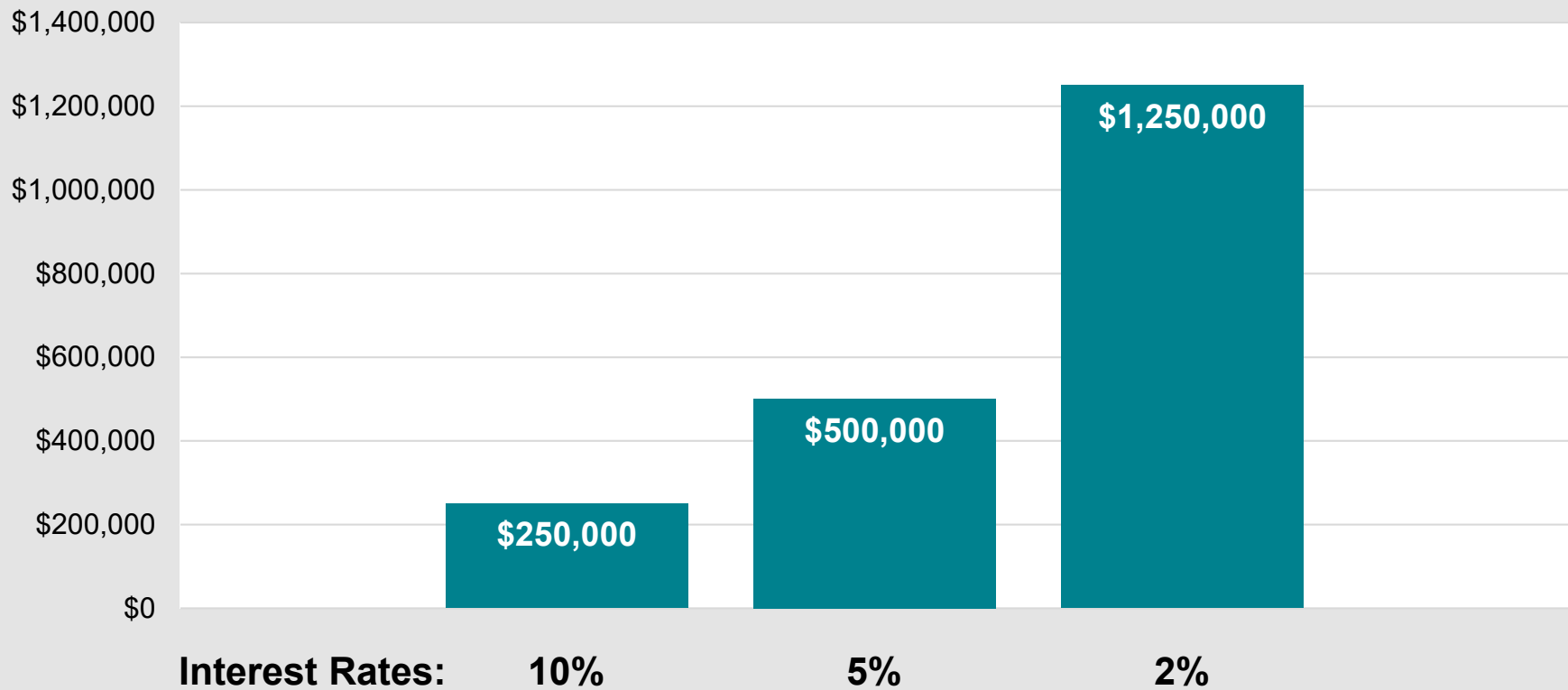
HISTORICAL 5-YEAR FIXED GIC RATES



Source: Bank of Canada Chartered Bank Administered Interest Rates – 5 Year Personal Fixed Term as at December 31, 2017. The chart displays monthly historical Canadian five-year GIC rates.

INITIAL INVESTMENT

How much initial investment would be needed to generate \$25,000 of annual interest income from a GIC?



TAXATION OF GIC/BOND

Interest taxed on a GIC¹ or Bond

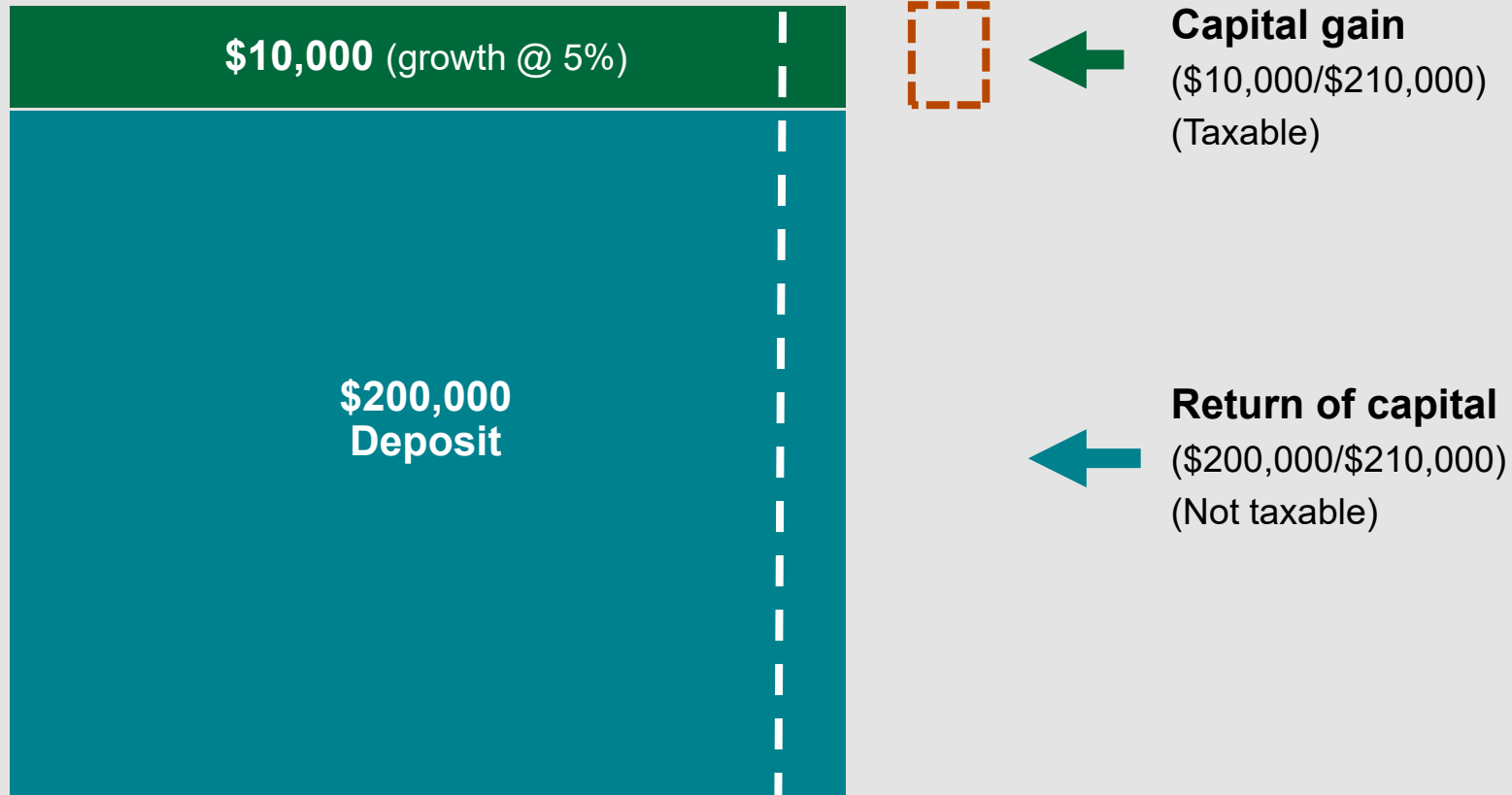


Interest income is **fully taxed** at your Marginal Tax Rate

For illustration purposes only. ¹ Refers to both Guaranteed Interest Contract and Guaranteed Investment Certificate

TAXATION OF SWPS

Capital gains taxed on withdrawal from investment funds



For illustration purposes only

SWPS IN AN UP MARKET

Investment (ACB)	\$200,000	
5% growth	\$10,000	
After year 1	\$210,000	
SWP	\$10,000	
Capital gain $(\$10,000/\$210,000)*\$10,000$	\$476	← 4.76%
Return of capital	\$9,524	← 95.24%

For illustration purposes only.

SWPS IN AN UP MARKET

Systematic Withdrawal Plan (SWP)	\$10,000
Capital gain	\$476
Taxable capital gain 50%	\$238
Tax payable 40%	\$95
Effective tax rate (\$95/\$10,000)	0.95%

For illustration purposes only

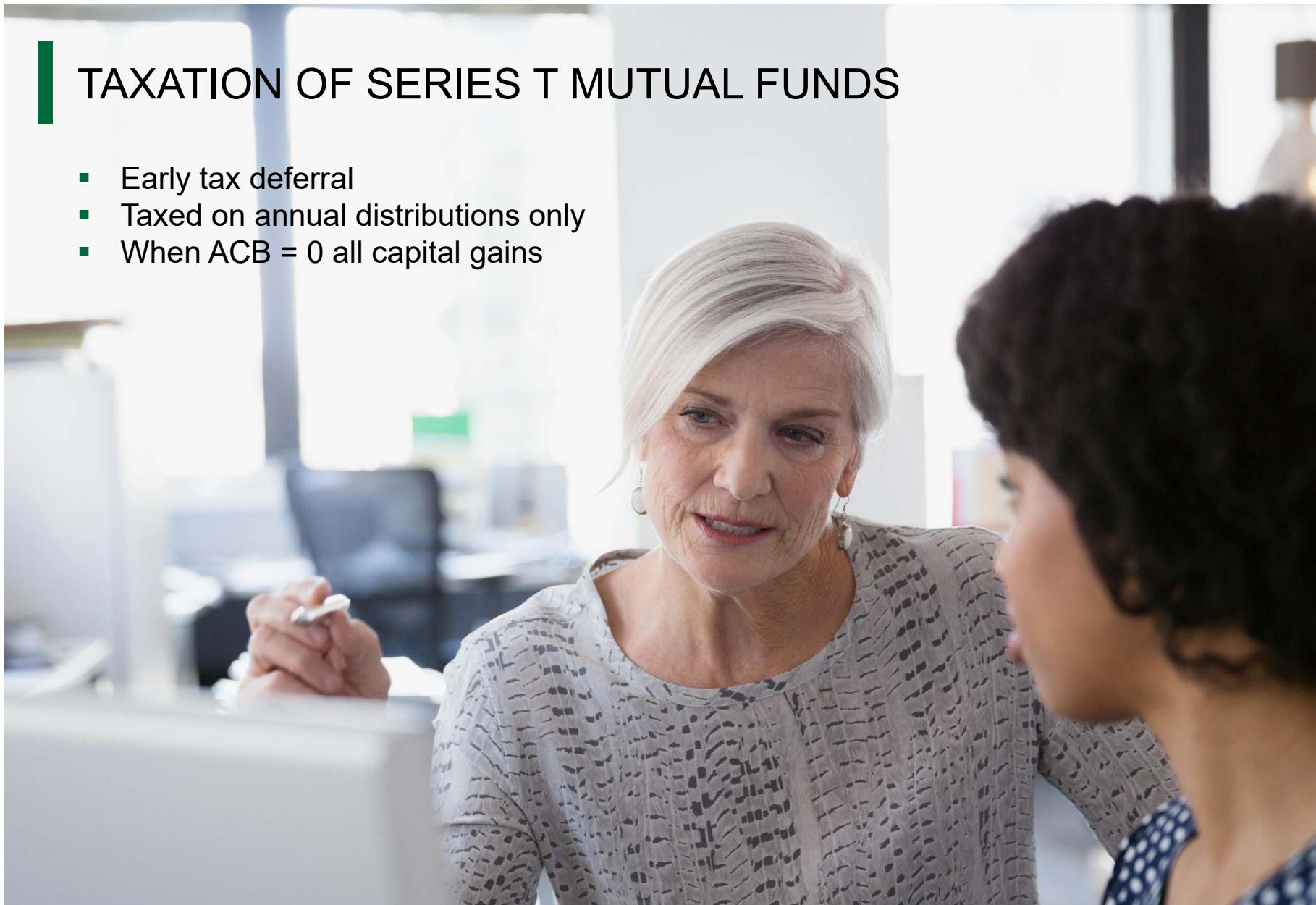
GIC EQUIVALENT WITH ALLOCATIONS

Year	Effective tax rate ¹ (%)	GIC equivalent (%)
1	5.95	7.84
3	7.35	7.72
5	8.62	7.61
10	11.30	7.39
25	16.33	6.97
40	18.76	6.77

¹ Assumes a \$200,000 deposit, 5% rate of return, \$10,000 annual withdrawal, marginal tax rate of 40%, taxable portion of fund return is 20%, tax rate on investment income is 25%. For illustration purposes only.

TAXATION OF SERIES T MUTUAL FUNDS

- Early tax deferral
- Taxed on annual distributions only
- When ACB = 0 all capital gains



A COMPARISON SWP & SERIES T

7% rate of return	Tax paid on income stream(\$)		Difference (\$)
	SWP (\$)	Series T (\$)	
1 year	436	400	36
10 years	953	430	523
18 years	1,274	458	816
20 years	1,341	1,632	(291)

For Illustration purposes only. Assumptions: \$100,000 deposit, 7% annual rate of return, 40% marginal tax rate. Income of \$500 per month, T Class ACB = O after 18.6 years.

TWO TAX EFFICIENT INCOME STREAMS

	Series T (\$)	SWP (\$)
Total cash flow after 18.6 years	119,812	119,812
Ending market value	116,164	116,164
Taxes paid on cash flow over 18.6 years	7,980	16,999
Taxes due on unrealized capital gain	23,205	14,186
Total taxes paid	31,185	31,185

For Illustration purposes only. Assumptions: \$100,000 deposit, 7% annual rate of return, 40% marginal tax rate. Income of \$500 per month, T Class ACB = O after 18.6 years.

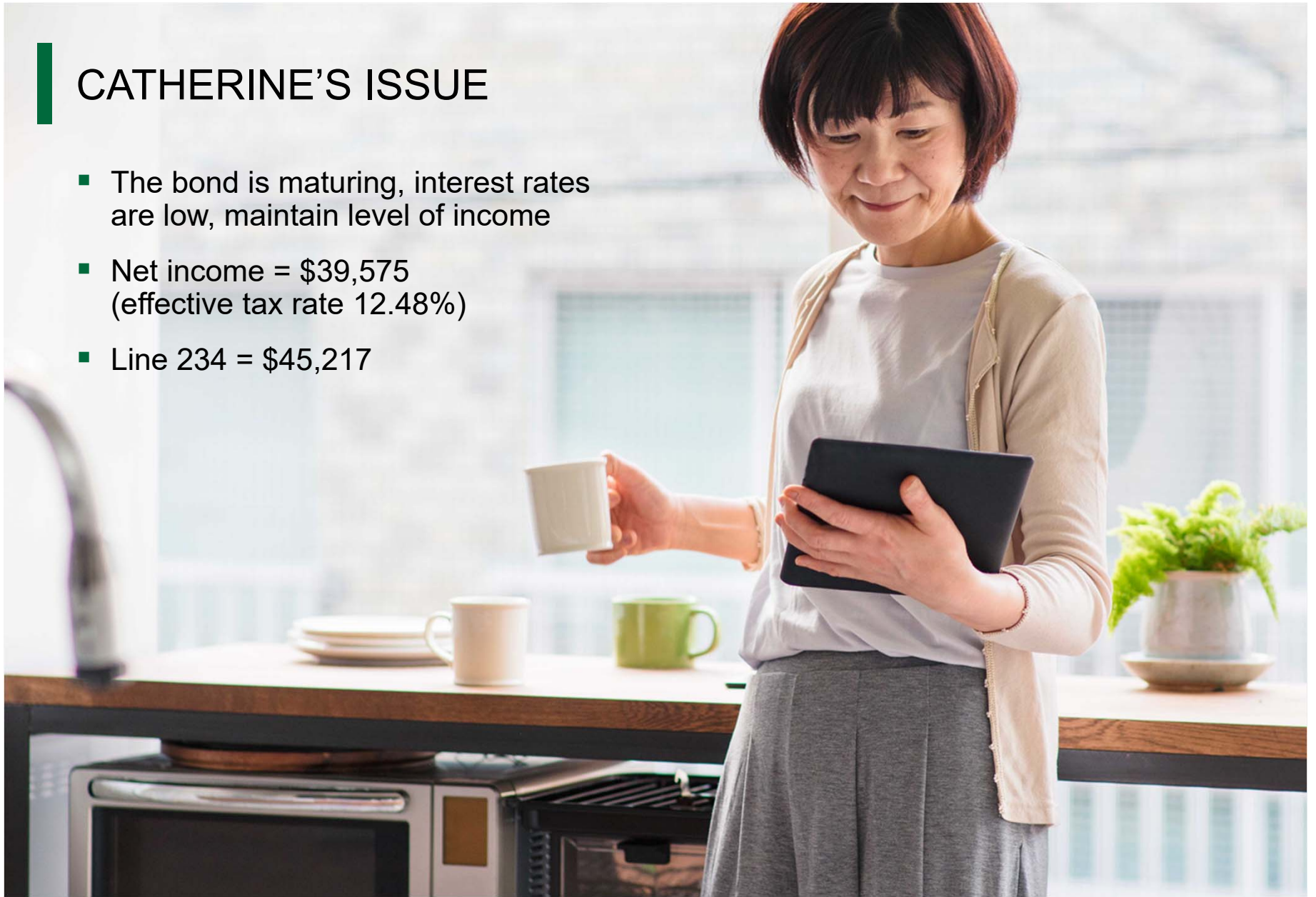
MEET CATHERINE

- Widow, age 70
- \$500,000 10 year bond, paying 6% (\$30,000 of income)
- \$7,217 OAS
- \$8,000 CPP combined retirement and survivor benefit



CATHERINE'S ISSUE

- The bond is maturing, interest rates are low, maintain level of income
- Net income = \$39,575 (effective tax rate 12.48%)
- Line 234 = \$45,217



WHAT CAN CATHERINE DO?



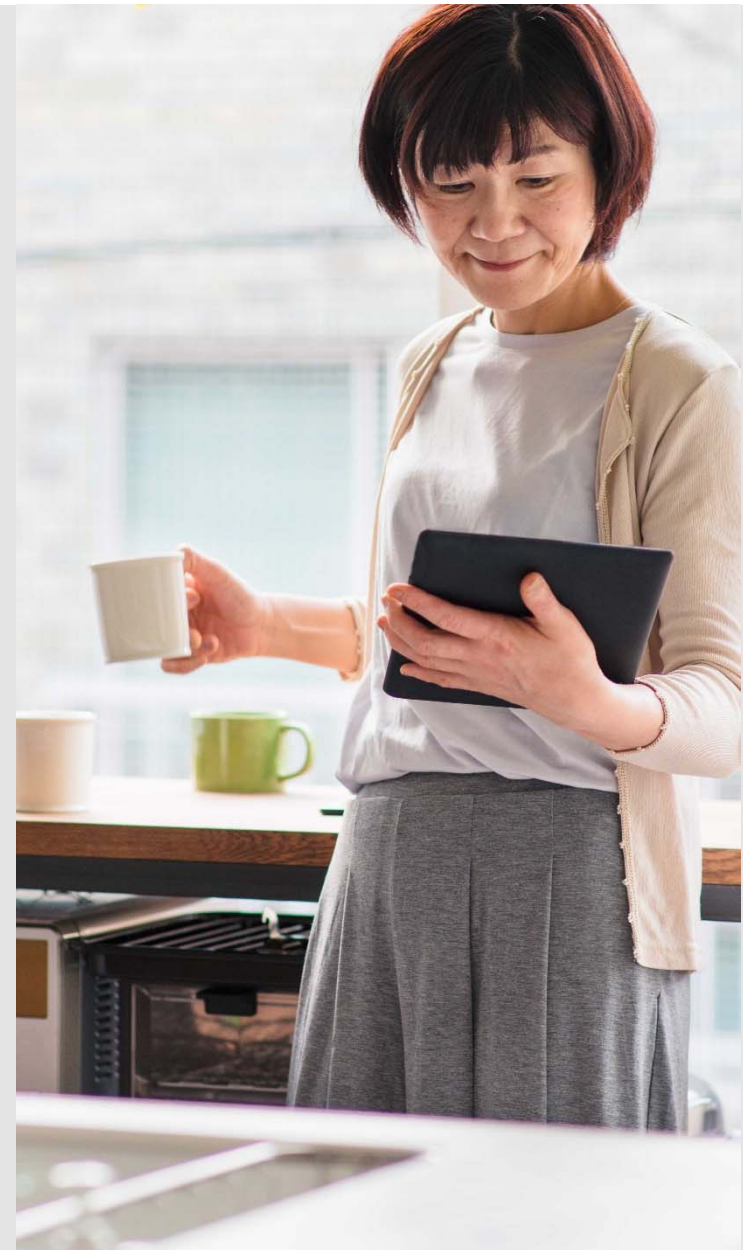
For non-registered investments

- Consider tax efficiency
- Maximize after tax income



Suggested product allocation

- 87.3% SWP
- 12.7% TFSA



DETAILED RESULTS – CATHERINE

	Investment Amount (\$)	Income (\$)	Inclusion Rate (%)	Line 234 (\$)
OAS		7,217	100	7,217
CPP		8,000	100	8,000
SWP of mutual / segregated fund ¹	436,500	21,825	5	1,091
TFSA	63,500	0	0	0
Total	500,000	37,042		16,308

Line 234 is **decreased** by **\$28,909**

For illustration purposes only. ¹ Assumes a 5% rate of return and a 5% withdrawal rate. The numbers reflect the first year results.

TAXES REDUCED – INCOME DECREASED

	Old Amount (\$)	New Amount (\$)	Difference (\$)
Gross Income	45,217	37,042	(8,175)
Taxes payable	5,642	0	5,642
Spendable Income	39,575	37,042	(2,533)

Spendable income **decreases by \$2,533**

For illustration purposes only

DETAILED TAXES & CREDITS

Benefit	Old Amount (\$)	New Amount (\$)	Difference (\$)
Tax Payable	6,864	976	5,889
Age Credit	1,222	1,470	248
Net Tax Payable	5,642	0	5,642

Spendable income **decreases by \$2,533**

For illustration purposes only

TAXES REDUCED – INCOME INCREASED

	Old Amount (\$)	New Amount (\$)	Difference (\$)
Gross Income	45,217	37,042	(8,175)
Taxes payable	5,642	0	5,642
Spendable income	39,575	37,042	(2,533)
PLUS GIS*	0	4,574	4,574

Income for GIS = \$16,308 - \$7,217(OAS) = \$9,091
Increase in spendable income = \$2,041

For illustration purposes only. * Guaranteed Income Supplement


Help one restructure their portfolio

- Determine suggested product allocation
- Use Clawback Calculator to demonstrate tax savings
- Illustrates how re-structuring an investment portfolio can affect income taxes – and some income-tested programs

Clawback calculator details

- Does not take into account all tax rules
 - Won't replicate tax software
- Only more common tax credits included
 - Age, pension income, medical, charitable & basic personal
- Calculates "Spensible Income"
 - Income (net of deductions) less taxes and clawbacks plus tax credits

Personal details

Clawback Calculator

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This calculator illustrates how restructuring an investment portfolio can affect income-tested tax credits and government benefits. For those over 65 concerned with income-tested benefits, these calculations can be critical to maximizing their after tax income (including any reductions due to the OAS Clawback) or as they see it, their "spendable income".

Only enter positive numbers. Enter total annual amounts. Calculations result in annual totals.

Help Features:

- Most fields have "quick tips" to explain what information should be entered. To access these short clarifications, hold your cursor over the field name.
- More detailed explanations are available in the User Guide. To access the User Guide click on the icon in the top left of each screen.

Date of birth:

Province of Residence:

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Income



Clawback Calculator

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FULLY TAXABLE INCOME

(including employment and government benefits)

Employment income	<input type="text" value="\$0"/>
Registered retirement income	<input type="text" value="\$0"/>
Pension	<input type="text" value="\$0"/>
Canada Pension Plan (CPP/QPP)	<input type="text" value="\$8,000"/>
Old Age Security (OAS)	<input type="text" value="\$7,217"/>
Pension income transferred from spouse	<input type="text" value="\$0"/>
Self-employment and other income	<input type="text" value="\$0"/>

Total fully taxable income **\$15,217**

INVESTMENT INCOME

	Actual	Taxable
Interest income	<input type="text" value="\$30,000"/>	\$30,000
Eligible Canadian dividends	<input type="text" value="\$0"/>	\$0
Net capital gains	<input type="text" value="\$0"/>	\$0
Systematic withdrawals from investment funds	<input type="text" value="\$0"/>	\$0
Non-registered annuity income	<input type="text" value="\$0"/>	\$0

Total investment income **\$30,000** **\$30,000**

Total Income: \$45,217

Total taxable income: \$45,217

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Deductions & expenditures

The image shows a screenshot of the Manulife Clawback Calculator. The interface is divided into two main sections: 'DEDUCTIONS FROM INCOME' and 'EXPENDITURES THAT GENERATE TAX CREDITS'. Each section has several input fields, all of which are currently set to '\$0'. Below these sections, a summary bar shows 'Income net of deductions: \$45,217' and 'Total taxable income: \$45,217'. Navigation buttons for 'BACK' and 'NEXT' are visible at the bottom right. The Manulife logo and tagline are at the bottom left, and copyright and legal information are at the bottom center and right.

Category	Item	Value
DEDUCTIONS FROM INCOME	Registered Retirement Savings Plan (RRSP) deductions	\$0
	Pension income transferred to spouse	\$0
	Interest and carrying charges	\$0
	Other deductions	\$0
Total deductions		\$0
EXPENDITURES THAT GENERATE TAX CREDITS	Medical expenses	\$0
	Charitable donations	\$0
Total credits		\$0

Income net of deductions: \$45,217 Total taxable income: \$45,217

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Current spendable income

The screenshot displays the Manulife Clawback Calculator interface. At the top left is the Manulife logo. The title 'Clawback Calculator' is positioned at the top right. Below the title are three navigation links: 'USER GUIDE', 'ASSUMPTIONS', and 'REPORT', with 'DISCLAIMER' also present. The main content area is divided into two sections. On the left is a table titled 'CURRENT SPENDABLE INCOME' which details the calculation of spendable income from net income, subtracting tax payable and adding various credits. On the right is a summary text stating the final spendable income amount and a note about potential increases through restructuring. At the bottom right of the calculator interface are 'BACK' and 'NEXT' buttons. The footer contains the Manulife slogan 'strong reliable trustworthy forward-thinking', the copyright notice '© 2017 Manulife Investments, All Rights Reserved', and links for 'Legal | Privacy | Disclaimer'.

CURRENT SPENDABLE INCOME	
Income net of deductions	\$45,217
Less tax payable	(5,642)
Spendable income	39,575
Tax payable	
Income tax	(\$6,864)
OAS clawback	0
Credits	
Age credit	1,222
Charitable donation credit	0
Dividend tax credit	0
Employment credit	0
Medical expense credit	0
Pension income credit	0
	(5,642)
Current tax rates	
Effective tax rate	12.48%
Marginal tax rate	24.15%

Your spendable income is **\$39,575**

You may be able to increase your spendable income by restructuring your investment income.

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Restructuring your income



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RESTRUCTURING YOUR INVESTMENT INCOME

	Current income		Restructured income	
You told us you had income from:	Actual	Taxable	Actual	Taxable
Interest income	\$30,000	\$30,000	<input type="text" value="\$0"/>	\$0
Eligible Canadian dividends	\$0	\$0	<input type="text" value="\$0"/>	\$0
Net capital gains	\$0	\$0	<input type="text" value="\$0"/>	\$0
Systematic withdrawals from investment funds	\$0	\$0	<input type="text" value="\$21,825"/>	\$1,091
Non-registered annuity income	\$0	\$0	<input type="text" value="\$0"/>	\$0
Total investment income	\$30,000	\$30,000	\$21,825	\$1,091

By restructuring your investment income, you have decreased your taxable income by **\$28,909**

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New spendable income

Manulife Clawback Calculator

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SUMMARY OF CHANGES			
	Before	After	Change
Income net of deductions	\$45,217	\$37,042	(\$8,175)
Tax payable	(5,642)	0	5,642
Spendable income	39,575	37,042	(2,533)
Tax payable			
Income tax	(\$6,864)	(\$976)	\$5,889
OAS clawback	0	0	0
Credits			
Age credit	1,222	1,470	248
Charitable donation credit	0	0	0
Dividend tax credit	0	0	0
Employment credit	0	0	0
Medical expense credit	0	0	0
Pension income credit	0	0	0
	<u>(5,642)</u>	<u>0</u>	<u>5,642</u>
Tax rates			
Effective tax rates	12.48%	N/A	(12.48%)
Marginal tax rates	24.15%	20.05%	(4.10%)

graph view 

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Easy to view summaries

Manulife Clawback Calculator

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SUMMARY OF CHANGES table view

By restructuring your investment income you have decreased your spendable income by **-\$2,533**

Current income: **\$39,575** Restructured income: **\$37,042**

Current		Restructured
\$4,097	Federal tax	\$0
\$1,545	Provincial tax	\$0
\$39,575	Spendable income	\$37,042

Tax rates		
12.48%	Effective tax rate	N/A
24.15%	Marginal tax rate	20.05%

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