Wealth Management

RBC Wealth Management Services

RRSP strategies at age 71

Even though you must wind up your RRSP in the year you turn 71, this does not necessarily mean that you will no longer be able to benefit from RRSP deductions. The following strategies can be used, even after age 71, as long as you still have RRSP contribution room.

The "forgotten RRSP contribution" when you're still earning income at age 71

In the year you turn 71, there is a strict December 31 deadline to wind up your RRSP and choose an RRSP maturity option. You will not be able to make any further contributions to your individual RRSP after this date.*

If you turn 71 this year, you must choose an RRSP maturity option by December 31 of this year.

RRSP contribution room is based on your previous year's income, which creates an unusual situation in the year you turn 71. Based on your earnings in the year you turn 71, you may have created RRSP contribution room; but after the age of 71, you will no longer have your RRSP to contribute to.

This is where the "forgotten RRSP contribution" comes in! Just before the December 31 deadline, you can make an RRSP contribution based on your earned income for the year. If you have already made the maximum contribution for the current year, the CRA will consider the December contribution to be an extra contribution that is subject to the over-contribution penalty of 1% of the extra amount per month.

Here's how it works: if you have not used up your allowed $2,000 lifetime over-contribution amount and you make the maximum RRSP contribution for next year (based on your contribution limit), you will be assessed a small, one-month penalty of 1% on the amount you over-contribute above the $2,000 allowed.

For example, if your RRSP contribution limit for the next calendar year is $20,000, in December you may want to contribute that amount to your RRSP "in advance." You will have a one time penalty of $180 ([$20,000 – $2,000] x 1%)

In January of next year, the "advance" RRSP contribution will no longer be considered an over-contribution because, on January 1, your new contribution room will be realized based on your earned income from this year. This means that the penalty will only apply for one month. Plus, for next year, you are allowed an additional tax deduction for the RRSP contribution that otherwise would have been forgotten. It is likely that the taxes saved by deducting the contribution on your tax return will far outweigh the one-month penalty.

* If you are not familiar with the three ways you can wind up your RRSP, ask your RBC advisor for a copy of our "RRSP Maturity Options" article.

To summarize, if you turn 71 this year, you must choose an RRSP maturity option by December 31 of this year. As long as you have earned income this year, you can make the forgotten RRSP contribution in December, pay a small penalty tax and claim the RRSP deduction on next year's income tax return.

You're 71 or older but have a younger spouse

You must choose an RRSP maturity option (such as a RRIF or annuity) or deregister your RRSPs by the end of the year in which you turn 71. Even though you can no longer hold an RRSP in your own name after this time, you can make an RRSP contribution to a spousal RRSP in future years as long as your spouse is 71 or younger at year-end.

Even though you are over 71, you can still make a contribution to a spousal RRSP if you have RRSP contribution room resulting from either carryforward room or earned income from the year.

You can be 71 or older and still generate new RRSP contribution room as long as you are earning an income. This means you can claim the tax deduction for the contribution when you file your tax return.

Using up your existing RRSP room

If you have accumulated unused RRSP room and have not contributed to your RRSP because you are in a low tax bracket, consider using up your RRSP room by making a contribution in the year you turn 71 years old.

However, you must do so by December 31, not in the first 60 days of the following year as you may have done in the past.

You do not have to deduct the amount you contribute this year. You may deduct this contribution in a future year when your income is higher as a result of receiving RRIF, pension or annuity payments. You can use RRSP deductions to offset any kind of income.

Deducting your $2,000 over-contribution when you're 71

If you over-contributed to your RRSP by $2,000 in a past year, you can deduct this over-contribution from your income now by using up your RRSP contribution room.

For example, if your RRSP contribution room is $15,000 in the year you turn 71 and you over-contributed $2,000 to your RRSP in a prior year, then you could contribute $13,000 to your RRSP and deduct $15,000. This strategy ensures you deduct the $2,000 and eliminate the possibility of double taxation.

If you do not deduct the $2,000 from your income, then that amount is subject to double taxation: once when it went into the RRSP (since you did not deduct it, you paid tax on this amount) and a second time when you withdraw it from your RRSP or RRIF.

If you have any questions or require clarification of any of the issues discussed in this document, please feel free to discuss them with your RBC advisor.

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