Tax Strategy: Pensions and move to U.S. raise queries

BY PAUL DELEAN, THE GAZETTE APRIL 28, 2014

MONTREAL — The merits of delaying Old Age Security benefits and the tax consequences of a U.S. move were among the topics raised in the latest batch of readers' letters. Here's what they wanted to know:

Q: I am a retiree collecting a teacher's pension of about $47,700 yearly. In June, I will turn 65 and the pension will be reduced to $36,868 in conjunction with the start of my Quebec Pension Plan payments. Would it be advantageous for me to delay my (federal) Old Age Security pension until I turn 70 and get the annual bonus of 7.2 per cent for waiting? I also have an RRSP and intend to start making withdrawals from it at age 65.

A: This one's not obvious. The key thing to keep in mind is combined income from your various streams, because clawback of OAS begins at $70,954 and annual withdrawals from your RRIF/RRSP become mandatory starting at age 72. "If his RRIF income will put him over the clawback threshold, then I would recommend delaying the OAS, reducing the RRSP now instead, and then applying for OAS at age 70," said Caroline Nalbantoglu of CNal Financial Planning Inc. Generally, though, Nalbantoglu said she doesn't recommend putting off OAS, because of the time it takes to recoup the benefits given up. "Personally, I'd rather have the income when I'm younger and still able to enjoy spending it."

Q: If I leave Canada and become a resident of the U.S. (meeting all the requirements) before Dec. 31, what are the tax consequences? Do I get a refund for the federal and provincial income taxes deducted from my pay while employed in Quebec? If so, how?

A: You won't get a retroactive tax holiday for the months you worked here. When you left, not where you live on Dec. 31, is what matters when you're "severing all residential ties" with the country. You'll need to file Canadian and Quebec tax returns for the year and will be taxed as a Canadian resident (on all global income) up until the time of your departure, and as a non-resident on all Canadian-sourced income from that point on. The only refund you'll receive is for amounts deducted in excess of what you should have paid in federal and provincial taxes and for programs such as Employment Insurance, QPP, parentalinsurance plan and provincial drug-prescription plan.

Q: You recently wrote about the penalty for early retirement on Quebec Pension Plan benefits. Is there always a penalty? What if your employer, a hospital, encouraged early

retirement?
A: Any incentive your employer provided for early retirement is unrelated to QPP. Your benefits for that are determined strictly by the amounts you contributed over the years and
the age you choose to start collecting. And if it's before 65, there's a penalty. If it's after, there's a bonus.
The Gazette invites readers' questions on tax, investment and personal-finance matters. If
you have a query you'd like addressed, please send it to Paul Delean, Gazette Business
Section, Suite 200, 1010 Ste-Catherine St. W., Montreal, Que., H3B 5L1, or by email to pdelean@montrealgazette.com

http://www.montrealgazette.com/story_print.html?id=9784415&sponsor=