

OPINION

# Why the silence over tax discrimination faced by solo seniors?



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One of our biggest personal finance injustices is getting the usual treatment during the federal election campaign, which is to say it's being ignored.

In retirement, couples get to take advantage of a significant tax-saving measure called pension income-splitting. Solo seniors, be they lifetime singles or people whose spouse has died, have no equivalent tax break. Given their longer lifespans on average, women are the primary victims of this discrimination.

Just more than one in four people who are 65 and up live alone, far more than any other age group. Solo seniors will become even more common as the percentage of the population in retirement soars in the decades ahead, yet politicians seem oblivious.

"You want a great voter-getter? Establish an equivalent-to-married tax credit or deduction for retirees who are single," said Daryl Diamond, a Winnipeg-based financial planner who specializes in retirement income planning.

The federal election campaign so far has featured endless promises to help make life more affordable for people through various tax breaks. Seniors haven't been ignored – the Conservatives have promised a \$1,000 increase in the age tax credit, which is offered to people 65 and older and targeted mainly at those in lower- and middle-income brackets. This increase would be worth up to \$150 a year for a single retiree.

The Liberals have promised to increase Old Age Security (OAS) for people 75 and up, worth up to \$729 a year, and increase the Canada Pension Plan (CPP) survivor's benefit by up to \$2,080 annually.

These measures would help solo seniors, but they don't address the glaring inequity in the way pension income-splitting treats married seniors compared with singles.

Introduced in 2007, pension income-splitting allows a higher-income spouse to shift up to 50 per cent of eligible pension income (workplace pension, annuity, registered retirement income fund proceeds) to a lower-income partner. Significant savings are available to the higher-income spouse if he or she is able to move to a lower tax bracket as a result of income-splitting.

In a new book he's working on, Mr. Diamond includes a chapter on how the tax system discriminates against single retirees. He includes an example of a woman he calls Sally who uses pension income-splitting to divide \$60,000 in household income evenly with her husband. Both spouses pay taxes of \$2,042 each.

On the death of her husband, Sally loses \$15,000 in combined CPP and OAS a year from her deceased spouse and thus has an annual income of \$45,000, or 25 per cent less than before. Meanwhile, her tax bill has gone up to \$5,400, an increase of about 33 per cent over the combined taxes owed by her and her husband when he was alive.

In another example, a fellow named Brian evenly splits household income of \$110,000 with his spouse and each pays \$8,670. When Brian's spouse dies, he is left with taxable income of \$95,000 after the loss of the spouse's CPP and OAS, and a tax bill of \$23,788.

Wait, it gets worse. Because his taxable income has risen sharply, Brian has some OAS benefits clawed back.

Improvements to OAS and the CPP survivor's pension will modestly help solo seniors, but they don't address the full burden they bear. It costs about 40 per cent more to afford daily life for singles as opposed to someone who is part of a couple, said Laura Tamblyn Watts, an advocate for the elderly and a fellow of the Institute for Life Course and Aging at the University of Toronto. "It's much cheaper to live as a couple."

Ms. Tamblyn Watts has a couple of theories on why tax discrimination against solo seniors has been overlooked. One is that much of our thinking about retirement programs is based on the shorter lifespans of decades ago, while another is our society's primary focus on the needs of families and couples. "There's a certain invisibility of single, older women," she said.

While Mr. Diamond suggested a tax break for solo seniors to give them a degree of tax equivalency with couples, Ms. Tamblyn Watts is looking for social policy that recognizes the financial impact of losing a partner in retirement.

"It's an extremely common and increasing situation, particularly for older women," she said. "They're stuck with emotional grief, and they're put in a position of financial precariousness."