Lower RRIF minimum withdrawals for 2020: Canada's COVID-19 response plan

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On March 25, 2020, the government passed legislation that lowered the minimum amount that must be withdrawn from a Registered Retirement Income Fund (RRIF) in 2020 by 25%, "in recognition of volatile market conditions and their impact on many seniors' retirement savings." This is welcome relief for retirees who may have suffered a decline in the value of their RRIFs since January 1, 2020.

What's a RRIF?

You must convert your Registered Retirement Savings Plan (RRSP) to either a RRIF or a registered annuity before the end of the year you turn 71.[1] While you may keep the same investments as an RRSP and enjoy continued tax deferral on the funds in a RRIF, you must withdraw at least the required minimum amount annually from your RRIF, starting in the year after you set it up.

The required minimum amount is based on a percentage factor, often referred to as the "RRIF factor," multiplied by the fair market value of your RRIF assets on January 1st each year. For example, if you have $100,000 in your RRIF and you were 71 at the beginning of the year (i.e. January 1), you must withdraw $5,280 (5.28% times $100,000) in the year. The RRIF factor increases each year until age 95, when the percentage is capped at 20%.

On March 25, 2020, the government passed legislation as part of the Government of Canada's COVID-19 Economic Response Plan that decreases the required minimum withdrawals from RRIFs by 25% for 2020. Figure 1 (on page 2) shows the regular RRIF factors and the lower RRIF factors for 2020, starting at age 71.[2] The lower RRIF factors start at 3.96% at age 71, rising to 15% at age 94.

The lower minimum withdrawal factors also apply to Life Income Funds (LIFs) and other locked-in RRIFs. If you receive variable benefit payments from a defined contribution registered pension plan or pooled registered pension plan, these amounts will also be reduced by 25% in 2020.

If you have already withdrawn more than the lower minimum amount in 2020, you will not be permitted to re-contribute any excess to your RRIF.[3]

These changes apply only for 2020, so the regular RRIF withdrawal factors will apply again starting in 2021.

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1 Alternatively, you may choose to cash in your RRSP and withdraw the funds/investments by December 31st of the year you turn 71. The fair market value of the RRSP assets that are withdrawn will be included in your income for the year.

2 For ages up to 71, the RRIF factors have also been reduced by 25% for 2020 and are calculated using the formula: 1 divided by (90 minus your age on January 1, 2020) times 75%.

3 See Government of Canada, Economic Statement - New Measure for Annuitants of Registered Retirement Income Funds, answer to Question 3 at canada.ca/en/revenue-agency/services/tax/registered-plans-administrators/registered-retirement-savings-plans-registered-retirement-income-funds-rrsps-rrifs/economic-statement-measure-annuitants-rrsp-rrif.html.

Figure 1: Regular and 2020 lower RRIF factors

Age (at start of year)	Regular RRIF factors (%)	2020 lower RRIF factors (%)
71	5.28	3.96
72	5.40	4.05
73	5.53	4.15
74	5.67	4.25
75	5.82	4.37
76	5.98	4.49
77	6.17	4.63
78	6.36	4.77
79	6.58	4.94
80	6.82	5.12
81	7.08	5.31
82	7.38	5.54
83	7.71	5.78
84	8.08	6.06
85	8.51	6.38
86	8.99	6.74
87	9.55	7.16
88	10.21	7.66
89	10.99	8.24
90	11.92	8.94
91	13.06	9.80
92	14.49	10.87
93	16.34	12.26
94	18.79	14.09
95 & over	20.00	15.00

Example 1

Jack turned 71 in 2019 and converted his RRSP to a RRIF in December 2019. On January 1, 2020, the fair market value of Jack's RRIF was $100,000. Using the regular minimum amount rates, he would have been required to withdraw at least $5,280 in 2020. Using the lower minimum amount rates for 2020, Jack will now only be required to withdraw $3,960 and can effectively leave $1,320 more in a tax-sheltered environment. Jack is still free to withdraw more than $3,960, but he is not required to do so.

Jack previously instructed his RRIF carrier to distribute the minimum amount to him through equal payments on the 15th of each month in 2020. For each of January, February and March, Jack has received $440 ($5,280 divided by 12), for a total of $1,320. If he decides to withdraw only the lower minimum amount of $3,960 in 2020, he could instruct his carrier to reduce his monthly payments to $293.33 (calculated as ($3,960 minus $1,320) divided by 9) for the remaining nine months of 2020, starting in April 2020. Jack can also choose to receive higher payments from his RRIF, perhaps to cover his expenses. If he does withdraw an amount in excess of the lower minimum amount, he may not recontribute the excess to his RRIF.

Withholding at source

When you withdraw amounts from a RRIF, tax must be withheld by your RRIF carrier from withdrawals exceeding the RRIF minimum amount for the year. The general rule is that when you receive annual payments from a RRIF in excess of the "minimum amount," the RRIF carrier must withhold 10% if the excess payment is up to $5,000, 20% if the excess payment is between $5,000 and $15,000, and 30% if the excess payment is more than $15,000.[4] Note that these rates are only estimates of taxes owing and, since no tax is withheld at source on the minimum amount, RRIF annuitants may end up owing additional taxes when they file their personal tax returns, depending on their marginal tax rates, deductions and credits.

For purposes of determining the tax to be withheld from excess (above the minimum amount) RRIF withdrawals made in 2020, the government has stated that the regular minimum amounts are to be used.[5]

Example 2

On January 1, 2020, Doris was 71 and had a RRIF worth $100,000. Absent the lower RRIF minimum amount for 2020, Doris would have been required to withdraw at least $5,280 from her RRIF in 2020. Under the lower minimum amount rules she will only need to withdraw $3,960 in 2020.

What if Doris decides to withdraw one lump sum payment of $8,000 in 2020? The amount of tax that would be withheld on the withdrawal is $272 (calculated as ($8,000 minus $5,280) times 10%)[6] since the government is allowing the regular minimum amount to be used for purposes of calculating the withholding tax on excess payments.

Non-resident withholding tax on RRIF withdrawals

If you are a non-resident of Canada, non-resident tax must generally be withheld from your RRIF withdrawals; however, if you are resident in a country that has a tax treaty with Canada, the amount of non-resident tax may be reduced or eliminated. Some treaties apply a reduced withholding tax rate for "periodic pension payments," which includes payments from a RRIF where the total annual withdrawals do not exceed the greater of:

- Twice the minimum amount for the year; and
- 10% of the fair market value of the property of the RRIF at the beginning of the year.

For example, under the Canada-U.S. Tax Treaty, the tax rate for non-resident withholdings is generally 25% but a reduced rate of 15% applies to periodic pension payments.

For purposes of determining non-resident withholding tax in 2020 in these treaty cases, the government has indicated that the higher regular minimum amounts are to be used.[7]

Example 3

John has a RRIF with an opening balance on January 1, 2020 of $100,000. John is a resident of the U.S. and is 71 years of age.

The government is allowing the regular RRIF factors to be used in the calculation of non-resident withholding tax on RRIF withdrawals. This means the lower 15% non-resident withholding tax rate will apply if John does not withdraw more than $10,560, which is the greater of:

- $10,560, which is twice the regular minimum amount of $5,280 ($100,000 times 5.28%) for the year; and
- $10,000 (10% times $100,000).

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4 For Quebec residents, there is a Quebec withholding tax of 15%. The federal withholding tax is reduced to 5% on amounts up to $5,000, 10% on amounts between $5,000 and $15,000, and 15% on amounts over $15,000.

5 Government of Canada, supra note 2, answer to question 6

6 Assumes that Doris is not a resident of Quebec, as different withholding rates apply for Quebec residents.

7 Newly enacted subsection 146.3(1.5) of the *Income Tax Act* (Canada)

Spousal/common-law partner plans

A spousal/common-law partner RRSP is an RRSP to which your spouse or common-law partner has made a contribution and which you are the annuitant. Under the attribution rules, if you withdraw an amount from a spousal/common-law partner RRSP/RRIF, attribution will apply to the extent that your spouse or partner contributed to any spousal/common-law partner RRSP for you in the current or previous two calendar years. When this happens, the amount you withdrew from a spousal/common-law partner RRSP/RRIF will be attributed back and included in your spouse's or partner's income. The spousal attribution rule does not apply to the withdrawal of the minimum amount. For 2020, the regular RRIF factors are to be used when determining the amount that is attributed.[8]

Example 4

Susan is the annuitant of a spousal RRIF with a fair market value of $100,000 on January 1, 2020, when Susan was 71 years of age. Her husband, Bob, made total contributions of $6,500 to the spousal RRSP in 2018 and 2019. Susan withdraws $7,000 from the spousal RRIF in 2020. As contributions were made by Bob in the previous two years, attribution of income to Bob is a concern.

Since the regular minimum amount can be used for this calculation, there will only be attribution back to Bob for spousal RRIF withdrawals over $5,280 ($100,000 times 5.28%) and up to $6,500 (the total of Bob's contributions to spousal RRSPs for Susan in the current and two prior calendar years.) Consequently, Bob will pay tax on $1,220 ($6,500 minus $5,280) of the RRIF withdrawal and Susan will pay tax on $5,780 (i.e. $7,000 withdrawal less the $1,220 attributed and taxed in Bob's hands).

Conclusion

With the lower RRIF minimum amounts in effect for 2020, you now have more flexibility in managing your retirement savings since you can leave more of your funds in a tax-sheltered environment in 2020, if that best suits your personal cash flow needs for the year.

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[8] This is also contained in newly enacted subsection 146.3(1.5) of the *Income Tax Act* (Canada)