

WOOD GUNDY

RRSP QUICK REFERENCE SUMMARY

Maximum RRSP contribution limit

2022 – 18% of previous year's earned income up to \$29,210 less Pension Adjustments (PA)

2023 – 18% of previous year's earned income up to \$30,780 indexed to Cost of Living Allowance less PA

2024 – 18% of previous year's earned income up to \$31,560 less PA

\$2,000 over contribution

- Must have reached at least age 18 in preceding year to be eligible
- Over contributions in excess of \$2,000 are subject to one percent per month penalty
- No RRSP deduction and withdrawals taxed (to claim offsetting deduction taxpayer must prove it was accidental)

Examples of earned income

- Employment income
- Net income from self-employment; Net rental income
- Alimony/maintenance received (under certain circumstances)
- CPP/QPP disability benefit (not regular CPP/QPP)

Contributing securities you already own

(Making contributions to self-directed RRSPs "in kind" rather than in cash)

- Contribution equal to fair market value of securities at time of contribution
- Deemed disposition of securities when contribution made
- Capital gains taxable and capital losses denied

Spousal RRSPs

- Direct your contribution to a spousal plan; you claim deduction
- May contribute to spousal plan until the end of the year your spouse turns 71 (providing you have contribution room)
- Plan and plan assets are owned and controlled by spouse
- Rolling funds from spousal RRSP to RRIF creates spousal RRIF

Home Buyers' Plan

- Withdraw maximum of \$35,000 from RRSP
- Cannot have occupied your own or your spouse's home for five years
- Must complete form T1036 Applying to Withdraw an Amount Under the Home Buyer's Plan
- Must repay minimum 1/15th of total per year; report on Schedule 7 with tax (non-payments must be added to income)
- If you withdraw funds from an RRSP under the HBP within 89 days of contributing to the RRSP, part or all of your contribution may not be tax-deductible

Death of plan holder

- May be rolled to spouse's RRSP
- May be rolled to RRSP or RDSP of physically/mentally infirm child who was a dependent of the deceased
- May be added to taxable income of child who was a dependent of the deceased, or used to buy fixed-term annuity to age 18

Personal contribution information

- Notice of Assessment which follows tax return shows RRSP limit and unused deduction room since 1991
- CRA General Enquiry line and TIPS line also provide annual limit (Government blue pages of phone book)
- Employers report PA (Box 52 of T4; Box 34 of T4A)

RRSP carry forward

- Can carry forward unused contribution room indefinitely (to age limit)
- Can also contribute now but carry tax deduction forward (to shelter income in a later year; possibly reduce clawback of government benefits)
- Retiring allowance is not eligible for carry-forward treatment

Does not qualify as earned income

- Investment income
- Pension or DPSP income
- Taxable capital gain
- RRSP/RRIF/TFSA income
- Death benefit
- OAS/CPP/QPP income
- Retiring allowance

Other special RRSP rollovers

- Spouses can directly transfer between plans due to legal separation/divorce
- Retiring allowance may be rolled to own RRSP, not spousal (limit of \$2,000/calendar year of employment up to and including 1995 plus \$1,500/year of employment up to and including 1988, when employer contributions to RRP/DPSP did not "vest" in employee)

Three year withdrawal rule on spousal RRSPs

- All or part of withdrawals are attributed back to you for tax purposes if you've made any contributions to any spousal plans in calendar year of withdrawal or in two previous calendar years
- Does not apply while living apart due to marriage breakdown

Lifelong Learning Plan (LLP)

- Withdraw maximum of \$20,000 from RRSP; annual maximum withdrawal of \$10,000
- Must enroll in a qualifying education program, at a designated educational institution and usually on a full-time basis
- Use Form RC96 to withdraw the funds
- Repayment starts in the fifth year after your first LLP withdrawals or earlier depending on the individual cases
- If you withdraw funds from an RRSP under the LLP within 89 days of contributing to the RRSP, part or all of your RRSP contribution may not be tax deductible

RRSP swaps

- A swap is defined as an exchange of securities for cash between accounts in which you are the annuitant
- The 2011 federal budget introduced new legislation to prohibit swaps in RRSPs effective July 1, 2011
- A penalty tax equal to 100 percent of any increase in the total fair market value of an investment as a result of a swap will be charged
- Exceptions will be made when transferring assets between RRSPs with the same annuitant or to remove either non-qualified or prohibited investments

Non-qualified investments

- The 2011 federal budget introduced new penalties relating to non-qualified investments held in RRSPs effective March 22, 2011
- A non-qualified investment is defined as property that is not a qualified investment when held in an RRSP as described in the Income Tax Act and the Income Tax Regulations

Penalties for holding a non-qualified investment in your RRSP:

- On or before March 22, 2011:
 - The fair market value at the time of acquisition will be included in your income (offsetting deduction is generally available at the time of disposition)
 - Investments held that became non-qualified were subject to a 1% penalty tax per month on the fair market value of the asset until disposed of
- After March 22, 2011:
 - 50% of the fair market value at the time of acquisition or when the investment becomes non-qualified will be added to your income
 - The tax may be refundable under certain circumstances
 - Non-qualified investments held on or before March 22, 2011 that are transferred from one RRSP to another RRSP of which you are the annuitant will be considered a disposition for tax purposes and the new penalty rules will apply to the non-qualified security now held in the receiving RRSP
 - Investment income earned on a non-qualified investment in an RRSP will remain taxable to the RRSP regardless of when it was acquired or became non-qualified
 - Any investment considered both non-qualified and prohibited will be deemed to be a prohibited investment for tax purposes

Prohibited investments

- The 2011 federal budget introduced a “prohibited investment” rule for RRSPs effective March 22, 2011
- A prohibited investment is defined as an investment to which the RRSP annuitant is closely connected and generally includes:
 - Debt of the RRSP 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 length¹

Penalties for holding a prohibited investment in your RRSP include:

- A tax equal to 50 percent of the fair market value at the time of acquisition or when the investment became prohibited
- Any income derived from a prohibited investment will be treated as an “advantage” and a 100 percent tax will be applied
- Transitional rules may apply; if the annuitant elects for transitional relief, the investment income earned on the prohibited investment would not be considered an “advantage” and instead will be included in the annuitant’s income
- To apply for transitional relief, CRA form RC341, Election on Transitional Prohibited Investment Benefit for RRSPs or RRIFs should be filed with CRA by the deadline set by CRA
 - Required to withdraw income from the RRSP within 90 days of the end of the year in which the income or gains are earned
 - An individual’s “transitional prohibited investment benefit” for a tax year is the total of any income earned and capital gains realized in the tax year on the prohibited investments held on March 23, 2011, less any capital losses realized on these investments in the tax year
- The tax may be refundable under certain circumstances

Annuitants who owe tax for non-qualified or prohibited investments must file CRA form RC339. The return must be filed with payment for any balance due no later than June 30 of the following year.

¹ A non-arm’s length transaction is one where parties are related in some capacity, or the parties do not deal at arm’s length for another reason such as they acted in concert without separate interests.

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