Canada Life™

Retirement planning

Tax changes to prescribed annuities Jan. 1, 2017

Opportunities to consider:

- Do you have clients approaching retirement who will need a source of guaranteed income?
- Do you have retired clients who are at the point where they would like to convert some of their variable assets/income into a predictable income stream?
- Do you have clients with GIC portfolios earning interest based on accrual taxation that could benefit from an income stream with prescribed taxation?

Changes to the Income Tax Act [Regulation 300(2)] will require a change in the mortality tables being used to calculate the taxable portion of prescribed annuities. As a result, clients will have a higher taxable portion on each prescribed annuity payment on contracts purchased after Jan. 1, 2017.

Currently, life expectancy is based on 1971 Individual Annuity Mortality Tables (IAM) for non-registered prescribed annuities. Starting in Jan. 1, 2017, life expectancy for prescribed annuities will be based on the Annuity 2000 Basic Mortality Tables. The new tables include longer life expectancies – this reduces the portion of each payment that will be treated as a return of capital because the principal portion has to be spread over more years.

What this means for clients

A larger portion of the payment will be taxable. The change will not affect a client's total payment.

All annuity contracts purchased ***before*** Jan. 1, 2017 will follow the old mortality tables and the taxable portion will not change.

Comparison chart

The table shows the taxable income based on current mortality tables and compares it to the taxable income of the same annuity if it was purchased after Jan. 1, 2017.

The examples are based on a $100,000, non-registered premium with a 10-year guarantee.

We've provided this information **for advisors only.** The information provided is based on current laws, regulations and other rules applicable to Canadian residents. It is accurate to the best of our knowledge as of **December, 2015**. Rules and their interpretation may change, affecting the accuracy of the information. The information provided is general in nature, and should not be relied upon as a substitute for advice in any specific situation. For specific situations, advice should be obtained from the appropriate legal, accounting, tax or other professional advisors.

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Age	Annual income	Annual taxable income before Jan. 1, 2017*	Annual taxable income after Jan. 1, 2017*	% change in annual taxable income
Male, 65	$6,110	$616	$1,184	92%
Male, 70	$6,910	$374	$1,028	175%
Male, 75	$7,776	$84	$783	832%
Male, 80	$8,647	$0	$517	∞
Female, 65	$5,613	$782	$1,188	52%
Female, 70	$6,375	$493	$1,056	114%
Female, 75	$7,280	$137	$787	474%
Female, 80	$8,298	$0	$546	∞
Joint, 65/65	$5,100	$881	$1,284	46%
Joint, 70/70	$5,734	$605	$1,147	90%
Joint, 75/75	$6,591	$262	$973	217%
Joint, 80/80	$7,540	$0	$644	∞

Source: Wealth Management, rates as of Oct. 24, 2015

* Please note these amounts are taxable income. The actual tax is calculated based on an individual's tax rate.

Why prescribed annuities?

When a non-registered annuity qualifies as a prescribed annuity contract, special tax treatment is given in the form of equal payments of capital and income over the life of the contract. Prescribed taxation is often preferred over accrual taxation as it includes some measure of tax deferral and the taxable portion of the annuity payment is the same throughout the contract.

Accrual taxation has a higher taxable portion in the early years of the contract and the taxable portion decreases over time.

Prescribed annuities can make planning easier. Single-life, joint-life, and term annuities may all qualify for prescribed treatment.

Prescribed annuities will continue to have a benefit after Jan. 1, 2017 for the appropriate client. However, there is a window of opportunity to inform your clients of the fast-approaching changes.