5 Ways to Trim Your Tax Bill in Retirement

You want to enjoy your retirement, not stress over hefty tax bills. Here's how to help make sure income tax doesn't impede your late-in-life plans

The last thing retirees want to think about as they're lying on a beach or getting in a few rounds of golf is a hefty tax bill. Yet, that's exactly what many baby boomers face as years of saving—in RRSPs and non-registered accounts, among other places—have helped them build up a sizable, and taxable, nest egg.

For instance, when you start removing money from a registered retirement income fund (RRIF), you're required to pay income tax on those withdrawals. If you're holding securities inside of a non-registered account, you may have to fork over some funds to the Canada Revenue Agency when you sell. If you don't plan properly, your Old Age Supplement (OAS) payments could get clawed back, too.

Fortunately, those who plan early can minimize the taxes they'll pay in retirement. Here are five strategies that should help you keep more money for yourself.

Time your CPP and OAS payments

You can start collecting Canada Pension Plan (CPP) payments as early as age 60 and Old Age Security (OAS) at 65, or you can defer both until age 70 and receive a larger monthly benefit.

Since CPP and OAS are taxable, you'll want to figure out how collecting those benefits earlier or later will affect your total taxable income. It's possible that one choice will put you into a higher tax bracket, while the other won't. A [retirement income calculator]() can help you make your decision. The goal is to smooth out your income and avoid unnecessarily moving into a higher tax bracket.

Avoid OAS clawbacks

Similarly, you may be able to manage your annual RRSP or RRIF withdrawals to keep your taxable income under the clawback threshold for OAS benefits, which is currently about $74,000. If your income is above this amount, some of your OAS benefits may be clawed back. For some retirees, that might mean starting to draw down your savings before the rules require you to do so (at the end of the year you turn 71); for others, it could mean withdrawing only the mandated minimum amount each year. Splitting pension income with a spouse may also protect you from OAS clawbacks.

Contribute to a spousal RRSP

If you are married or common-law it might make sense to contribute to a spousal RRSP. While you can't invest more than what you're allowed to put into your own RRSP, when it comes time to withdraw, the funds will be taxed according to your spouses' income tax bracket. If you think your partner will generate less income than you in retirement, then you could save a lot of tax later on. One thing to note is that spousal contributions must be left inside the account for at least three years for it to count as spousal income. If the funds are withdrawn before that time for some reason, then the money will get taxed based on the contributor's income level.

Max out your TFSA

You don't get a tax deduction in the year you contribute to a tax-free savings account, as you do with RRSPs, but withdrawals—or any gains you earn inside your TFSA—are never subject to tax. The income and equity from those investments could go a long way toward boosting your cash flow in retirement without increasing your tax bill. Ideally, build your TFSA up before retirement, or transfer non-registered investments into the account (though you will have to pay tax on any gains), provided you have the contribution room. You may also want to consider transferring minimum RRIF withdrawals that you don't need to live on into a TFSA, too. This strategy will become even more useful as TFSA contribution room grows year after year.

Consider a drawdown strategy

Investment counsellors understand how these issues can impact someone's taxes in retirement. That's why they analyze the appropriate drawdown strategy with their clients, which carefully determines how best to withdraw assets to fund retirement. The investment counsellor, after looking at your full financial picture, might say it's best to remove money from an RRSP now and then from a non-registered account later. They may suggest moving RRIF assets into a TFSA, or say to only withdraw a certain amount of income so OAS payments don't get impacted. In other words, it's a good idea to talk to a professional before making any tax-savings moves on your own.

While everyone's situation is different, you'll still have to pay taxes even if you may not be working anymore. The key is to ensure that you're paying just enough—and not more—so you can do what you want to do in retirement.

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