

## YOU ASK, WE ANSWER

## Ways to save 'retiring allowance'

BY DAVID PHIPPS

**Question** I am able to retire the end of this December, and will receive a public service award of \$18,000 to \$20,000. My T4 slip fits me into the 22% tax bracket on my 2004 tax return. I know I will be taxed and expected to pay EI and CPP deductions from this award, but aside from investing in the usual RRSP and RESP vehicles, how else can I limit the loss from these various deductions?

**Answer** The public service award you are referring to is normally called a "retiring allowance." A retiring allowance is best understood by thinking of it as an additional salary that the employer may give to an employee at retirement in recognition of long service or as compensation for job-loss. One of the great benefits of receiving a retiring allowance is that there is a special rule that allows the "eligible" portion of a

retirement allowance to be transferred directly into your RRSP with no withholding tax and without affecting your RRSP deduction limit. Any portion of a retiring allowance beyond the eligible portion can also be transferred into the RRSP up to your RRSP deduction limit.

The unfortunate fact is that, outside of transferring your retiring allowance into your RRSP, there is no way to completely avoid withholding tax. However, there might be one strategy available to you to help you minimize the withholding tax. The strategy is to request that your employer pay your retiring allowance in instalments.

Let's assume you retire in December, 2005. Let's also assume that your taxable income as a retiree in 2006 will be significantly lower than as an employee in 2005. Ask your employer to time the payment of your retiring allowance so that you receive at

least a part of it in 2006, rather than all in December, 2005. Because of the graduated tax system that we have in Canada, if you are not going to transfer your retiring allowance to your RRSP, then the next best thing to minimize taxes is to try to time the payment so you receive them in a year or years with the lowest possible income.

Just as a point of clarification, you mention looking for a solution besides the usual RRSP or RESP vehicles. Retiring allowances are not transferred to an RESP. A common misconception with RESPs is that contributions made to them create a similar reduction in income tax as contributions made to an RRSP. Contributions to an RESP create no reduction in income tax. RESPs and RRSPs are similar in that, once the money is in the plan, there is no tax payable on the growth in the account until the money is taken out.

*Financial Post*

*David Phipps is a Certified Financial Planner with Assante Capital Management in Ottawa.*

*Have a question about money?  
E-mail [fpweekend@national-post.com](mailto:fpweekend@national-post.com)*