

Boost your RSP with a retiring allowance

If you are receiving a Retiring Allowance, you may be able to shelter some or all of it from taxes within your Registered Retirement Savings Plan (RSP).

Employers may pay a Retiring Allowance to reward long service or to avoid a wrongful dismissal suit. In some cases, the allowance is required by an employment contract, but it is typically paid at an employer's discretion. The allowance is normally calculated based on years of service and can amount to tens of thousands of dollars.

Depending on your years of service and participation in other plans, a portion of this payment can be sheltered from taxes within a personal RSP. The eligible tax free transfer to RSP created by a Retiring Allowance payment is calculated based on the following formula:

Years of service prior to 1996 x \$2,000 = \$ _____

Plus +

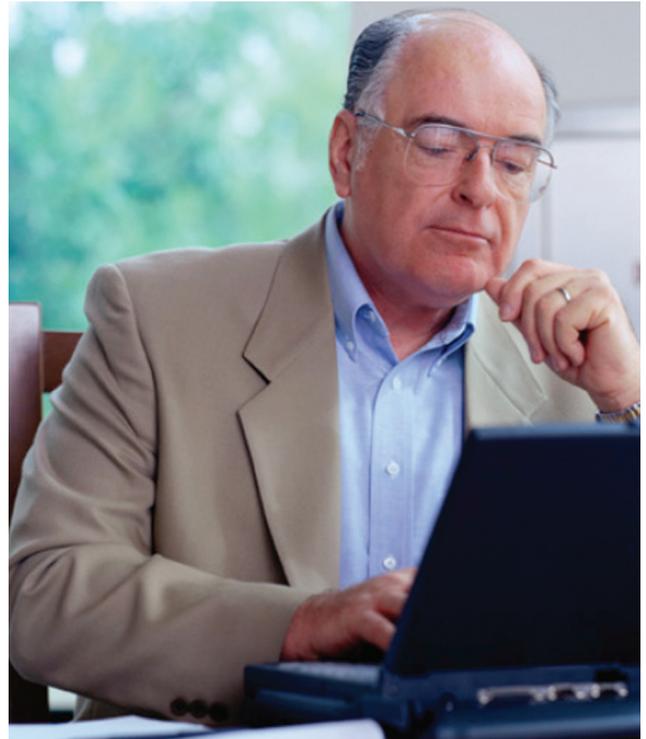
Years of service prior to 1989 where the employee is not a vested member of an employer pension plan or a deferred profit sharing plan x \$1,500 = \$ _____

Eligible Tax Free Transfer to RSP¹ \$ _____

(1) The lesser of the result of this calculation and the actual Retiring Allowance.

You should consider this strategy if:

- If you are a salaried employee of your own small business corporation
- You are leaving a job and receiving a Retiring Allowance and/or unused sick leave credits
- You have pre-1996 service with the employer providing the allowance
- You will not need the payment to meet ongoing cash-flow needs



KEY BENEFITS

- Make an extra RSP contribution to tax defer taxes
- Reduce withholding taxes

PLANNING TIPS

- Partial years of service count fully in the first part of the calculation. A year with one day of service receives the same treatment as a full year of service.
- Only years with zero days in the pension plan or Deferred Profit Sharing Plan (DPSP) count in the second part of the calculation.
- Joining a plan part way through a year disqualifies that year.
- Years of service do not have to be consecutive.

Strategy in action

The issue: receiving a Retiring Allowance

For this illustration, assume you started with your employer September 1, 1980 and joined your employer's defined benefit pension plan March 1, 1981. You received a \$40,000 Retiring Allowance in the current year.

■ Total full and partial years of service prior to 1996: (1980 to 1995)	16
■ Eligible transferable amount: (16 x \$2,000 per full and partial year)	<u>\$32,000</u>
■ Pre-1989 years*	1
■ Eligible transferable amount: (1 x \$1,500 per year)	<u>\$1,500</u>

A. Total transferable amount \$33,500

B. Retiring Allowance \$40,000

Eligible Tax Free Transfer to RSP (lesser of A or B) \$33,500

*and was not a vested member of a pension plan

The strategy: making the most of your Retiring Allowance

Based on this example, you could transfer up to \$33,500 to your personal RSP over the limit stated on your previous year's Notice of Assessment from the Canada Revenue Agency. This eligible tax free transfer to RSP will be lost if the contribution is not made by March 1st of the following year. The remaining \$6,500 of the Retiring Allowance may also be sheltered if you have unused RSP contribution room.

If you are receiving a Retiring Allowance, follow these steps:

1. Calculate the amount that can be transferred to an RSP.
2. Determine whether you will need any of these funds to meet immediate cash-flow needs.
3. If you don't need the funds now, arrange for your employer to transfer the appropriate amount directly to your personal (not spousal) RSP. This way, there will be no withholding taxes on the allowance.
4. If you have already received the allowance, make this eligible tax free transfer to your RSP no later than March 1st (February 29 in leap years) of the year following the receipt of the allowance. Otherwise, this special transfer is lost forever.

Retiring Allowance does not Include:

- A superannuation or pension benefit
- An amount received as a result of an employee's death
- Payments for accumulated vacation leave
- A payment made in lieu of earnings for a period of reasonable notice of termination
- Payments made for human rights violations under human rights legislation
- A salary continuance

*Please contact
your Investment Advisor
for assistance with your
Retiring Allowance.*



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