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Pension Income Splitting

Reproduced below is a CRA Q&A, released July 18, 2007, regarding the pension income splitting initiative introduced in the 2007 Budget and implemented by Bill C-52 (S.C. 2007, c. 29, Royal Assent June 22, 2007).

1. What is pension income splitting?

Beginning with 2007 income tax returns, Canadian residents will generally be able to allocate up to one-half of their income that qualifies for the existing pension income tax credit to their resident spouse (or common-law partner) for income tax purposes.

The amount allocated is deducted in determining the net income of the person who actually received the pension income, and it is included in computing the net income of the spouse or common-law partner. Pension splitting affects the calculation of income and tax payable for both persons, so they must both agree to the allocation in their tax returns for the year in question.

2. Is it necessary to contact the payer of the pension?

Splitting eligible pension income does not have any effect on how or to whom the pension income is paid, so it does not involve the payer of the pension. Information slips will be prepared and sent to the recipient of the pension income in the same manner as previous years.

3. Who qualifies for pension income splitting?

A pension recipient (pensioner) and his or her spouse or common-law partner can elect to split the pensioner's "eligible pension income" received in the year if:

* they are married or in a common-law partnership with each other in the year and are not, because of a breakdown in their marriage or common-law partnership, living separate and apart from each other at the end of the year and for a period of 90 days commencing in the year;A pensioner and his or her spouse or common-law partner will still be eligible to split pension income if living apart at the end of the year for medical, educational, or business reasons (rather than a breakdown in the marriage or common-law partnership). and
* they are both resident in Canada on December 31; or
* if deceased in the year, resident in Canada on the date of death; or
* if bankrupt in the year, resident in Canada on December 31 of the calendar year in which the tax year (pre- or post-bankruptcy) ends.

4. What is "eligible pension income"?

Eligible pension income is generally the total of the following amounts received by the pensioner in the year (these amounts also qualify for the pension income amount):

* the taxable part of annuity payments from a superannuation or pension fund or plan; and
* if received as a result of the death of a spouse or common-law partner, or if the pensioner is age 65 or older at the end of the year:
* annuity and registered retirement income fund (including life income fund) payments; and
* Registered Retirement Savings Plan annuity payments.

Note: Old Age Security and Canada or Quebec Pension Plan payments do not qualify.

5. How do individuals elect to split eligible pension income?

The pensioner and spouse or common-law partner have to make a joint election in prescribed form with their income tax returns for the year on or before their filing due date (generally April 30 of the year following the tax year, or June 15 if self-employed). The new Form T1032, Joint Election to Split Pension Income, will be available by January 2008. The 2007 income tax return will include a new line for the pensioner to deduct the amount of pension allocated to the spouse or common-law partner. A new line will also be added for the spouse or common-law partner to report the allocated pension income.

6. Who will claim the tax withheld at source from the eligible pension income?

The income tax that is withheld at source from the eligible pension income will have to be allocated from the pensioner to the spouse or common-law partner in the same proportion as the pension income is allocated.

7. Will pension income splitting affect the pension income amount?

The pensioner will be able to claim whichever amount is less: $2,000 or the amount of his or her eligible pension income after excluding amounts allocated to his or her spouse or common-law partner.

The spouse or common-law partner will be able to claim whichever amount is less: $2,000 or the amount of his or her pension income that is eligible for the pension income amount, including the allocated pension income.

Note: A pension that qualifies for the pension income amount in the hands of the pensioner does not necessarily qualify for the pension income amount in the spouse or common-law partner's hands because eligibility can depend on age (see question 4).

8. Does pension splitting affect the Goods and Services Tax/Harmonized Sales Tax (GST/HST) credit, Canada Child Tax Benefit (CCTB), and other federal or provincial benefits and tax credits?

Allocating pension income to a spouse or common-law partner reduces the pensioner's net income and increases the spouse or common-law partner's net income. As a result, benefits and tax credits that are calculated based on the total of the net incomes of both spouses or common-law partners—such as the GST/HST credit, CCTB, and related provincial or territorial benefits—will not change as a result of pension splitting.

However, pension splitting will affect any tax credits and benefits that are calculated using one individual's net income, such as the age amount, the spouse or common-law partner amount, and the repayment of Old Age Security benefits.

9. If pensioners intend to split pension income when filing their returns, can they ask for a reduction of tax being withheld from the eligible pension income during the year?

The CRA cannot approve a reduction of tax withheld at source based on an election to split pension income.

10. If pensioners intend to make this election when filing their 2007 returns, can they reduce their instalment payments?

Many individuals, including pensioners, are required to pay tax by instalments, and the CRA issues instalment reminders to them indicating the amounts to be paid by each instalment due date. However, as an alternative to paying the amounts shown on the reminders, instalment payments can instead be made based on either the individual's prior-year net tax owing and CPP payable, or his or her estimated current-year net tax owing and CPP payable.

Under the current-year option, an individual can estimate his or her current-year net tax owing for 2007 based on the intention to split pension income. However, if the instalment payments are insufficient, instalment interest may be charged. More information about instalment payments and instalment interest charges is available in Pamphlet P110, Paying Your Income Tax by Instalments.