



Getting the most out of your RRSP

by Jamie Golombek

A Registered Retirement Savings Plan (RRSP) is one of the best ways to save for retirement for two main reasons. First, it allows you to claim a tax deduction for the amount you contribute, which can provide a benefit if the amounts contributed are later withdrawn when you are in a lower tax bracket. Second, an RRSP (and its successor, a Registered Retirement Income Fund or RRIF) allows you to avoid paying tax on the accumulated investment income while it remains inside the plan.

Here are five tips for getting the maximum benefit from your RRSP.

1. MAKE AN RRSP CONTRIBUTION

It may seem obvious to say that you should make an RRSP contribution but Statistics Canada reported that as of 2013, there were 23.5 million people who had total RRSP room of \$885 billion.¹ If you're one of the many Canadians who has not taken advantage of all available RRSP contribution room, now is the time to act.

Almost anyone with earned income can contribute to an RRSP

Your RRSP contribution limit for a year is 18% of your "earned income" for the prior year to a maximum of \$24,930 for 2015 (\$24,270 for 2014), minus your pension adjustment, plus any unused contribution room from prior years. Earned income includes salary or bonus remuneration and rental income but does not include passive investment income such as dividends, interest and capital gains. To claim a deduction for a given tax year, contributions can be made at any time during the year or within 60 days of year end (by March 2, 2015 for the 2014 tax year). To the extent that contributions are less than the limit in a year, the unused RRSP contribution room can be carried forward and contributions can be made in a future year. Since contributions in excess of the limits (plus a \$2,000 overcontribution allowance) can attract penalties, be sure to check your available RRSP contribution room before putting funds into a plan. The Canada Revenue Agency (CRA) reports RRSP contribution room on your Notice of Assessment and online through their "My Account" service at www.cra-arc.gc.ca.

You can claim a deduction for contributions that you make to your own RRSP or to a spousal or common-law partner RRSP.

If you have kids under 18 who earn money through part-time or summer jobs, encourage them to file a tax return to report their earned income to the CRA, creating RRSP contribution room. They can then choose to either make an RRSP contribution with their earnings or, at the very least, build up that RRSP contribution room for use in a future year, perhaps waiting until their income becomes taxable.

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If you are over age 71, although you can no longer contribute to your own RRSP, you can still contribute to a spousal or common-law partner RRSP if you have a spouse or common-law partner who is 71 or younger. This would only be applicable if you have RRSP contribution room, either because you haven't contributed the maximum allowed during your working years or you continue to generate new room annually through earned income.

Make a cash-less contribution

If you don't have the cash available to make an RRSP contribution, you can transfer investments "in kind" from a non-registered account to your RRSP. You'll get an RRSP contribution slip for the fair market value of the investment at the time of transfer. Be forewarned, however, that any accrued capital gains will be realized on investments that you transfer to your RRSP.

It may at first glance be tempting to transfer an investment with an accrued loss to your RRSP (or TFSA, for that matter) to realize the loss without actually disposing of the investment. Unfortunately, the *Income Tax Act* specifically prohibits a loss from being recognized on such a transfer.

One option, however, may be to consider selling the investment with the accrued loss and contributing the cash from the sale into your RRSP (or TFSA). If you want, you can then buy back the investment inside your RRSP (or TFSA), but be sure to wait at least 30 days because of the "superficial loss rule." This rule prohibits you from claiming a loss when you sell property and buy it back within 30 days.

RRSP vs. TFSA vs. the Mortgage

Our report, [The RRSP, The TFSA and The Mortgage](#),² describes some of the factors to be considered when choosing, given limited funds, whether to make a contribution to an RRSP or TFSA, or to pay down your mortgage.

If you anticipate that you will be in a lower tax bracket in your retirement years, investing in an RRSP may be preferable to a TFSA. You might even consider withdrawing funds on a tax-free basis from your TFSA and contributing the proceeds to your RRSP. You could

then re-contribute the amount to your TFSA in a later year once your RRSP contributions are maximized and additional cash becomes available.

If you're currently making accelerated payments on your mortgage or other debt, consider whether making RRSP contributions might be a better use of your cash. RRSPs may be a better option than paying down debt when the rate of return on RRSP investments is expected to be greater than the rate of interest on debt. The report referenced above discusses this in detail.

2. CHOOSE WHEN TO CLAIM THE DEDUCTION FOR YOUR RRSP CONTRIBUTION

Claim your tax deduction in a later year

You don't need to claim the deduction in the year contributions are made and as long as you have the necessary RRSP contribution room you will not be penalized, even if your contribution otherwise exceeds the posted yearly limits. It may make sense, therefore, to defer claiming a deduction for your RRSP contribution if you are relatively certain your marginal tax rate for a coming year will be significantly higher, so you can boost the tax benefit associated with that deduction.

Get your tax refund with each paycheque

Canadians often rush to submit their tax returns in advance of the filing deadline so they can get their hands on their tax refund. Yet a tax refund is simply a sign you've loaned your hard-earned money to the CRA for a year or longer and you're just getting your own money back, interest-free.

If you're an employee who is subject to tax withholding at source and you make an RRSP contribution annually, there's an easy way to get that tax refund throughout the year. Simply complete CRA [Form T1213, Request to Reduce Tax Deductions at Source](#)³ in which you list various deductions, including your RRSP contribution, that you plan to take when you file your current year's tax return. This form must be mailed to the CRA and, once it's approved, you will receive back a formal authorization letter that you submit to your employer authorizing it to reduce the amount of tax withheld at source from

each remaining paycheque in the year. Quebec residents must also complete Revenu Quebec [Form TP-1016-V, Application for a Reduction in Source Deductions of Income Tax for an Individual or a Self-Employed Person](#).⁴

Note that if your employer allows you to make RRSP contributions through payroll deductions, you won't even need to file the CRA (or Revenu Quebec) forms. Amounts that are directly contributed to an RRSP through your employer are automatically exempt from tax withholdings at source.

Once the payroll tax deductions are reduced, you'll have more cash available with each paycheque. Starting a regular, automatic monthly RRSP or TFSA investment plan may be an ideal way to take advantage of the ongoing savings.

3. LEAVE FUNDS IN AN RRSP

Once you've contributed funds to an RRSP, you'll get the most benefit by leaving funds to accumulate on a tax-deferred basis until funds are needed in retirement. Our previous report, [Just do it: The case for tax-free investing](#),⁵ showed that RRSP investments can earn income that is completely tax-free when personal tax rates remain constant. Once you make a regular withdrawal from an RRSP, you aren't able to re-contribute the withdrawn amount so you'll lose the tax benefits that would have been available for income earned within the plan.

If you find that you need RRSP funds before retirement, consider other sources of funding. It might be preferable to take funds from your TFSA or incur debt, rather than disrupting your retirement savings plan for short-term needs. If you have no other sources of funds, there are two federal programs that may allow you to temporarily borrow money from your RRSP and later return the withdrawn funds to your plan without penalty.

The Home Buyers' Plan (HBP) allows you to withdraw up to \$25,000 from your RRSP to purchase or construct a new home. Spouses or common-law partners may each be able to withdraw \$25,000, for a combined total of \$50,000. You generally will not qualify for an HBP withdrawal if either you or your spouse or common-law partner has owned a home in the past five years and occupied it as a principal residence. Amounts withdrawn

under the HBP must be repaid over a maximum of 15 years or the amount not repaid in a year is added to your income for that year.

Under the Lifelong Learning Plan (LLP), you can withdraw up to \$10,000 per year, or \$20,000 in total, to finance full-time education for you or your spouse or common-law partner. To qualify, the student must have been enrolled or received a written offer to enroll in a qualifying educational institution. Most Canadian universities and colleges and many foreign educational institutions will qualify. Once the withdrawal is made, the funds can be used for any purpose and no proof of expenses is required. You must repay amounts withdrawn under an LLP over a 10-year period, starting five years after the first withdrawal or two years after ceasing studies, whichever is earlier.

Until funds that were borrowed under either the HBP or LLP are repaid into the RRSP, you forfeit any growth on the withdrawn funds. Since it may be over 15 years before you are required to fully repay funds under these plans, this can have a serious impact on your retirement savings. It, therefore, generally makes sense to repay the borrowed funds as soon as possible. There are no penalties for returning HBP or LLP funds to an RRSP before the required repayment date, so early repayment allows you to continue to maximize the tax benefits from investing within an RRSP as soon as possible.

4. DESIGNATE BENEFICIARIES

Holding an RRSP upon death can result in a large tax bill. The tax rules require the fair market value of your RRSP as of the date of death to be included on your terminal tax return, with tax payable at your marginal tax rate for the year. There are, however, exceptions that may allow a tax-free rollover to certain beneficiaries.

This income inclusion can be deferred if the RRSP is left to your surviving spouse or common-law partner. If certain steps are taken, including that your spouse or common-law partner puts the proceeds into his or her own RRSP or RRIF, tax will be payable by your surviving spouse or common-law partner at his or her marginal tax rate in the year in which funds are withdrawn from his or her RRSP or RRIF.

Alternatively, an RRSP may be left to your financially dependent child or grandchild and used to purchase a registered annuity that must end by the time your child or grandchild reaches age 18. The benefit of doing this is to spread the tax on the RRSP proceeds over several years, allowing the child or grandchild to take advantage of personal tax credits as well as graduated marginal tax rates each year until he or she reaches the age of 18. If the financially dependent child or grandchild was dependent on you because of physical or mental disability, then the RRSP proceeds can instead be rolled to his or her own RRSP and effectively only taxed when withdrawn.

While these tax-free rollover options may be available whether eligible family members are named as beneficiaries in your will or in the RRSP contract itself,⁶ the latter option may avoid provincial probate fees (where applicable).

5. PLAN FOR RRSP CONVERSION PRIOR TO AGE 71

If you turned 71 this year, you have until December 31 to make any final contributions to your RRSP before converting it into a RRIF or registered annuity.

It may also be beneficial to make a one-time over-contribution to your RRSP in December before conversion if you have earned income this year that will generate RRSP contribution room for next year. While you will pay a penalty tax of 1% on the over-contribution (above the \$2,000 permitted over-contribution limit) for the month of December, new RRSP room will open up on January 1 of next year so the penalty tax will cease come January.

You can then choose to deduct the over-contributed amount on your return for next year or a future year.

As noted above, this may not be necessary if you have a younger spouse or common-law partner, since you can still make contributions to a spousal or common-law partner RRSP until the end of the year your spouse or common-law partner turns 71.

CONCLUSION

As the end of February approaches, many Canadians rush to make an RRSP contribution. With these five tips for making the most of your RRSP, you'll be able to save smarter throughout the year and reap maximum benefits from your RRSP savings.

¹ Source: Statistics Canada Table 111-0040 - Registered Retirement Savings Plan (RRSP) Room for 2013.

² The report *The RRSP, The TFSA and The Mortgage*, can be found online at <https://www.cibc.com/ca/pdf/advice-centre/rrsp-tfisa-mortgage-en.pdf>.

³ Form T1213, *Request to Reduce Tax Deductions at Source* is available online at <http://www.cra-arc.gc.ca/E/pgb/tf/t1213/README.html>.

⁴ Form TP-1016-V, *Application for a Reduction in Source Deductions of Income Tax for an Individual or a Self-Employed Person* is available online at <http://www.revenuquebec.ca/en/sepf/formulaires/tp/tp-1016/default.aspx>.

⁵ The report *Just Do It: The Case for Tax-free Investing* is available online at <https://www.cibc.com/ca/pdf/case-for-taxfree-en.pdf>.

⁶ In Quebec, an RRSP must qualify as an annuity to take advantage of a valid beneficiary designation.

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