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CANADA

FREE GUIDE · RETIREMENT INCOME, PLAINLY

The Retiree's Tax Playbook

Retiring does not lower your tax bill by itself — the order in which you open your income taps does.

Five taps, one drain. A pension, Canada Pension Plan, old age security, your registered savings and your tax-free account all pour into the same return, and the return does not care which one you meant to be careful with. Open them in the wrong order and you can pay tax you never owed, or hand back old age security you were counting on. Open them deliberately and the same savings stretch years further.

The five taps — and how each one is treated

1	**Canada Pension Plan.** Taxable from the first payment, and nothing is held back unless you ask for it. Retirees who start both government pensions with no tax withheld are the ones who meet an unexpected balance at filing time. You can request deductions at source instead.
2	**Old age security.** Also taxable, and the only tap with a valve fitted: above an income line, part of it is recovered through a separate tax. Almost everything else in this playbook is really about staying on the comfortable side of that line, which moves every year — look up the current one at canada.ca.
3	**A workplace pension or annuity.** Taxed like a paycheque, with tax withheld before the money reaches you. It is also the most useful income you own, because eligible pension income can be reported partly on a spouse's return.
4	**Registered savings, once converted.** Every dollar that comes out is ordinary income, taxed like salary. After conversion a minimum has to come out each year whether you need it or not, and that minimum grows as you age. This is the tap with the most planning value, because you choose when to start.
5	**Your tax-free savings account.** Nothing from it lands on your return. Not as income, not in the old age security test, not in the arithmetic behind income-tested credits. It is the shock absorber that lets you pay for a new roof without moving a tax bracket.

Pension amounts, tax rates and the old age security recovery threshold are reset every year, so this playbook explains the mechanisms and leaves the numbers where they belong. Confirm today's figures at canada.ca, model your own case with the marginal tax rate calculator at taxfilings.ca/tools, or ask a tax professional before you move money.

01 Taxed at source, taxed later, or never taxed

Tax usually comes off first

Workplace pensions, annuity payments, and anything you take out of a registered income fund above the required minimum. Withholding is not the final bill — it is a deposit against it — but it keeps you from spending money that was never yours.

Nothing comes off at all

Canada Pension Plan, old age security, the required minimum itself, and every dollar of interest, dividends and capital gains outside a registered plan. Four sources that feel like clean money and are not. This is where April surprises are made.

THE INSTALMENT TRIGGER

Owe more than $3,000 when you file, in the current year and in either of the two before it, and the CRA begins sending quarterly instalment reminders in February, April, September and November. A lower line applies to Quebec residents, so confirm current thresholds at canada.ca. You have two clean exits: ask for tax to be withheld from your government pensions, or simply pay the reminders. Ignoring them buys nothing except interest.

02 Old age security is the tap with a valve

How the recovery actually works

Once your net income for the year passes a threshold, you repay part of your old age security through a recovery tax, and above a much higher income it disappears entirely. It is not a cliff you fall off; it is a slope you walk up. Worse, the repayment is collected the following July through June by reducing your monthly cheques, so a single big income year quietly shrinks the next year's income too.

What pushes people over the line without warning

A severance or retiring allowance in the first year. Selling a cottage or a rental. A large withdrawal from registered savings to help an adult child. Two pensions plus investment income arriving in the same twelve months when either alone would have been fine. None of these look like tax decisions at the time, which is exactly the problem.

THE ONE-BIG-YEAR MISTAKE

Stacking a lifetime of gains into a single calendar year is the most expensive habit in retirement. Selling a property in December instead of splitting a withdrawal across two Januaries, or emptying an account in one go to be tidy, can cost you a slice of old age security and push your top dollars into a higher bracket for nothing. Before any transaction over the size of a car, check what it does to your total income for the year.

03 The two start dates you actually choose

- [ ] Start Canada Pension Plan later and every monthly payment is permanently larger; start it early and it is permanently smaller. The choice is for life, not for this year
- [ ] Old age security can be deferred too, which lifts the monthly amount and can carry you past a high-income year without the recovery tax touching it
- [ ] The real question is not break-even but risk: a larger indexed cheque for life is insurance against living a long time, which is the expensive outcome
- [ ] Working while collecting keeps adding contributions and a small top-up to your pension, so a phased retirement is not wasted effort
- [ ] Spouses can share Canada Pension Plan once both are eligible — a different mechanism from pension splitting, and worth asking about where one pension is much larger
- [ ] Deferring both while you draw down registered savings is the quiet strategy: you spend the taxable pot early, at low rates, and buy bigger government cheques for later

04 The hinge at seventy-one

Conversion is a deadline, not a choice

Your registered retirement savings plan has to stop being a savings plan by the end of the year you turn 71. You convert it to a registered retirement income fund, buy an annuity, or take the cash — and cash is nearly always the worst of the three, because the whole balance lands on one return at one time. Rules and ages do get amended, so confirm the current requirement at canada.ca while you still have room to plan.

How the yearly minimum is set

Each January a percentage is applied to what is in the fund on the first day of the year, and that percentage climbs with your age. You may always take more than the minimum; you may never take less. Nothing is withheld on the minimum itself, which is why so many new retirees are surprised the first spring after conversion.

The younger-spouse election

You are allowed to base the minimum on a younger spouse's age instead of your own, which keeps the forced withdrawal smaller for as long as it applies. It has to be chosen when the fund is set up, so it belongs on the list of questions you ask before signing, not after.

> DRAW EARLY, ON PURPOSE
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> Waiting until the deadline can mean a decade of small tax bills followed by two decades of large ones, because the minimums arrive on top of both government pensions. Taking modest amounts in your sixties, while your other income is still low, often costs less across a lifetime than the withdrawals you would otherwise be forced into later. Run both paths through the marginal tax rate calculator at taxfilings.ca/tools before you decide which decade pays.

05 Two returns, two sets of low brackets

Move up to half a pension

Up to half of eligible pension income can be reported on your spouse's or partner's return instead of yours. What qualifies is narrower before 65 and wider after. No money moves in real life: you both sign a joint election with your returns, and you can choose a different share every year.

Then order the taps

Spend money that has already been taxed first, take just enough from registered savings each year to fill your lower bracket, and keep the tax-free account for lumpy costs and late life. The aim is a flat taxable income for twenty years instead of a low decade and a high one.

> WHAT THE ORDER IS WORTH
>
> Splitting cuts tax by the gap between two people's rates, and it can also pull the higher earner back under the recovery line while handing the other spouse a pension credit they could not otherwise claim. Do it while you both still file: the year one spouse dies, the survivor's income lands in one column at one rate, and couples who see that coming even out their registered accounts long before it matters. There is a longer walk-through on taxfilings.ca/blog, and the tax planning service at taxfilings.ca builds the schedule year by year.

- [ ] The pension income amount: a credit that rides along with eligible pension income — and splitting can create one for a spouse who has none
- [ ] The age amount: available from 65, shrinking as income rises, transferable to a spouse if you cannot use it all
- [ ] Medical expenses: retirement is when the family basket gets heavy — premiums, dental, hearing aids, mobility aids, travel for treatment
- [ ] The disability tax credit: approval turns on restriction in daily living, not on a diagnosis, and it can reach back over past years
- [ ] Attendant and nursing home care: part of the fees counts as a medical expense, and the residence issues a letter each year telling you which part
- [ ] Home accessibility work: grab bars, ramps, a walk-in shower — safety renovations can carry a credit
- [ ] Amounts transferred from a spouse: unused age, pension and disability amounts do not have to go to waste
- [ ] Instalment interest you never needed to pay: switching to withholding at source usually ends it with one form

06 The retirement income self-check

One point for each YES.

1. I know which of my income sources arrive with tax already deducted.	YES / NO
2. My spouse and I test pension splitting every year, not once and for all.	YES / NO
3. I know the year my registered savings plan must be converted.	YES / NO
4. I know roughly where this year's old age security recovery line sits.	YES / NO
5. I have taken money out of registered savings in a low-income year on purpose.	YES / NO
6. Large one-off costs come from my tax-free account, not my income fund.	YES / NO
7. No instalment reminder or April balance has caught me out.	YES / NO

6–7 · Green
Your taps are already sequenced. Review once a year and after any big sale.

3–5 · Yellow
The pieces are there but nothing is scheduled. Start with splitting and withholding.

0–2 · Red
Your tax bill is being set by accident. One planning session usually pays for itself twice.

07 Your four-week plan

Week 1
List every income source on one page and mark which ones arrive with tax withheld.

Week 2
Find the top of your lowest comfortable bracket with the marginal rate calculator at taxfilings.ca/tools.

Week 3
Test a pension split at three different shares with your spouse, not just the maximum.

Week 4
Write a five-year withdrawal order, request withholding where it is missing, and diarize the conversion year.

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