

The Navigator



Wealth
Management

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC WEALTH MANAGEMENT SERVICES



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Withholding taxes on RRSP and RRIF withdrawals

RRSP and RRIF contributions and earnings are tax-deferred; that means that you don't pay income tax until you withdraw funds from the RRSP or RRIF. When withdrawals are made from Registered Retirement Savings Plans (RRSP) and Registered Retirement Income Funds (RRIF), the income is taxable, and similar to employment income, a portion of the payment is withheld and remitted to the Canada Revenue Agency (CRA). When you file your income tax return and report the RRSP or RRIF income, the amount withheld is a credit against tax owed. The amount withheld depends on a number of factors including the nature of the withdrawal, the amount of the withdrawal, whether or not the withdrawal is part of a series of withdrawals and your residence. Locked-in plans such as Life Income Fund (LIF), Prescribed Retirement Income Fund (PRIF) and Locked-In Retirement Income Fund (LRIF) follow the same rules. This information in this article does not apply to withdrawals payable to an estate or beneficiary annuitant.

This article may outline strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal or tax advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax and/or legal advisor before acting on any of the information in this article.


Regular withholding tax

Most withdrawals that you make from an RRSP or RRIF are subject to withholding taxes. The amount you withdraw determines the rate of withholding tax that will apply to the withdrawal. The withholding tax rates

are the same for all provinces except Quebec or if you are a non-resident of Canada (withholding for non-residents is discussed later). The following table shows the percentage of withholding tax that applies when you make a single lump sum withdrawal.

Withdrawal amount	Province other than Quebec	Province of Quebec*
\$0 - \$5,000	10%	21%
\$5,001 - \$15,000	20%	26%
over \$15,000	30%	31%

* For Quebec residents the withholding tax is equal to Quebec withholding tax of 16% for all withdrawal amounts plus federal withholding tax of 5%, 10% and 15% for the brackets indicated above.



Most withdrawals that you make from an RRSP or RRIF are subject to withholding taxes.

Certain amounts you withdraw from RRSPs and RRIFs are not subject to withholding taxes. The most notable of these exceptions are:

- The annual minimum amount from your RRIF
- An RRSP withdrawal under the Home Buyers' Plan
- An RRSP withdrawal under the Lifelong Learning Plan
- The removal of unused RRSP contributions where you have an approved CRA Form T3012A — *Tax Deduction Waiver on the Refund of Your Unused RRSP, PRPP, or SPP Contributions from your RRSP*

Impact of a series of withdrawals on withholding tax rate

Often, you will want to make a series of withdrawals from an RRSP or RRIF rather than a lump-sum. For example, you may want to request monthly payments from your RRIF to fund your retirement expenses. This may have an impact on the withholding tax rate that will apply on your withdrawals.

Series of withdrawals from a RRIF

A minimum amount must be withdrawn from your RRIF every year after the first year. In the year you open the RRIF, the minimum is zero. No withholding is required on any minimum amount. You can also choose to have any amount in excess of the minimum paid to you in the year and you may change this amount at any time during the year. Income tax must be withheld at source on amounts withdrawn from your RRIF in excess of the minimum using the lump-sum withholding tax rates. The withholding amount is based on the excess portion of each individual lump-sum payment. If withdrawals are in the nature of instalments made in fulfillment of a single request, it is the CRA's position that the rate of withholding on each individual payment should be based on the total sum requested and not

on each individual payment. In these situations, the CRA considers these periodic payments to be blended payments (i.e. part minimum amount and part excess). Accordingly, the excess portion of each instalment would be subject to withholding tax at the rate that would apply had you requested to receive one lump-sum payment in the year rather than a series of payments.

Let's go through some examples of various situations.

A series of payments in excess of the minimum amount

Let's, assume you are a resident of Saskatchewan and you decide to withdraw \$600 every month from your RRIF (\$7,200 on an annual basis) using a pre-authorized withdrawal program. Further, assume your annual minimum payment is \$1,200. The sum of the amounts you plan to withdraw in the year in excess of the RRIF minimum is \$6,000 (\$7,200 - \$1,200). As the total falls in the \$5,001 - \$15,000 range, the portion of each individual payment that is in excess of the minimum will be subject to 20% withholding not 10% that would apply to a single request of \$600. Each \$600 withdrawal will be considered a \$100 minimum payment and an excess withdrawal of \$500. The withholding tax will be \$100 (\$500 x 20%) on each \$600 RRIF payment.

A series of payments with an additional request for funds

When you are receiving monthly RRIF payments and you make a request for an additional payment during the year, the CRA views this as a separate request. Accordingly, the rate of withholding tax that applies to that specific additional withdrawal will be based on the excess portion of that payment only regardless of the amount of the ongoing instalment payments.

Building on the previous example, suppose you decide to withdraw an additional \$4,000 from your RRIF in

June. Since you were already over the minimum by \$6,000 before this request, the entire \$4,000 from this request would be considered an amount above the RRIF minimum payment and subject to withholding tax. It would be treated as a separate request and since it is below \$5,000 the applicable withholding rate on the \$4,000 withdrawal would be 10%.

A series of small requests

If it appears that you are making several additional small requests in order to have less withholding tax deducted at source, the CRA takes the position that the withholding tax rate should be determined as if all the requests were one request, resulting in a higher withholding rate.

Continuing with the same example, assume that in addition to the \$4,000 withdrawal in June, you request another \$4,000 the next day. Because the requests are in a short period of time, it is reasonable to assume that you are making separate requests in order to minimize the tax withheld. Therefore the withholding rate should be determined as if there was one request equal to \$8,000 rather than two separate requests. In this case, the excess portion of the \$8,000 will be used to determine the withholding tax rate. Since the entire \$8,000 will be an excess amount above the minimum amount (already receiving the monthly instalments) it will be subject to withholding tax at a rate of 20% rather than each \$4,000 amount being subject to 10%.

Series of withdrawals from an RRSP

If you request an RRSP withdrawal be split into multiple payments or instalments, such as a total of \$12,000 split into monthly payments, then each payment is considered a portion of a single request. Because the total amount of the withdrawal for the year is known in advance, the withholding tax rate that applies to each payment is based on the total payment. In this example, the

withholding tax rate that applies to each monthly payment of \$1,000 would be 20% in provinces other than Quebec. If, later in the year, you request a separate withdrawal that is over and above the installment payments, the rate that applies to that payment only should be used.

On the other hand, if you make separate requests for RRSP withdrawals, the withholding tax rate applicable to each payment only should apply. Where you make a series of requests in a short period of time (e.g. on the same day or 5 consecutive days) with the intent of minimizing the amount of withholding tax, it is CRA's position that the lump rate applicable to the total should be used. Ultimately, you are responsible for any resulting tax liability when you file your own personal income tax return.

Quarterly tax instalments may be required

It is possible that the amount of withholding tax on your RRSP and RRIF withdrawals may not be sufficient to cover your actual tax liability related to these income sources. This could contribute to you having to pay additional tax when you file your income tax return and result in you having to make tax instalments in subsequent years.

You will be asked by the CRA to pay tax by instalments for the current taxation year if your net tax owing (your total tax liability less all amounts withheld at source during the year) for either one of the two immediately preceding years exceeds \$3,000 (\$1,800 in Quebec). However, you do not have to pay your income tax by instalments for the current year if your net tax owing for the current year will be \$3,000 or less (\$1,800 or less in Quebec), even if you received an instalment reminder from CRA.

For more information regarding tax instalments, ask an RBC advisor for the

article on quarterly tax instalments.

Increasing your withholding tax

To avoid the possibility of having to make future quarterly tax instalments, you may request that a larger amount of tax be withheld on your RRSP or RRIF withdrawals. CRA's Form TD1, Personal Tax Credits Return (TD1 Form), is used for this purpose. Quebec residents should also complete Form TP-1017-V, Request to Have Additional Income Tax Withheld at Source. The form/s must be completed and provided to your financial institution.

Reducing your withholding tax

There may be situations where the required amount of withholding tax is larger than the final tax liability that you will face when you prepare your personal tax return. This will especially be true in situations where your withdrawals from RRSPs or RRIFs are subject to the high withholding tax rate and they make up the majority of your income.

CRA has indicated that payers would not be required to deduct income tax from a lump-sum payment (i.e., withdrawals from an RRSP/RRIF) if a recipient's total earnings received or receivable during the calendar year, including the lump-sum payment, are less than the "claim amount" on their TD1 Form. This does not apply to lump-sum payments paid to non-residents.

Although CRA allows a payer, such as a financial institution, to reduce tax withholding based on your TD1 Form, a financial institution may require you to provide them with authorization from CRA to reduce or waive the withholding tax.

Tax reporting slips

All amounts that are paid out of an RRSP or a RRIF in a calendar year are reported to you on tax slips. The T4RSP and the T4RIF are issued by the end of February of the calendar

Please contact us for more information about the topics discussed in this article.

year following the year of withdrawal. These slips not only include all of the income paid out but also any taxes that have been withheld and remitted to the government.

Residents of Quebec also receive a Relevé 2 slip to be used for provincial income tax purposes. Both the T4RSP/T4RIF slip and the Relevé 2 report the gross amount of income withdrawn from the registered plan but the amount of withholding taxes shown on the slips will differ as the Relevé 2 will show only the Quebec withholding tax and the T4RSP/T4RIF will show only the federal withholding tax.

Non-residents

Withdrawals from RRSPs and RRIFs made by non-residents of Canada are subject to different withholding tax rules. Instead of the various withholding tax rates previously discussed, non-resident withholding

tax is applied at a flat rate of 25%, unless the withholding rate is reduced by an applicable tax treaty between Canada and the country of residence of the annuitant. Payments and taxes withheld are reported to non-residents on an NR4 slip. For additional details on non-resident withholding tax, you may request a copy of the article on Canadian non-resident withholding tax from an RBC advisor.

Conclusion

The amount of tax withheld depends on a number of factors including the amount of the withdrawal, whether or not that withdrawal is part of a series of withdrawals and your residence. It is important to note that the withholding tax may not equal your final tax liability. Speak with a qualified tax advisor to determine if the current withholding tax rate on your RRSP or RRIF withdrawals is appropriate.



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