

Understanding RRSPs

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RRSP

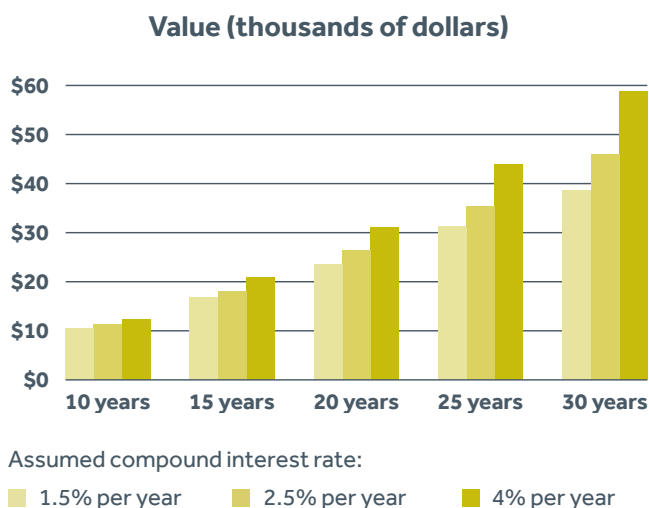
What is an RRSP?

A Registered Retirement Savings Plan (RRSP) is a government approved plan through which you save money for your retirement years. Your contributions, within limits, are tax deductible, and the income earned is tax sheltered. You can have any number of plans.

What Does an RRSP Mean to You?

An RRSP allows you to invest money when you can most afford it – during your peak earning years – to build up a comfortable tax-sheltered retirement fund.

The following graph shows the amount you could accumulate by annual RRSP contributions of \$1,000 at the beginning of each year, assuming constant interest rates of 1.5%, 2.5% and 4% per year.



Not only do you receive a tax deduction for a contribution to an RRSP, but the earnings of your plan are not taxed until you withdraw them. Since 100% of these earnings can be reinvested and compounded, the growth of your RRSP increases rapidly over the years, as the above graph shows.

Your retirement savings will also increase significantly if you make each RRSP contribution as soon as allowed, for example, early in the year.

What Happens at Retirement?

The first stage of an RRSP is to accumulate retirement savings. The next stage is to provide retirement income. Your accumulated savings may be invested in a variety of ways to provide a retirement income. Only the retirement income payments are taxed each year as you receive them, thus spreading the taxation of your accumulated savings over your retirement years.

Who is Eligible to Contribute?

Anyone with “earned income” subject to Canadian taxation, including non-residents, may contribute to an RRSP. Even if you have an income below the taxable threshold, you should file a tax return to report your earned income and create RRSP deduction room.

You can make part or all of any contribution to a plan in your own name or to a plan in your spouse’s or common-law partner’s name. You, as the contributor, are still entitled to the tax deduction. Contributions can be made until the end of the year in which the planholder’s 71st birthday occurs. An over-contribution (see page 6) can be carried forward beyond this year and deducted in subsequent years providing you have earned income on which to base the deduction.

Definitions of Spouse/Common-law Partner

Income tax legislation defines the term “spouse” to be a person who is party to a legal marriage.

The term “common-law partner” is defined as two persons, regardless of sex, who cohabit in a conjugal relationship and who have cohabited throughout a minimum 12 month period. This period can be less than 12 months if both partners are the natural or adoptive parents of the same child, or if one common-law partner has a child who is wholly dependent on the other for support and over whom the other has custody.

The term “common-law partner” does not apply once the individuals have been separated for 90 days or more due to a breakdown of the conjugal relationship.

What is Earned Income?

Your RRSP deduction is based on your prior year's earned income. The following qualify as earned income:

- Salary, wages, bonuses and taxable benefits (minus union or professional dues and employment expenses claimed as deductions).
- Taxable wage loss replacement or long-term disability income resulting from employment.
- Canada Pension Plan/Quebec Pension Plan disability benefits.
- Amounts received under the Wage Earner Protection Program Act.
- Net income from self-employment (minus current year business losses).
- Net rental income from real estate (minus current year rental losses).
- Taxable alimony or maintenance payments received.
- Royalties of an author or inventor.
- Net research grants.
- Income that is contributed to an Amateur Athlete Trust.

NOTES:

- 1) *Earned income must be reduced by deductible alimony or maintenance payments.*
- 2) *Interest, dividend, capital gains income, and E.I. benefits do not qualify as earned income.*
- 3) *Income which is not taxed, such as Workers' Compensation and welfare benefits, cannot be used as earned income.*

CRA provides a form for the calculation of earned income in its Guide T4040 RRSPs and Other Registered Plans for Retirement.

RRSP Deduction Limits

Your Notice of Assessment from CRA, received after filing your tax return, will state your RRSP deduction limit for the following year. At certain times of the year, you can also phone the CRA Tax Information Phone Service 1.800.267.6999 (TIPS) to confirm your deduction limit. This information is also available in *My CRA Account*.

The calculation of the amount will depend on whether you are a member of a pension plan, and if you are, the type of pension plan.

NOTE: The amount of RRSP contributions you can deduct from your income may be less than the amount you can contribute (see page 6). Employer contributions made to an RRSP on your behalf form part of your RRSP contribution.

Maximum Deduction

The maximum RRSP contribution you may deduct for the current year is:

Unused RRSP deduction room at the end
of previous year

+

18% of your earned income for the prior year,
up to the maximum amount for the current year

-

Your "Pension Adjustment" (PA)* for the prior year

"Net Past Service Pension Adjustment" (PSPA)**

+

Your "Pension Adjustment Reversal" (PAR)
for the current year***

=

Maximum RRSP Contribution

The current amounts are:

Tax year	Maximum Deduction	Earned Income (in prior year) for Maximum Deduction
2013	\$23,820	\$132,333
2014	\$24,270	\$134,833
2015	\$24,930	\$138,500
2016	\$25,370	\$140,944
2017	\$26,010	\$144,500
2018	\$26,230	\$145,722
2019	\$26,500	\$147,222
2020	\$27,230	\$151,278
2021	\$27,830	\$154,610

After 2020, this amount will be indexed by the average increase in industrial wages as published by Statistics Canada.

The greater the future benefits provided by your pension plan, the less you will be able to deduct as RRSP contributions. This addresses the main objective of the Retirement Savings legislation – to create equality in the tax-sheltered retirement benefits available to all taxpayers, regardless of their type of pension plan, or whether they are self-employed, or employed but have no pension plan.

** Your PA for the prior year should be on your T4 slip (Box 52) or T4A (Box 034). It reflects the value of benefits accrued from membership in a registered pension plan (RPP) or deferred profit sharing plan (DPSP). If you were not a member of a RPP or DPSP, your PA is zero.*

*** Exempt PSPA, or an upgrade to a pension plan, affects RRSP deduction limits for the following year. Certified PSPA, or a pension buyback for an individual, affects the year in which it is certified by the CRA.*

**** A Pension Adjustment Reversal (PAR) may arise if the amount received from an RPP/DPSP on termination is less than total PAs and PSPAs previously reported. This information is in Box 2 of your T10 slip.*

Special Transfers to Your RRSP

In addition to your RRSP deduction limit, there are a number of special deposits you can make to your RRSPs.

Lump Sum Transfers

You can transfer lump sums directly from a Registered Pension Plan or a Deferred Profit Sharing Plan (DPSP) to your RRSP.

You can transfer amounts directly from another of your RRSP plans (see page 10) or from your Registered Retirement Income Fund (RRIF) to your RRSP. A RRIF is a plan registered with the CRA designed to provide retirement income payments to you, subject to an annual minimum.

RRIF Payments in Excess of Minimum

Until the end of the calendar year in which you turn 71, you can transfer directly to an RRSP in your own name up to 100% of any payment from your RRIF in excess of the mandatory minimum payment amount for the year. CRA form T2030 can be used for this purpose. The RRIF carrier must provide a T4RIF to report the amount transferred from your RRIF and the RRSP issuer must provide an official receipt for the amount transferred to your RRSP.

Retiring Allowances

A retiring allowance is a lump sum or sums paid to you by your employer, at or after your termination, in recognition of your loss of employment. Accumulated paid sick leave credits qualify under this definition, but holiday pay, death benefits and pension benefits do not. The eligible portion of a retiring allowance can be transferred directly by the employer to your RRSP (no income tax deducted). Alternatively, the retiring allowance can be paid to you, and you can subsequently contribute all or a portion to your RRSP in the year you receive the lump sum or within 60 days thereafter.

The maximum eligible portion of a retiring allowance is:

\$2,000 for each full or partial calendar year of service with your current employer prior to 1996

+

An additional \$1,500 for each full or partial calendar year of service prior to 1989 with your current employer in which you were not a member of a pension plan or DPSP, or years for which your employer's contributions to such plans have not vested

The transfer of a retiring allowance to an RRSP (within the above limit) does not affect your RRSP contribution room for that year. Amounts over the limit can be contributed/transferred to your RRSP or your spouse's RRSP; however, RRSP contribution room must be available.

RESP Accumulated Income

Under certain circumstances, RESP income can be transferred to an RRSP. The RESP subscriber must have sufficient RRSP contribution room and be a Canadian resident. Up to \$50,000 of accumulated income from an RESP can be transferred to an RRSP in the name of the subscriber or to a spousal RRSP in the name of the subscriber's spouse.

Any of the following conditions must also be met:

- the RESP must have been in existence for at least 10 years and all individuals who are or were beneficiaries under the RESP have attained the age of 21 years and are not pursuing post-secondary education*, or
- the payment must be made in the 35th year following the year the RESP was entered into, or
- each individual who was a beneficiary under the RESP must be deceased when the payment is made.

Only amounts transferred within the subscriber's RRSP deduction limit and deducted in that year will avoid taxation.

* The "10 year" and "age 21" rules may be waived by the CRA.

Contributing to RRSPs in Your Spouse's Name

Part or all of your RRSP deduction limit (see page 3) can be contributed to RRSPs for your spouse.

Any amounts you contribute to RRSPs for your spouse are subject to an attribution period (see page 11).

If one spouse will be in a higher tax bracket in retirement, as much of the RRSP funds as possible should be accumulated in the name of the spouse who will be in the lower bracket. The income eventually created from the funds will then be taxed at that spouse's lower tax rate.

To set up a spousal RRSP, your spouse applies for a plan in his or her name, even though your spouse may not have any earned income. Although you make the contributions to the plan, the assets of the plan belong to your spouse.

Even if you are over 71, you can contribute to an RRSP for your spouse until the end of the calendar year in which your spouse turns 71.

If your spouse also wishes to contribute to an RRSP based on his or her own income, a plan separate from the spousal plan is strongly recommended.

One final note – having RRSP funds in both spouses' names will ensure that both of you can qualify for the pension income credit by age 65.

NOTE:

- The term spouse can also be read as common-law partner (see definition on page 2).
- Reference to spousal plan includes common-law partner plan.

Removal of Contributor Detail Following Breakdown of a Marriage/Common-law Partnership

CRA will permit the removal of the contributor detail following a relationship breakdown. You must request the removal of the contributor's name on your RRSP contract. In addition, you are required to provide written confirmation that:

- You are no longer living with the contributor due to relationship breakdown;
- There were no spousal contributions made to any spousal RRSP in the calendar year you are making the request, nor in the two immediately preceding calendar years; and
- You have not withdrawn funds from the particular RRSP in the current calendar year.

Carry Forward Unused Deduction Room

If you don't claim your maximum RRSP deduction, you can carry forward the unused deduction room indefinitely. This applies whether or not you actually make a contribution.

Your Notice of Assessment from CRA records any cumulative deduction room in determining your maximum RRSP deduction for the current year.

If you don't have the cash to contribute now, you can make larger catch-up contributions in future years when you have the cash available. But remember, you maximize your retirement savings by making each RRSP contribution as early as possible.

Carry Forward of Undeducted Contributions

If you have the cash to contribute now, but expect your income to be taxed at a higher rate in the future, you can contribute now and claim the deduction in a future year or years.

This strategy is not penalized as an over-contribution as long as your contributions are within your deduction room. And it has the advantage of tax-sheltering the earnings on your contribution.

The official tax receipt should be filed with your tax return in the year of contribution, even if not deducted, and the amount is to be reported on Schedule 7 of your tax return.

Contribution Deadline

You may contribute at any time during the year. Contributions made during the first 60 days of any year may be deducted for the current or the immediately preceding taxation year.

If the last day of the 60-day period falls on a Saturday or Sunday, the deadline will be extended to the following Monday.

If you are contributing by mail, your application and/or deposit must be received by the plan issuer on or before the contribution deadline.

Over-contributions

Over-contributions are contributions that exceed your deduction room. An over-contribution of up to \$2,000 is permitted by an individual who was 18 years of age or over in the prior year, and can be carried forward indefinitely.

If you make contributions which increase your over-contribution above \$2,000, you will pay a 1% penalty tax per month on the amount in excess of \$2,000.

Non-voluntary (normally employer) contributions to group RRSPs based on current earnings are not taken into account until after the end of the year in which they are made.

At that time, your deduction room for the current year will reduce the excess.

Any excess contribution you cannot deduct may be refunded without additional taxation. You must receive a refund subject to the above penalty in the year you over-contributed, in the year the Notice of Assessment for that year is issued, or in the following year. However, if CRA can prove that at the time you made the contribution you had no reasonable prospect of being able to deduct it for that year or for the prior year, and that you made part or all of the contribution with the intent of withdrawing it tax-free, they can deem the refund of the over-contribution to be taxable to you. Therefore, you should not intentionally make an over-contribution unless you are sure you will be able to use it as your RRSP deduction in one or more future years, based on earned income.

You can carry forward an over-contribution beyond the year in which you turn 71. You can deduct part or all of it in any subsequent year within your deduction limit.

Borrowing for an RRSP

You can borrow funds to make a contribution to an RRSP; however, you cannot deduct the interest on money you borrow. You should not use an RRSP as security for a loan. If you do, there are tax consequences.

Official Receipt

After your RRSP contribution has been processed by the RRSP issuer, you will receive an official receipt. This must be reported with your tax return for that year even if you choose not to deduct it until a later year. Financial institutions are required to report all RRSP contributions to CRA. If you do not report the contribution on your tax return for that year, the CRA will contact you.

How Safe are RRSP Investments?

Before you invest in any RRSP, you should discuss your risk tolerance with a credit union investment advisor. For example, most GICs are protected by deposit insurance while there is no insurance on mutual funds.

Creditor Protection

In addition to RRSPs issued by insurance companies, RRSPs held with other financial institutions may be protected from creditors:

FEDERAL LEGISLATION

The Bankruptcy and Insolvency Act protects bankrupt individuals' RRSPs and RRIFs from creditors. To prevent abuse, RRSP contributions made in the 12-month period prior to bankruptcy will not be protected.

It is important to note that this legislation will not prevent creditors in some provinces from claiming against RRSP and RRIF funds in cases where the annuitant has not filed for bankruptcy.

PENSION LEGISLATION

In most cases, the funds cannot be attached by a third party demand. There are exceptions, however, and certain types of third party demands may be honoured. For example, a garnishing order issued under matrimonial property legislation may be effective against locked-in funds.

PROVINCIAL LEGISLATION

The *Alberta Civil Enforcement Act* provides protection of RRSP funds, held by annuitants residing in Alberta, from any enforcement process with the exception of an enforcement under the *Maintenance Enforcement Act*. Funds are not protected from an enforcement in process prior to November 1, 2010.

"Provincial Legislation" continued on next page.

PROVINCIAL LEGISLATION (CONTINUED)

The British Columbia *Court Order Enforcement Act* provides protection of RRSP funds, held by annuitants residing in British Columbia, from creditors with the exception of an enforcement under the *Family Maintenance Enforcement Act*. Funds are not protected from an enforcement process commenced prior to November 1, 2008.

The Manitoba *Registered Retirement Savings Protection Act* provides protection of RRSP funds, held by annuitants residing in Manitoba, from creditors with the exception of enforcement under The *Family Property Act* or The *Family Maintenance Act*. Funds are not protected from an enforcement in process prior to November 1, 2007.

The Newfoundland and Labrador *Judgment Enforcement Act* provides protection of RRSP funds, held by annuitants residing in Newfoundland and Labrador, from creditors with the exception of enforcement under the *Support Orders Enforcement Act*, 2006. Funds are not protected from an enforcement in process prior to April 5, 2007.

The Prince Edward Island *Designation of Beneficiaries Under Benefit Plans Act* provides protection of RRSP funds from execution or seizure, held by annuitants residing in Prince Edward Island, where a designation in favour of a spouse, child, grandchild or parent of an annuitant is in effect.

The Saskatchewan *Registered Plan (Retirement Income) Exemption Act* provides protection of RRSP funds from creditors with the exception of enforcement under the *Enforcement of Maintenance Orders Act*, 1997. If the Court determines the jurisdiction of the RRSP annuitant to be Saskatchewan, the RRSP will be protected from creditors.

What Types of RRSPs are Available?

There are three basic types of individual plans available: Deposit Type Plans, Mutual Funds, and Self-Directed Plans. The following is a short description of each plan – but remember that plan features will vary among issuers.

Deposit-Type Plans

Deposit-type RRSPs are the most common plans. They offer familiar savings options including savings accounts, term deposits or guaranteed investment certificates.

The rate of interest may be variable, fixed or index-linked. Key choices include the term of the deposit (ranging from daily to multi-year); and frequency of interest calculations and payments to the RRSP (daily, monthly, annually, or end of term). Key considerations include the issuer's policy regarding early withdrawals (your investment may be non-redeemable for the term) and deposit insurance coverage.

Mutual Funds

There are many types of mutual funds available. Common types are money market funds, income funds, equity funds and balanced funds.

- Money market funds invest in short-term securities such as treasury bills, and government and corporate notes.
- Income funds can hold short-term securities, but predominantly invest in longer term bonds, mortgages and other stocks that generate income (i.e. dividend-paying stocks).
- An RRSP-eligible equity fund invests primarily in stocks.
- Balanced funds hold all three types of investments.

Mutual funds are divided into units. Unit values are updated frequently based on the market value of the investments.

When mutual funds are held in an RRSP, income or capital gains distributions are commonly used to purchase additional units.

Since mutual fund investments do and will fluctuate in value, they don't provide a guaranteed rate of return. Mutual funds are not covered by deposit insurance. Sales fees, called front-end or back-end loads, can be charged on the acquisition or redemption of units. In addition, all mutual funds pay management fees.

Self-Directed Plan

With this kind of plan, you can make all your own investment decisions within a wide range of qualified investments. A trustee does all the administration work for you. A self-directed plan may be uneconomical for those with limited RRSP funds, because of the normal administration and transaction fees.

Self-directed plans are suitable for those with considerable investment experience and ample time to manage the funds, or for those who want all their RRSP investments within one plan.

It is permissible to hold within your self-directed RRSP a mortgage on any property you own (non-arm's length mortgage) that is eligible for mortgage insurance. Plans involving mortgages usually incur substantially higher fees. This will result in additional mortgage insurance, legal and possible appraisal fees. Generally, you should only do this with more than \$25,000 of RRSP funds and should plan for the mortgage to exist for more than three years.

More than one self-directed RRSP can invest in the same mortgage. Only in certain pension jurisdictions can Locked-in RRSPs, LIRAs and RLSPs (see page 13) be invested in a non-arm's length mortgage.

Group (Employer-Sponsored) Plans

Group RRSPs have become popular in recent years as more and more employers make them available to their employees. They can have the same investment options as the other types of plans. An individual account is maintained within the group RRSP for each participating employee.

A group RRSP can also allow an employee to contribute to an account in their spouse's name.

Contributions to a group RRSP by an employer form part of the employee's deduction limit. They are also taxable income to the employee, offset by receiving an RRSP contribution receipt. You may not be able to withdraw the employer's contributions and/or your own contributions, and the income thereon, as long as you remain in that employment. Additional restrictions (such as requiring that the employer's portion be used to provide a pension at retirement) are not allowed.

Contributions to group RRSPs by employers and employees are usually voluntary. The employee gains non-forfeitable rights over any employer contribution as soon as that contribution is made. If employees contribute through payroll deduction, the income tax deducted from their pay cheque is reduced at the same time, recognizing the reduction in their taxable income.

When the employment terminates, any restrictions imposed by the employer on the withdrawal or transfer of funds from the group RRSP cease.

Income Tax Considerations

Capital gains or dividends earned in an RRSP increase its value. All of the funds eventually coming out of an RRSP must be declared as income for tax purposes.

Therefore, you will eventually pay tax on 100% of any capital gains and a full rate of tax on any dividends realized within an RRSP. Compare this to investments held outside an RRSP. Only one half of capital gains would be taxed, and you would pay a reduced amount of tax on the dividends by being able to claim the dividend tax credit.



What Does an RRSP Cost?

Always be sure to ask about fees before deciding which RRSP is best for you. Not all issuers charge fees, but many do. Here are a few of the most common charges:

Front-End Load

Many issuers sell RRSP-eligible products such as mutual funds through commissioned salespeople. The sales costs are often deducted from your contribution. Only the net amount is actually invested for you.

Back-End Load

Instead of a front-end load, many mutual funds offer the option of a deferred sales fee which you have to pay if you close out the plan within a certain number of years. This can be a percentage of the original contributions or the value at redemption. The percentage usually decreases for each year you stay invested in the same group of funds, and reaches nil within a maximum of 10 years.

Management Expense

This is an annual fee paid by the mutual fund to cover administrative costs including trustee fees, investment advisor fees and the cost of government reporting.

Over a number of years, this can represent a significant reduction in the net yield from your plan.

Other Fees

Many issuers charge a flat fee on RRSP withdrawals or if you transfer an RRSP to another issuer.

What to Consider When Investing an RRSP

Look for the investment that has the best potential return for the risk you are prepared to take.

If there are fees involved, take them into account in comparing the anticipated annual growth. Remember, a front-end load reduces the amount invested.

If for any reason you prefer a short term investment, make sure that your plan can be terminated quickly and at little or no cost.

To compare the earnings on guaranteed type RRSPs, don't look just at interest rates. Ask for the net annual yield.

The more you know about your options before you invest, the better.

Benefits and Advantages

Under section 207.01 of the Income Tax Act, you, or anyone related to you, cannot receive a benefit or advantage that is conditional on the existence of the RRSP. Where you have received such benefits from someone other than the RRSP issuer, you are responsible for reporting that transaction to the CRA and for payment of a penalty tax equal to 100% of that benefit.

Can You Transfer Your RRSP?

The Income Tax Act allows you to transfer your RRSP tax-free between issuers at any time. However, if your RRSP investments are non-redeemable, the issuer may not permit a transfer until the term expires. The transfer must be made directly from one issuer to another.

Transfers Following Relationship Breakdown

If RRSPs are included in property to be divided between spouses (as defined on page 2) on breakdown of the relationship, all or part of an RRSP may be transferred between them without

income tax consequences. The transfer must be made pursuant to a decree, order or judgment of a court or a written separation agreement, and CRA form T2220 must be completed to document the transfer. Transfers will be reported on a T4RSP issued in the name of the annuitant transferring the funds. This is for reporting purposes by the financial institution to the CRA and the annuitant is not required to file the T4RSP with his/her tax return.

Can You Withdraw Funds?

Funds in most RRSPs can be withdrawn, in whole or in part, depending on the original conditions at the time the investment was established. The money you withdraw is taxable and will be reported on a T4RSP by the issuer of your plan.

Withdrawals from Spousal RRSPs

There are special rules for withdrawals from spousal plans. If you have contributed or contribute to any spousal plans in the year of a withdrawal, or in either of the two preceding years, the lesser of the funds withdrawn or the amount you contributed during this period will be taxable in your name, as the contributor. This is commonly referred to as the three-year attribution rule.

Contributions within these three years are deemed to be the first funds withdrawn, regardless of whether the funds withdrawn were actually contributed prior to the attribution period. If the amount withdrawn is more than the amount contributed within the three-year attribution period, the excess is declared by your spouse, as the annuitant.

To ensure a withdrawal is taxable to the annuitant and not the contributor, you should wait until the third taxation year after the last contribution to any spousal plan.

CRA Form T2205 is used to determine whether amounts are taxable to the annuitant or the spouse.

The attribution period terminates on the death or non-residency in Canada of either party, or upon the legal separation of the spouses. It also terminates if the RRSP funds are transferred to purchase an Annuity.

If the RRSP funds are transferred to a Registered Retirement Income Fund (RRIF) and more than the mandatory minimum payment amount is taken from the RRIF in any of the three years, the amount in excess of the mandatory minimum payment, to a maximum of the contributions within the three years, would be taxed in the hands of the contributor.

The Home Buyers' Plan

Each eligible RRSP annuitant can withdraw, without immediate taxation, up to \$35,000 to be used as part of a down payment for a qualifying residence. Income tax will not be paid on any portion of the withdrawal as long as the funds are repaid to an RRSP before or during the 15 year repayment period explained on page 12. The repayments will not be tax deductible.

For First-Time Home Buyers

An individual qualifies as a first-time home buyer if, at the time of the Home Buyers' Plan withdrawal(s), the individual's principal place of residence in the four previous calendar years was not owned by the individual or the individual's spouse/common-law partner (CLP). As of January 1, 2020, the Plan allows for an exception if there is a relationship breakdown and certain requirements are met.

An individual may participate in the Plan more than once if all previous withdrawals were repaid prior to the current year and they otherwise qualify under the above definition of a first-time buyer.

The first-time home buyer restriction is waived for disabled individuals or for a relative supporting a disabled individual. The disabled individual must qualify for the disability tax credit. The purpose of the Plan withdrawal must be to acquire a home that is more accessible to, or better suited for the care of, the disabled person.

Definition of Qualifying Residence

To use the Plan, you must have entered into an agreement to purchase or construct a home that:

- is located in Canada;
- was not previously owned by you or your spouse (relationship breakdown allows for an exception);
- will be acquired by October 1 of the year following the year of withdrawal;
- is intended to be occupied as your principal place of residence no later than one year after its acquisition.

Mobile homes, co-op units, and shares in a co-operative housing corporation also qualify.

Loss of RRSP Deductions

To be fully deductible against your income, RRSP contributions must remain in the RRSP for at least 90 days. Under the Plan rules you may not be eligible to deduct all or part of your RRSP contributions made during the 89 day period just before you make a Home Buyers' Plan withdrawal. If you are planning to buy a home using funds in your RRSP, consult your credit union investment advisor to ensure you realize the full benefits of the tax deductions.

Reduced RRSPs at Retirement

Before making a withdrawal under the Home Buyers' Plan, you should consider the loss of compounded earnings on the withdrawn funds. Even if you make the repayments, there can be a substantial reduction in the value of your RRSP at retirement.

Applying for Your Home Buyers' Withdrawal

You apply by completing CRA form T1036 with your RRSP issuer. No withholding tax will be deducted from a qualifying withdrawal.

Other Withdrawal Information

- You can withdraw from any number of RRSPs, with different institutions, as long as your total withdrawals do not exceed \$35,000.
- All withdrawals must be within the same calendar year, except if you make a withdrawal within a calendar year, one or more additional withdrawals can be made in the following

January.

- Withdrawals can be made up to 30 days after the completion of a purchase.
- Withdrawals by your spouse from a spousal plan will not be attributed to you. Any amount not repaid by your spouse will be taxed in your spouse's name.
- It is the financial institution's decision whether it will allow early withdrawals from non-redeemable investments.
- A withdrawal is not permitted from a Locked-In RRSP, LIRA or RLSP (see page 13).
- Amounts withdrawn will be reported on a T4RSP in the year withdrawn.

Repayments

You are required to repay (to any RRSP*) the amount withdrawn, without interest, over a 15 year period commencing in the second calendar year following the year of your withdrawal(s). While a minimum repayment amount is set for each of the 15 years, you can repay the balance in full at any time before the 15 year mark.

** Repayment may be made to the Saskatchewan Pension Plan (SPP), subject to the maximum SPP contribution limit.*

Repayments made in the first 60 days following a calendar year can be treated as if they were a repayment for the prior year. On your income tax return, you will designate the portion of your total RRSP contribution to be used as repayment under the Home Buyers' Plan, and therefore not deductible from income.

If you repay less than the specified amount in a year, you will be taxed in that year on the portion you did not repay. If you repay more than the amount specified in a year, but not the whole balance of the withdrawal, your required repayment in subsequent years will be reduced.

If you die or become a non-resident, the balance which has not been repaid or taxed will be taxed as a lump sum in that year. To provide relief from this lump sum taxation, upon your death your surviving spouse can take over your repayment or alternative income inclusion schedule.

Retired First-Time Home Buyers

The Home Buyers' Plan is attractive to retirees who qualify as first-time home buyers. Each qualifying spouse can use up to \$35,000 of their RRSP funds toward the purchase of a residence. If you don't make any repayments you will be taxed on the amount withdrawn over 15 years. This taxation may not be an issue for you if you are retired, given you may have planned to withdraw at least the repayment amount from your RRSPs in each of those years anyway. In other words, by using the Home Buyers' Plan, you get the use of up to \$35,000 now, you pay no additional tax in the year of the withdrawal or the following year, and then you (or your surviving spouse) pay the tax with devalued dollars over 15 years thereafter.

The Lifelong Learning Plan

An individual may withdraw up to \$10,000 per year from his or her RRSP, without immediate taxation, to finance post-secondary education of the individual or the individual's spouse. Withdrawals cannot exceed \$20,000 over a four year period.

The individual must be enrolled full-time in a qualifying educational program lasting three consecutive months or more and require at least 10 hours on courses or work in the program. An LLP student who meets one of the disability conditions can be enrolled on a part-time basis.

It is the financial institution's decision whether it will allow early withdrawals from non-redeemable investments. Withdrawals are not permitted from Locked-in RRSPs, LIRAs or RLSPs (see page 13).

A tax deduction may not be allowed for an RRSP contribution made less than 90 days before amounts are withdrawn under this provision.

You are required to repay (to any RRSP*) the amount withdrawn, without interest, in equal payments over a 10 year period commencing in the year following the last year in which you are enrolled but not later than the fifth year following the year of the first withdrawal, whichever is earlier.

** Repayment may be made to the Saskatchewan Pension Plan (SPP), subject to the maximum SPP contribution limit.*

Any amount not repaid as required will be added to the income of the plan holder for that year. Special rules will apply if the RRSP funds are withdrawn and the student does not complete the educational program.

Before making a withdrawal for education, you should consider the loss of the compounded earnings on this amount for the period the funds will be out of your RRSPs. Even if you make the repayments as requested, there may be a substantial reduction in the value of your RRSPs at retirement.

You apply for this plan by completing CRA form RC96 with your RRSP issuer. No withholding tax will be deducted from a qualifying withdrawal. A T4RSP will be issued to you in the year of withdrawal.

Locked-in RRSPs, LIRAs and RLSPs

These are RRSP contracts that contain funds transferred from Registered Pension Plans (RPP) that are subject to pension legislation. The Locked-in RRSP is available for pension funds that are federally regulated under the Pension Benefits Standards Act, 1985. The LIRA is available for all provincial pension jurisdictions. The RLSP is a Restricted Locked-in Savings Plan that is available under the Federal Pension Benefits Standards Act, 1985. A transfer from an RPP to an RLSP is not permitted. The RLSP can only accept funds from a Restricted Life Income Fund (RLIF).

Withdrawals from a Locked-in RRSP, LIRA or RLSP are normally not permitted. There may be a minimum age restriction to convert the funds to a retirement income option and there may be restrictions to purchase a Life Annuity. Some pension jurisdictions will allow you to purchase a Life Income Fund (LIF) or a Locked-in Retirement Income Fund (LRIF) as an alternative to a Life Annuity. Saskatchewan pension legislation provides a Prescribed RRIF as a retirement income option to replace LIF and LRIF. Under the Federal Pension Benefits Standards Act, 1985, the Restricted Life Income Fund (RLIF) is available in addition to a LIF.

Is There Withholding Tax?

Yes, when you withdraw money (excluding withdrawals under the Home Buyers' Plan or Lifelong Learning Plan) from your RRSP, government regulations require tax to be withheld as follows:

AMOUNT WITHDRAWN	WITHHOLDING TAX DEDUCTED AT SOURCE
Up to \$5,000	10%
\$5,000.01 to \$15,000	20%
Over \$15,000	30%

Where more than one withdrawal is being made and the total amount to be withdrawn for the year is reasonably known in advance, the tax rate is based on the total of all withdrawals.

The amount of tax withheld will be reported to you on a T4RSP and should be claimed on the "Total income tax deducted (from all information slips)" line of your tax return. You should remember that RRSP withdrawals are included in your taxable income, so the tax withheld will not necessarily cover the taxes payable due to the withdrawal. On the other hand, if you are not taxable, by filing a tax return you can receive a refund of the taxes withheld.

If you are a non-resident when you withdraw funds, non-resident tax of not more than 25% will be deducted depending on the tax treaty between Canada and your country of residence.

Can You Leave Funds in an RRSP Indefinitely?

No, you must either purchase a retirement income option or withdraw your funds before the end of the calendar year in which you reach age 71.

Designation of Beneficiary

NOTE: A beneficiary designation on the RRSP contract is not recognized in Quebec.

When designating a beneficiary on an RRSP:

- You may designate one or more primary beneficiaries, as well as one or more alternate beneficiaries. Your spouse can be named as either a primary or alternate beneficiary.
- The portion of the RRSP proceeds payable to your spouse or to a financially dependent child or grandchild may be transferred directly to another registered plan as permitted by the Income Tax Act or paid to the beneficiary.
- The proceeds of the RRSP will be divided among the named "primary beneficiaries" who are alive at the date of your death. If all the primary beneficiaries have predeceased you, the proceeds would be divided among the named "alternate beneficiaries" who are alive at the date of your death. If none of the named beneficiaries survive you, or if none of them are willing to accept the funds, the proceeds will be paid to your estate.
- If the designation names a child under the age of majority or an incompetent individual, there may be a legal requirement that the proceeds of the RRSP be paid to the Public Trustee or Official Guardian or to a court-appointed property guardian.
- If your designated beneficiary predeceases you, the designation on the contract does not provide for the proceeds to pass to that beneficiary's children.
- Except in those situations noted below, the estate is responsible for reporting and paying income tax on the funds. This could result in an inequitable distribution of assets if the designated beneficiaries are not the only residual beneficiaries of the estate.

Exceptions could occur if:

- 1) Your spouse is designated as the sole beneficiary of the RRSP and the entire amount is transferred to his/her RRSP or RRIF. If these conditions are not met, a joint election by your spouse and your estate representative can be made to report all or part of the amount as income of your spouse.
- 2) You had financially dependent children or grandchildren at the date of your death. Provisions in the Income Tax Act permit the transfer of RRSP proceeds to financially dependent children or grandchildren, and depending on the circumstances, the proceeds may be reportable as income of the child or grandchild rather than income of the deceased. If the child is physically or mentally infirm, the proceeds can be transferred to his/her RRSP, RRIF or contributed to his/her RDSP. The estate would not be required to pay income tax on the amount transferred/contributed.

NOTE: If your estate has insufficient assets to pay taxes on RRSP proceeds paid to designated beneficiaries, the Canada Revenue Agency (CRA) will collect the outstanding income tax from those individuals.

Making the 'Best' Designation

The decision of when and how to make a designation is your responsibility alone. The "best" designation is the one that meets your personal and estate planning objectives.

Careful consideration should be given to:

- **Changes in your personal circumstances.**
When you prepare a new Will or if you marry, any former Wills may be revoked. Depending on the applicable provincial legislation, a designation of beneficiary in a Will may be revoked at the same time. It is important to note that the designation on a "designation form" will not automatically be revoked or changed by any future marriage or divorce. You must complete a new designation form in order to effect a change.
- **The liability for the payment of debts and taxes.**

- **Pertinent provincial and federal legislation.**
Pension funds are subject to, and regulated by, specific federal and provincial legislation. If you designate a person other than your spouse (or other individual who has been given similar rights under applicable legislation) to receive the proceeds, legislation may override and void your designation.

Whatever method of designation you select, a review is recommended when there are changes in legislation or in your personal circumstances. If you do not designate anyone or if the beneficiary predeceases you or refuses the gift, the proceeds will be paid to your estate and distributed in accordance with the terms of your Will (or under the laws of intestacy if you don't have a Will).

What Happens if You Die?

If your spouse is the beneficiary of your RRSP or inherits these amounts under your Will, the proceeds can be transferred to an RRSP, RRIF or Annuity for your spouse. He or she will not have to pay tax on the funds until they are withdrawn.

If your beneficiary is a child or grandchild who was your financial dependent, there are a number of options available for continued tax sheltering.

In all other circumstances, your RRSP funds are taxed on your final tax return. The result is the same as if you had withdrawn your RRSP immediately before your death.

If a registered charity is the designated beneficiary of the RRSP in the plan or Will, the charitable donations tax credit can be extended to the estate.

Contributions After Death

Following your death, your legal representative cannot make further contributions to your RRSP. However, your legal representative can arrange contributions to RRSPs for your spouse and then deduct those amounts on your final tax return. This applies to contributions for the year of death made within your RRSP deduction limit (see page 3). The contributions must be made within 60 days after the end of the calendar year of your death.



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Prepared with assistance by SaskCentral, Central 1, Concentra and Peter Bellworthy.

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