

## Retiring allowances

While the Canadian population ages and many individuals take early retirement, a number of employees are receiving retiring allowances. Careful application of some tax-planning techniques could potentially minimize the tax consequences of receiving a retiring allowance.

### What is a retiring allowance?

A retiring allowance is an amount received on or after the retirement of an employee in recognition of long service or as compensation for loss of employment. It is generally considered termination pay that is provided either voluntarily or involuntarily (as a requirement of law or as a result of a court settlement). A loss of employment usually refers to the elimination of a particular position; for example, the downsizing of a job or position for economic reasons. However, a loss of employment may also refer to the loss of income of an employee who is let go. Early retirement incentive plans are generally designed to reduce the number of positions and the payments made in respect of these “retirements” are generally considered to be retiring allowances.

### Miscellaneous payments upon termination

Payments for sick leave are normally considered to be employment income and are taxable in the year they are received. However, an amount received on or after retirement for unused sick leave credits qualifies as a retiring allowance.

Amounts received in lieu of notice or in respect of unused vacation are considered to be employment income and therefore do not qualify as a retiring allowance.

The maximum amount of retiring allowance eligible to be contributed to an RRSP on a tax-deferred basis is equal to a combination of:

- \$2,000 per year of service with the employer before 1996 and
- An additional \$1,500 per year for years of service before 1989, for which employer pension plan or deferred profit sharing plan (DPSP) contributions, if any, have not yet vested

Note that the years of employment that qualify for the transfer must be before 1996. This is a result of the 1995 federal budget, which eliminated post-1995 employment years from the calculation of the amount eligible for transfer, as calculated above.