



## RETIREMENT SAVINGS GUIDE

With increased life expectancies, you could be spending a third of your lifetime in retirement. While that period of your life may still be a few years away, it is crucial that you accumulate significant retirement savings during your prime working years to support the retirement that you may have envisioned. More and more Canadians are quickly coming to realize that they should be taking steps now to ensure their financial independence in retirement.

A *Registered Retirement Savings Plan (RRSP)* is a highly effective way to build a pool of assets for retirement because of the preferential tax treatment that it receives. It allows you to defer taxes on some of your annual earned income. In fact, you can effectively achieve a “tax-free rollover” of income to your RRSP because you are allowed a tax deduction for your RRSP contributions. Furthermore, as long as your funds remain within your RRSP, investment returns are not taxable. Over the long term, tax-free compounding of investment returns can add up to substantial additional savings.

### CONTRIBUTIONS

Canada Revenue Agency’s (CRA) Notice of Assessment, which follows your annual tax return, should indicate your allowable RRSP contribution limit, inclusive of any unused RRSP contribution room since 1991 (see “*RRSP Carry Forward*”). If your Notice of Assessment has been misplaced, contact the CRA, or access your personal tax information online through CRA’s website for your most up-to-date allowable contribution room ([www.cra-arc.gc.ca](http://www.cra-arc.gc.ca)).

#### **RRSP Carry Forward**

Beginning with your 1991 contribution limit, you may carry forward unused RRSP contribution room indefinitely. Despite this carry forward provision, you should always make your maximum annual RRSP contribution, if possible, even if you do not wish to use the tax deduction until a future year (see below). If you miss contributions now, you may not be able to contribute later. Failing to contribute to your RRSP can mean that you will be delaying the opportunity to earn compounded tax-free returns. The carry forward provision does not apply to retiring allowance rollovers.

#### **Contribution Age Limit**

Provided that you have RRSP contribution room available, you can contribute to your RRSP up until December 31<sup>st</sup> of the year in which you turn 71 years old. If you are over 71 but your spouse is not, you can direct any eligible contributions to a Spousal RRSP up until December 31<sup>st</sup> of the year your spouse turns 71 years old. After the end of the year in which you turn 71, you must convert your RRSP to a maturity vehicle that provides retirement income.

#### **Contribution Deadline for Tax Purposes**

Each year, your RRSP contribution room is updated based on the previous year’s income. In order to be eligible to claim a tax deduction for RRSP contributions, the contribution must be made during the calendar year or within the first 60 days of the following calendar year. For example, if your RRSP contribution room for 2018 is \$26,230 and you want to claim a tax deduction for this amount on your 2018 income tax return, you have to contribute to your RRSP between January 1, 2018 and March 1, 2019. If you turn 71 in 2018, you cannot contribute to your RRSP after December 31, 2018.

## CONTRIBUTE NOW AND CARRY THE TAX DEDUCTION FORWARD

You can contribute to your RRSP up to your annual contribution limit in any given year, without having to claim it as a tax deduction for that year. In other words, you can contribute now and immediately benefit from the tax-free compounding of investment returns, but defer the tax deduction to a future year when it might be more advantageous.

*Note: Your total RRSP contribution limit includes any unused RRSP contribution room from previous years.*

### To estimate your RRSP contribution limit for a particular tax year:

- Take the lesser of A and B:
  - A. 18 percent of the previous year's earned income.
  - B. The maximum annual contribution limit (\$26,230 for 2018)
- If you are a member of a Registered Pension Plan or Deferred Profit Sharing Plan, subtract the previous year's Pension Adjustment (PA) and Past Service Pension Adjustment (PSPA).
- Add any applicable Pension Adjustment Reversal (PAR).

## TYPES OF CONTRIBUTIONS

### Pre-authorized Contribution Plan

When you set up a Pre-authorized Contribution Plan (PAC), you can automatically transfer funds periodically from your bank account to your RRSP. A PAC plan makes it easy to contribute, and is an effective way to implement a systematic savings program.

### Borrowing to Make an RRSP Contribution

It may be worthwhile to borrow all or part of your RRSP contribution, especially if your investment returns will be greater than the cost of borrowing, however, any tax refund should be applied against the loan, with an aim to repay the loan in full within one year. You cannot deduct any interest paid on money borrowed to contribute to an RRSP.

### "In Kind" RRSP Contributions

Instead of making a cash contribution to your RRSP, you may be able to contribute some non-registered securities that you already own. Providing you have a Self-Directed RRSP (see "Self-Directed RRSP"), you can contribute qualified investments (e.g., eligible mutual funds, T-Bills, GICs, common shares and bonds) and receive a tax deduction equal to the fair market value at the time of the contribution. When you contribute in kind, you are deemed to have sold the securities when the contribution is made, and any accrued capital gains are taxable. Unfortunately, you cannot realize any capital losses for tax purposes, so you should not contribute "losers". Your RRSP contribution slip for CRA will clearly indicate that the contribution is in kind not in cash.

### The \$2,000 Over-Contribution Limit

You are allowed to contribute and maintain up to \$2,000 of over contributions in your RRSP. This is a lifetime cumulative limit and is only available to those who have reached at least age 18 in the previous year. If you exceed the over contribution limit, you will be subject to a one percent per month penalty tax on any excess amount. The \$2,000 limit is designed to provide a margin for error in calculating RRSP contribution amounts.

You cannot claim a tax deduction if you make an over contribution. The over contribution amount will be taxed as income when withdrawn, however, the tax-free compounded investment returns within your RRSP may compensate for the double taxation over the long term. If your over contribution is withdrawn after only a short period of time, you will not receive any benefit to make up for the double taxation.

An amount can cease to be an over contribution and can be claimed as a tax deduction when new RRSP contribution room becomes available. In future years, you can choose to absorb the over contribution with new RRSP contribution room.

## WITHDRAWING AN “ACCIDENTAL” OVER-CONTRIBUTION WITHOUT TAX CONSEQUENCES

When you withdraw an over contribution from your RRSP, the withdrawn amount must still be included in taxable income. This amount is effectively tax-free if you are allowed to claim an offsetting deduction by submitting *Form T746, Calculating Your Deduction For Refund Of Unused Contributions*. In order to claim an offsetting deduction, you must prove your case to the CRA. You must show the CRA that it is reasonable to consider that:

- You expected the full amount of the over contribution to be deductible in either the year the contribution was made or in the preceding year, and
- You did not make the over contribution with the intent of subsequently withdrawing the contribution and claiming a tax deduction.

Withholding tax on the withdrawal may be waived by submitting *Form T3012A, Tax Deduction Waiver On The Refund Of Your RRSP Contributions*, to the CRA for advance approval. Where over contribution penalties are accruing, a T3012A is not required.

## RRSP WITHDRAWALS

You can withdraw funds from your RRSP at any time. When funds are withdrawn, a T4RSP tax slip will be issued, and the withdrawn amount will be taxed as income for the year of withdrawal. Withholding taxes are also applied when a withdrawal occurs (see “Withholding Tax At Source”). As a result, you may owe additional money to the government when you file your income tax return, depending on your personal tax situation.

### Withholding Tax at Source

Just as employers are required by law to hold back a percentage of tax on employees’ pay cheques (essentially a down payment of taxes), financial institutions are required to withhold tax at prescribed rates on withdrawals from RRSPs.

The amount of tax you owe the government in April, or the refund the government owes you after processing a withdrawal, is dependent on an individual’s annual income.

## ADVANTAGE RULES AND PENALTIES

### Swap Transactions

A swap transaction is an exchange of securities for cash between accounts in which you are the annuitant.

Where a swap enables you to realize an advantage within your RRSP, a penalty tax equal to 100 percent of the benefit resulting from the swap may be charged. This effectively eliminates the ability to complete a swap between an RRSP and a non-registered account.

*Note: If an advantage occurs the annuitant is required to file CRA form RC339, Individual Return for Certain Taxes for RRSPs or RRIFs along with payment for any tax owing as a result of the advantage. The form and payment must be remitted to CRA no later than June 30<sup>th</sup> of the following year.*

### There are exceptions to this rule to permit:

- Swaps between registered plans of the same annuitant where either both plans are RRSPs; and
- Swaps to remove either non-qualified investments or prohibited investments that are subject to the 50 percent penalty tax out of an RRSP until at least December 31, 2021. This exception is allowed if the annuitant is eligible to receive the tax refund. See “Non-Qualified Investments” or “Prohibited Investments” for more information.

### Non-Qualified Investments

An RRSP provides you with access to a wide range of investments, such as common shares, bonds and mortgages, as long as they are considered “qualified investments.” There are investments which are considered to be “non-qualified” when held in an RRSP. These include specific types of shares held within private investment holding companies, foreign private companies or real estate corporations. These investments, whether initially purchased as a non-qualified investment or becomes a non-qualified investment at a later date, may result in tax consequences.

Non-qualified investments or qualified investments that become non-qualified, will be added to your income for the year at a rate of 50 percent of the fair market value of the investment on the date of acquisition, or at the time it becomes a non-qualified investment. Any tax penalty incurred as a result of this adjustment may be refundable if the investment is removed from your RRSP before December 31<sup>st</sup> of the calendar year following the year in which the liability for the tax arose. This applies to cases where it can be proven that the purchase of the non-qualified investments are inadvertent and are resolved promptly.

Investment income earned on a non-qualified investment in a RRSP will remain taxable regardless of when it was purchased, or became a non-qualified investment, until it is removed. Annuitants who owe tax for the year due to holding non-qualified investments must file CRA form *RC339, Individual Return for Certain Taxes for RRSPs or RRIFs*. The return must be filed with payment for any balance due, no later than June 30<sup>th</sup> of the following year.

Any investment considered both non-qualified and prohibited will be deemed to be a prohibited investment, only for tax purposes. See “Prohibited Investments” for more information.

### **Prohibited Investments**

There are cases whereby an investment categorized as a “qualified investment”, may still be considered a prohibited investment. A prohibited investment can be classified as an investment which meets any of the following criteria:

- Debt of the annuitant;
- Investments in which you have a significant interest (you own ten percent or more of the issuing company, either individually or as a member of a related group), or where you do not deal at arm’s length\*.

*\*A non-arm’s length transaction is one where parties are related, or the parties do not deal at arm’s length for another reason, such as they acted in concert without separate interests.*

Prohibited investments, or investments that become prohibited after being acquired, are subject to a tax equal to 50 percent of the fair market value of the investment from the date of acquisition or the date it becomes a prohibited investment. This tax may qualify for a refund if the prohibited investments were inadvertently held, and are promptly removed from the RRSP.

Annuitants who owe taxes due to holding prohibited investments must file CRA form *RC339, Individual Return for Certain Taxes for RRSPs or RRIFs*. The return must be filed with payment for any balance due no later than June 30<sup>th</sup> of the following year.

In addition to the 50 percent penalty, investment income earned on the prohibited investments will be treated as an “advantage” and may be subject to a 100 percent penalty tax. Transitional rules will also apply to such income, in compliance with “transitional prohibited investment benefits”. Your transitional prohibited investment benefit for a tax year is the total of any income earned and capital gains realized in the tax year on prohibited investments, less any capital losses realized on those investments.

Transitional rules state that the annuitant of the RRSP must elect for relief by filing CRA form *RC341, Election of Transitional Prohibited Investment Benefit for RRSPs or RRIFs*. You will be required to withdraw the funds from your RRSP within 90 days of the end of the year in which the income or gains are earned or realized as an amount equal to your transitional prohibited investment benefit for the year.

If applicable, the investment income earned on the prohibited investment will not be considered an “advantage” and instead will be included in the income of the annuitant.

Any investment considered both non-qualified and prohibited will be deemed to be a prohibited investment only for tax purposes. See “Non-Qualified Investments” for more information.

## SPOUSAL RRSPS: AN INCOME SPLITTING OPPORTUNITY

Any amount of your eligible Registered Retirement Savings Plan (RRSP) contribution room may be directed to a Spousal RRSP instead of your own RRSP. While the RRSP plan and its assets are owned and controlled by your spouse, you will be able to claim a tax deduction for the amount you contributed to the Spousal RRSP. Your contribution to a Spousal RRSP will not affect your spouse's ability to contribute to his or her own RRSP, based on their personal contribution limit.

### Three Year Withdrawal Rule

The Three Year Withdrawal rule is an “anti-avoidance” provision currently in place for spousal plans, preventing higher income individuals from contributing to a plan, and almost immediately withdrawing the funds so they can be taxed to the lower income spouse.

Generally, this provision stipulates that amounts withdrawn from Spousal RRSPs are to be taxed to the contributor if any spousal contributions have been made in the year of the withdrawal or in the two previous calendar years. As a result of this provision, funds from Spousal RRSPs and non-Spousal RRSPs should not be blended. The three year withdrawal rule does not apply if your spouse withdraws funds while you are living apart, due to marriage breakdown.

If your spouse transfers funds from a Spousal RRSP to a RRIF, the RRIF becomes a spousal plan for tax purposes. Amounts that are withdrawn in excess of the annual minimum are subject to the three-year withdrawal rule.

*Note: The annual minimum is zero in the year a RRIF is set up. Any amount withdrawn in that year may be taxed to the contributor under the three-year rule. CRA form T2205 is used to determine which spouse should be taxed on withdrawals from RRSPs and RRIFs.*

LAST CALENDAR YEAR THAT YOU MADE A CONTRIBUTION TO A SPOUSAL PLAN	FIRST CALENDAR YEAR YOUR SPOUSE CAN WITHDRAW FUNDS WITHOUT TRIGGERING ATTRIBUTION ON THE CONTRIBUTION AMOUNT
2015	2018
2016	2019
2017	2020
2018	2021

*Note: This year you claimed a tax deduction for the contribution is not relevant.*

### Pension Income Splitting

A Canadian resident who receives income that qualifies for the existing pension income tax credit can allocate up to 50 percent of that income to their Canadian resident spouse or common-law partner. This pension income splitting legislation enables a taxpayer to split this income with their lower-income spouse by filing a joint election on their personal income tax returns.

#### Individuals over the age of 65 may split income from the following sources with their spouse or common-law partner:

- Pension plans
- Registered Retirement Income Funds (RRIFs)
- Life Income Funds (LIFs)
- Locked-In Retirement Income Funds (LRIFs)
- Prescribed Retirement Income Funds (PRIFs)
- Federal Restricted Life Income Funds (RLIFs)
- Annuities purchased with funds from a Registered Retirement Savings Plan (RRSP) and Deferred Profit Sharing Plans (DPSPs)
- Taxable component of non-registered annuity payments

Individuals under the age of 65, may only split income from pension plans, and some forms of annuity income, including income from a registered plan as the result of the death of a spouse, with a spouse or common-law partner.

## RRSPS AT DEATH

An RRSP annuitant is deemed to have de-registered RRSP assets at fair market value at the time of their passing. This typically results in additional taxes incurred, payable in the year of passing. The full value of the account is not taxed in the hands of the deceased if a spouse or common-law partner (collectively, “the spouse”), or a financially dependent child or grandchild is designated as the beneficiary of the RRSP. This strategy eliminates the need for probate, or equivalent letters of administration, or certificate of estate trustees as applicable (probate is not applicable in Quebec).

When a spouse is designated as the beneficiary of the RRSP, the full value of the account is passed directly to the spouse upon the RRSP holder’s death. Regardless of whether or not your spouse is assigned as the beneficiary on your RRSP contract, or you leave the RRSP to your spouse in a Will, they will have two options on how to treat the funds:

- The RRSP assets can be rolled directly into their personal RRSP or RRIF.
- Your spouse can withdraw the full amount of the RRSP in cash. The withdrawal amount must be added to your spouse’s annual income, and withholding taxes will apply.

If you name a financially dependent child or grandchild who has a mental or physical disability as the beneficiary of your RRSP, the assets can be rolled into the child’s RRSP. If the financially dependent child or grandchild is not disabled, RRSP assets cannot be rolled directly to their personal RRSP. The assets can be distributed to the beneficiary and taxed in the child’s hands, or used to purchase a registered annuity which distributes the total funds in periodic fixed installments up until their 18<sup>th</sup> birthday.

If an individual other than your spouse or financially dependent child or grandchild is named as the beneficiary, they will receive the full value of the RRSP tax-free and without the requirement for probate. In this situation, the fair market value of your RRSP at the time of death will be taxable to your estate and must be added to your tax return for the year of death (your terminal return).

### Leaving RRSP Assets to Heirs In Your Will

In most jurisdictions, if you leave RRSP assets to “non-dependents” in your Will, and the Will specifically designates such a person as the beneficiary of the RRSP, this is considered equivalent to naming the individual as the beneficiary on the RRSP contract. The only exception to this distinction is that probate fees will apply. In this case, the beneficiary will receive the full value of the RRSP tax-free, but the fair market value of the RRSP at the time of death will be taxable to your estate.

RRSP assets will be distributed to the beneficiaries after tax, with any applicable estate taxes deducted. If the estate does not have cash available to cover the taxes payable, CRA is authorized to collect the taxes owing from the RRSP beneficiaries, pro-rated to the amount they receive from the RRSP. It is important to note that an inequitable situation could arise when RRSP assets are left to one heir via a beneficiary designation, and other assets are left to another heir via the Will.

### Fair Market Value of an RRSP at Death

Any decrease in the value of the RRSP following the annuitant’s death can be carried back and deducted against the RRSP income inclusion on the deceased’s terminal return. Previously, if the fair market value of an RRSP declined in value after the annuitant’s death, but before funds were paid out to the beneficiaries, the deceased was taxed on an amount greater than the amount actually received by heirs upon the windup of the RRSP.

*Note: You are advised to seek professional tax and legal advice regarding the coordination of your Will and your beneficiary designations since there are many factors to be taken into account, including tax and family law considerations.*

## RETIRING ALLOWANCE ROLLOVER

At the time of retirement or termination of employment, employees are typically offered some sort of severance payment. Severance paid out as a retiring allowance in respect of pre-1996 employment service receives special tax treatment, which is subject to certain limits (see our Special Report, RRSP Quick Reference Summary). These funds will also be eligible for tax-free rollover to your RRSP, but not to a Spousal RRSP. This rollover does not affect your regular RRSP contribution room.

You can choose to have your employer roll the funds directly to your RRSP, in which case, tax will not be withheld, or you can receive the money as cash and contribute it to your RRSP. If you wish to take advantage of the special tax treatment available, you must contribute the funds to your RRSP within 60 days after the end of the year that the retiring allowance is received; there is no carry forward allowed in this case. For more information on retiring allowances, see our Special Report, *Early Retirement Strategies*.

## PENSION ADJUSTMENT REVERSAL (PAR)

The Pension Adjustment Reversal (PAR) was introduced to restore lost RRSP contribution room. If you leave a Registered Pension Plan (RPP) or Deferred Profit Sharing Plan (DPSP) before retirement, and you receive a commuted value that is less than the RRSP room given up while a plan member, a PAR should largely restore the RRSP room that otherwise would be lost forever.

## SELF-DIRECTED RRSP

With some types of RRSP accounts, the types of investments you can hold are restricted. For instance, you may be limited to term deposits, guaranteed investment certificates (GICs) and certain mutual funds. A Self-Directed RRSP offers maximum flexibility and broad investment choices. This type of plan allows you to hold a wide range of securities (e.g., stocks, bonds and mutual funds) and gives you the ability to change the mix of investments to correspond with changes in age, risk tolerance, and economic climate.

### Should Your Self-directed RRSP Invest in Your Mortgage?

This may make sense if you believe the interest rate on your mortgage will outperform your potential return on other investments available for your RRSP. The RRSP mortgage must have normal commercial terms, including market interest rates, and it must be insured by the National Housing Act (NHA) or a public mortgage insurer. It is important to understand that there is no tax advantage to holding your own mortgage in a Self-Directed RRSP and you will remain obligated to make regular mortgage payments. Since there are set-up and legal fees in addition to annual administration fees, this strategy is usually only considered if the RRSP is fairly large (e.g., \$100,000 or more).

## THE HOME BUYERS' PLAN (HBP)

The HBP allows you to borrow up to \$35,000\*\* from your RRSP to buy or build a home. In order to participate in the HBP, you must complete form *T1036, Applying to Withdraw an Amount Under the Home Buyer's Plan*, for each withdrawal. Generally, you cannot participate in the HBP if you owned your principal residence in the past five years. If you have a spouse or common-law partner and you are both eligible for the plan, you can each withdraw up to \$35,000\*\* from your own RRSPs.

You are required to repay your RRSP over a period of 15 years, with payments starting two years after the year of withdrawal. As with RRSP contributions, you are allowed to make your repayment within the 60 days following the year end. Amounts contributed to your RRSP as HBP repayments are not eligible for a tax deduction and they do not affect your annual RRSP contribution limit. If you fail to repay the required amount when it is due, the amount must be added to your taxable income. You always have the option of repaying the funds withdrawn for the HBP sooner if you wish. It is also important to know that the amount of your RRSP contributions claimed as a deduction will be reduced by the amounts of contributions allocated to repay a HBP withdrawal.

If you withdraw funds from an RRSP under the Home Buyers' Plan within 89 days of contributing to the RRSP, part or all of your RRSP contribution may not be tax deductible. For more information on the Home Buyers' Plan, please refer to the CRA website at [www.cra-arc.gc.ca](http://www.cra-arc.gc.ca).

## THE LIFELONG LEARNING PLAN (LLP)

The LLP allows you to withdraw up to \$10,000 in a calendar year and up to \$20,000 in total from your RRSPs to finance full-time training/education for you, or your spouse/common-law partner. In order to participate in the LLP, you must complete form *RC96, Lifelong Learning Plan (LLP) Request to Withdraw Funds from an RRSP*. As long as you meet the requirements of the LLP every year, you can withdraw amounts from your RRSP until January of the fourth year after the year you make your first LLP withdrawal. Generally, you are required to start repaying your LLP withdrawals at the beginning of the fifth year after your first LLP withdrawal and the second year after completing the qualifying educational program. However, in most cases, the repayments will start earlier than that.

For more information on the Lifelong Learning Plan, please refer to the CRA website at [www.cra-arc.gc.ca](http://www.cra-arc.gc.ca).

## WE'RE HERE TO HELP

Your CIBC Wood Gundy Investment Advisor can help you understand all of your registered plan options and how you can benefit from RRSP contributions. **Contact your CIBC Wood Gundy Investment Advisor today to learn more.**

\*\*Withdrawal limit increase effective March 20 2019 as outlined in the 2019 Federal Budget.

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