



Divide and prosper

Reduce your taxes by splitting your retirement income

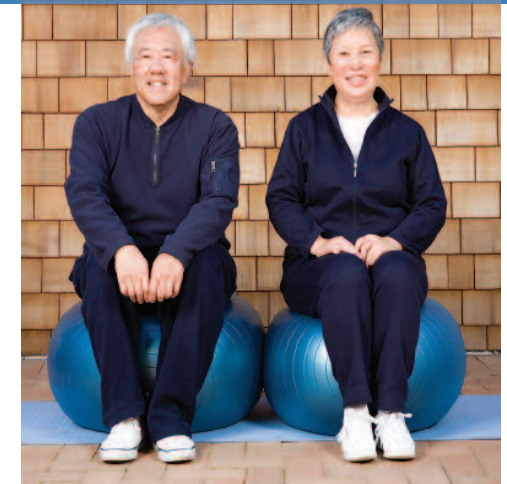
March 31, 2008



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Are you retired? Or about to retire? Pension income splitting – an initiative first announced in the Government of Canada’s tax fairness plan in October 2006 – has been formally ratified. So this tax season marks the first year that Canadians can split pension income under the new rules. By taking advantage of this new tax-saving strategy, you and your partner or spouse may be able to keep hundreds or even thousands of dollars in your pocket each year. How much you save will depend on the differences in your incomes and the types of pension income you receive.



What is pension income splitting?

In Canada, the last dollar you earn is often taxed at a higher rate than the first dollar you earn. That means that one person with an income of \$80,000 generally pays more tax than two people who each have an income of \$40,000. If one spouse earns more than the other, pension income splitting allows a couple to reduce the amount of tax they pay if the higher-earning spouse attributes some income to his or her spouse.

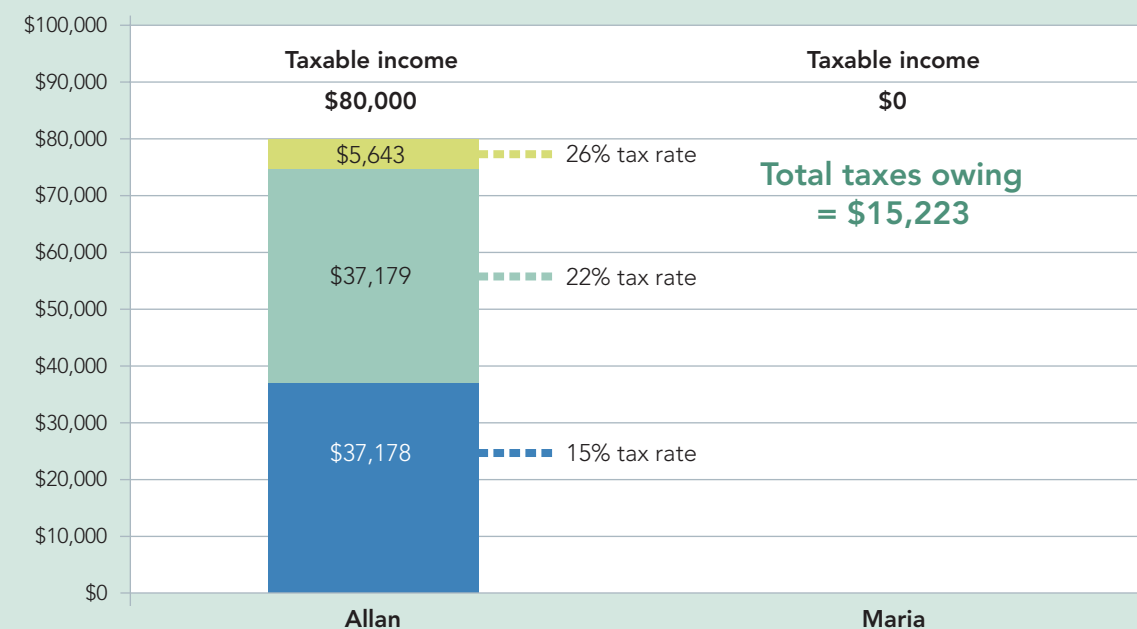
For example, let’s assume that Maria and Allan have retired and that 100% of their \$80,000 annual income comes from Allan’s employer pension plan. To simplify this scenario, we’ll focus on federal tax rates only (Maria and Allan will also have to pay provincial taxes) and ignore the fact that the couple likely has other sources of income and tax credits. Based on these assumptions, they will owe about \$15,223 in federal taxes.

Now look at what happens when Allan splits his \$80,000 income equally with Maria. Both spouses will report an income of \$40,000 on their tax returns. Their household is still bringing in the same total amount, but their tax bill will be significantly lower, because none of their money is being taxed at the highest rates. Maria and Allan will each pay \$6,198 in taxes, for a combined tax bill of \$12,396. That’s about \$2,800 less than they would have paid before they split Allan’s pension income.

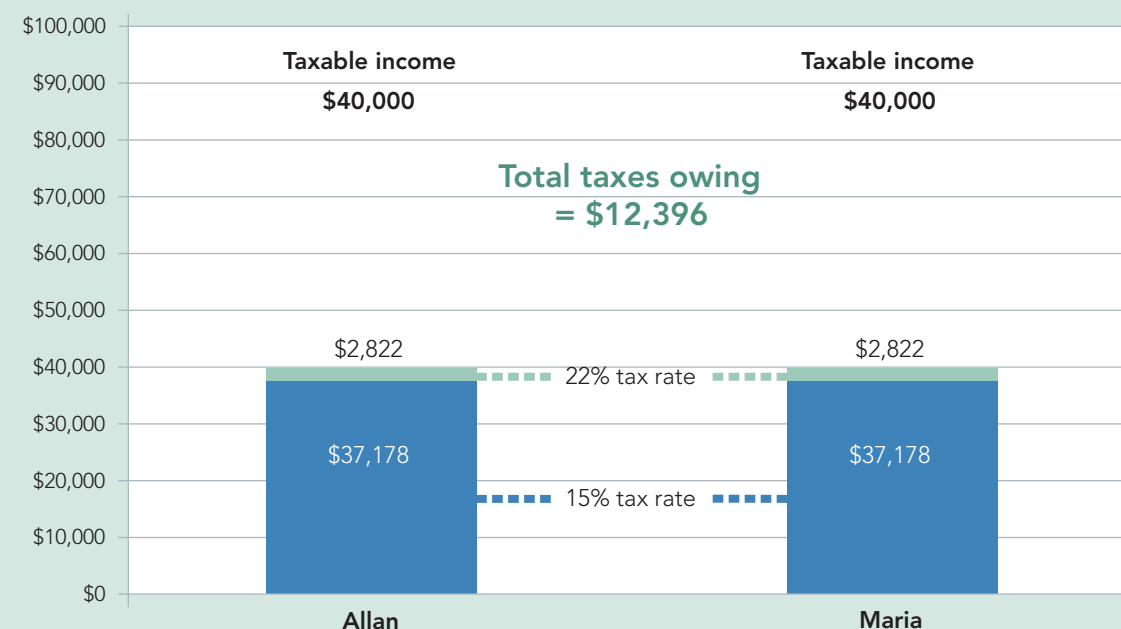
This is a simplified example, but it clearly demonstrates the potential value of this newly available strategy. And beyond generating significant tax savings for couples, pension income splitting can also help to maximize government retirement benefits, such as Old Age Security (OAS), and increase the value of other available tax credits.

Allan and Maria’s federal marginal tax rates (%)

Before pension income splitting



After pension income splitting



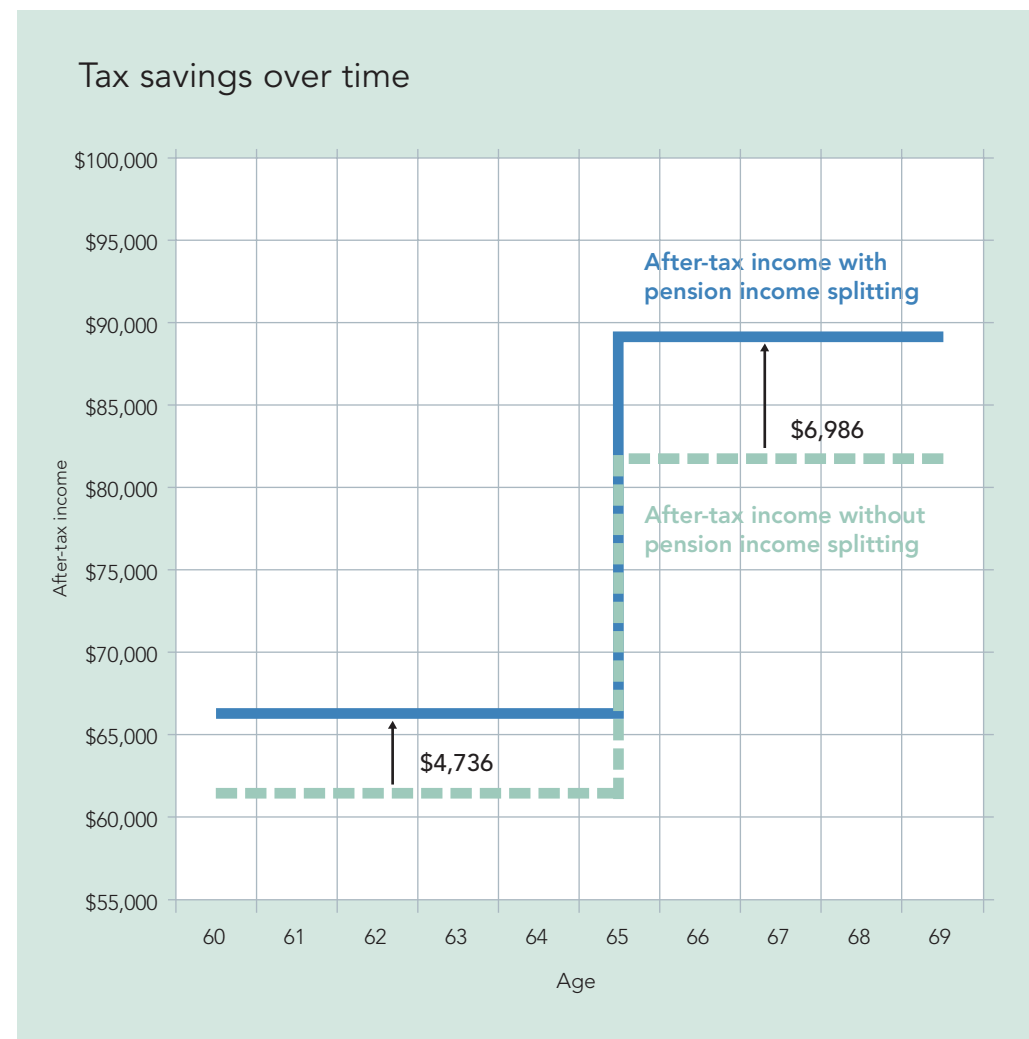
Source: Canada Revenue Agency.
For illustrative purposes only. Only 2007 federal tax rates are shown. Provincial and territorial taxes are not included, nor are any eligible tax credits. The inclusion of provincial or territorial tax rates will increase the total marginal tax rates at each level of income and will vary by region. The inclusion of eligible tax credits will generally reduce the amount of tax payable. Actual results will vary according to income. Figures have been rounded.

Tax savings over time

Let's look at the tax savings this couple could achieve over time when provincial tax rates (for Ontario, in this example) and some of these other benefits are also taken into account. If Allan and Maria hold off on Canada Pension Plan (CPP) benefits until age 65 and rely exclusively on Allan's employer pension plan for income, they can save over \$4,700 each year between the ages of 60 and 64. These savings include the additional benefit of the pension credit for Maria, who previously declared no pension income.

At age 64, when both CPP (or QPP for Quebec residents) and OAS benefits are taken, pension income splitting will reduce Allan's taxable income and help to significantly minimize OAS benefit repayments. This will generate even greater yearly tax savings of almost \$7,000.

In this example, we have split the maximum allowable amount of 50% of pension income. When splitting your own pension income, remember to consider a variety of different scenarios before filing your return. This will help you determine the best way to split pension income in order to maximize tax savings. Each year you can modify this arrangement to account for any changes in your situation.



Source: Fidelity Investments Canada ULC.
 Assumptions: Between 60 and 64 this hypothetical couple (assumed to be the same age and residents of Ontario) have a total gross income of \$80,000 as a result of an employer pension plan belonging to Spouse 1 (Allan). According to current rules, the income from the pension plan can be split between the two spouses at any age. Annual taxes without splitting over the period are \$18,493. With splitting, taxes are \$13,757. At age 65, the couple's total gross income increases with the addition of CPP and OAS payments (both individuals are assumed to receive the maximum benefit). Without splitting, approximately \$4,914 of OAS payments for Spouse 1 are clawed back (from a maximum of \$5,903), and total taxes are \$25,803. Taxes are calculated using both federal and Ontario tax rates (2007). The tax credits used include the basic personal exemption, age credit and pension credit. The Ontario health premium and surtaxes have also been included. Figures have been rounded. Exact results will vary by province and individual circumstances.

What types of income are eligible?

There are restrictions on the types of income that can benefit from pension income splitting, how much can be split and at what age it can be split.

SOURCE OF RETIREMENT INCOME	HOW MUCH CAN BE SPLIT? (%)	AT WHAT AGE?	REQUIRED FORM
<ul style="list-style-type: none"> Registered Pension Plans (RPPs): Defined Contribution (DC) and Defined Benefit (DB) 	Up to 50%	No age requirement	Form T1032 + Schedule Q (in Quebec only)
<ul style="list-style-type: none"> Registered Retirement Income Funds (RRIFs) Registered Retirement Savings Plan (RRSP) annuities Life Income Funds (LIFs) Locked-in Retirement Income Funds (LRIFs) Deferred Profit Sharing Plan (DPSP) annuities 	Up to 50%	65 and up	
<ul style="list-style-type: none"> Canada Pension Plan (CPP) Quebec Pension Plan (QPP) 	Up to 50%	60 and up	See note*

*Contact the Department of Human Resources and Social Development Canada (www.sdc.gc.ca) or, in Quebec, the Régie des rentes du Québec (www.rrq.gouv.qc.ca) for the specific rules and documents required to share your CPP or QPP pension with your spouse.

How can you take advantage of pension income splitting?

Speak with your financial advisor to determine the income sources you have that are eligible for pension income splitting and to develop a strategy that maximizes the benefits in your specific situation. Both you and your spouse must complete and sign Canada Revenue Agency's Form T1032 and attach copies to your federal income tax returns. If you live in Quebec, you will also need to complete Schedule Q and include it with your provincial income tax return.

The spouse who is declaring additional pension income reports this amount on Line 116 of the federal return and, in Quebec, Line 123 of the provincial return. The spouse who is transferring some of his or her pension income deducts this amount on Line 210 of the federal return and, in Quebec, Line 250 of the provincial return.

Form T1032 and Schedule Q can be obtained by visiting www.fidelity.ca/incomesplitting

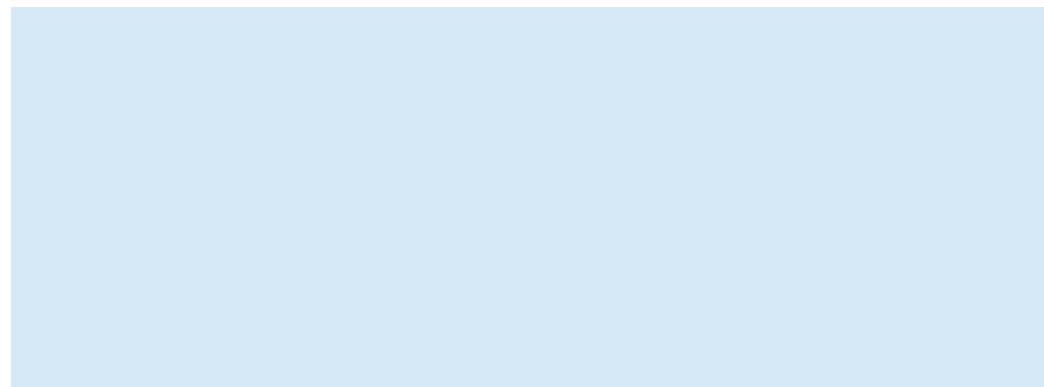
Plan in advance

The best way to save taxes is to plan well in advance, and to remember that pension income splitting is just one of the ways you can reduce your tax bill.

Ask your financial advisor about these other tax-saving strategies:

- Spousal RRSP
- Fidelity Capital Structure
- Fidelity Tax Smart Withdrawal Program™ (T-SWP)

Talk to your financial advisor.



Read a fund's prospectus and consult your investment professional before investing. Mutual funds are not guaranteed; their values change frequently and past performance may not be repeated. Investors will pay management fees and expenses, may pay commissions or trailing commissions and may experience a gain or loss.

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