



# THE NAVIGATOR

## REDUCTION OF THE RRIF MINIMUM WITHDRAWAL REQUIREMENTS

### Transitional Provisions for 2015

The 2015 Federal budget adjusted the RRIF minimum withdrawal rates that apply from ages 71 to 94. There was no change to the minimum withdrawal rates that apply to ages 70 and under, which will continue to be determined by the formula  $1 / (90 - \text{age at the start of the year})$ . There was also no change to the minimum withdrawal rates that apply to ages 95 and older, which remain at 20%. The new minimum withdrawal percentages take effect for 2015 and subsequent tax years.

The reduced RRIF minimums apply to all RRIF, Life Income Funds (LIF), Restricted Life Income Funds (RLIF), Locked-in Retirement Income Funds (LRIF), and Prescribed Retirement Income Funds (PRIF). These rules also apply to defined contribution Registered Pension Plans (RPP) and Pooled Registered Pension Plan (PRPP), which are not discussed in this article.

*This article outlines strategies, not all of which will apply to your particular circumstances. The information 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.*

The following table shows the old and new minimum RRIF withdrawal percentages for ages 60 and over. It includes the old minimum withdrawal percentages that applied to plans established before 1993 and plans established from January 1st, 1993 onwards. Before 2015, different

withdrawal rates applied from age 71 to age 77 depending on when the RRIF was established. You can use this table to calculate your RRIF minimum amount for 2015 and to calculate the difference between your old and new minimum payments. This will also allow you to determine the maximum

amount that can be re-contributed to your RRIF, as discussed below.

The percentage that corresponds to your age at the start of the year is applied to the fair market value of your RRIF account at December 31 of the previous year to determine the RRIF minimum amount for the year.



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The effect of the new reduced RRIF rates is to allow you to preserve more of your RRIF savings to provide income at older ages.

| Age<br>(at start of year) | Old RRIF Minimum<br>(Plans established before 1993) | Old RRIF Minimum<br>(Plans established after 1992) | New RRIF<br>Minimum from 2015 |
|---------------------------|---|--|-------------------------------|
| 60                        | 3.33%   | 3.33%  | 3.33%                         |
| 61                        | 3.45%   | 3.45%  | 3.45%                         |
| 62                        | 3.57%   | 3.57%  | 3.57%                         |
| 63                        | 3.70%   | 3.70%  | 3.70%                         |
| 64                        | 3.85%   | 3.85%  | 3.85%                         |
| 65                        | 4.00%   | 4.00%  | 4.00%                         |
| 66                        | 4.17%   | 4.17%  | 4.17%                         |
| 67                        | 4.35%   | 4.35%  | 4.35%                         |
| 68                        | 4.55%   | 4.55%  | 4.55%                         |
| 69                        | 4.76%   | 4.76%  | 4.76%                         |
| 70                        | 5.00%   | 5.00%  | 5.00%                         |
| 71                        | 5.26%   | 7.38%  | *5.26%/5.28%                  |
| 72                        | 5.56%   | 7.48%  | 5.40%                         |
| 73                        | 5.88%   | 7.59%  | 5.53%                         |
| 74                        | 6.25%   | 7.71%  | 5.67%                         |
| 75                        | 6.67%   | 7.85%  | 5.82%                         |
| 76                        | 7.14%   | 7.99%  | 5.98%                         |
| 77                        | 7.69%   | 8.15%  | 6.17%                         |
| 78                        | 8.33%   | 8.33%  | 6.36%                         |
| 79                        | 8.53%   | 8.53%  | 6.58%                         |
| 80                        | 8.75%   | 8.75%  | 6.82%                         |
| 81                        | 8.99%   | 8.99%  | 7.08%                         |
| 82                        | 9.27%   | 9.27%  | 7.38%                         |
| 83                        | 9.58%   | 9.58%  | 7.71%                         |
| 84                        | 9.93%   | 9.93%  | 8.08%                         |
| 85                        | 10.33%  | 10.33%   | 8.51%                         |
| 86                        | 10.79%  | 10.79%   | 8.99%                         |
| 87                        | 11.33%  | 11.33%   | 9.55%                         |
| 88                        | 11.96%  | 11.96%   | 10.21%                        |
| 89                        | 12.71%  | 12.71%   | 10.99%                        |
| 90                        | 13.62%  | 13.62%   | 11.92%                        |
| 91                        | 14.73%  | 14.73%   | 13.06%                        |
| 92                        | 16.12%  | 16.12%   | 14.49%                        |
| 93                        | 17.92%  | 17.92%   | 16.34%                        |
| 94                        | 20.00%  | 20.00%   | 18.79%                        |
| 95 & over                 | 20.00%  | 20.00%   | 20.00%                        |

\*If your RRIF was established before 1993 and you (or your spouse, depending on whose age is used for the RRIF minimum) are 71 at the start of 2015 your RRIF minimum will not change for 2015 as a result of these new rules. Your RRIF minimum factor will remain at 5.26% for 2015.

You can re-contribute to any of your RRIFs with any financial institution. Note however that you cannot make a re-contribution to a locked-in plan, or to a spousal RRIF.

The effect of the new reduced RRIF rates is to allow you to preserve more of your RRIF savings to provide income at older ages, while continuing to ensure the tax deferral on RRSP/RRIF savings.

For example, if you are 71 at the start of 2015 and your RRIF balance was \$500,000 at December 31, 2014, instead of withdrawing \$36,900 you will now be required to withdraw only \$26,400. If you are in a 45% tax bracket, your tax savings would be \$4,725 this year.

### **CAN I REQUEST THE REDUCED MINIMUM RRIF PAYMENT?**

If you have not yet withdrawn your 2015 minimum payment, or only withdrawn part of your payment, you will be able to request the reduced minimum. You must request the reduction before December 31, 2015. If you do not make such a request, you will receive the pre-budget minimum payment. However, you may choose to re-contribute the excess amount as described below.

### **IF I HAVE RECEIVED MY 2015 MINIMUM PAYMENT – CAN I RE-CONTRIBUTE?**

The new RRIF withdrawal rates apply for the 2015 and subsequent taxation years. If you withdraw more than the reduced 2015 minimum amount from your RRIF at any time in 2015, you will be able to re-contribute the “excess RRIF withdrawal amount”. This is calculated as the lesser of the old RRIF minimum amount or your actual

RRIF withdrawals for the year, minus the new RRIF minimum amount. For example, assuming you are 71 at the start of 2015 and your RRIF balance was \$500,000 at December 31, 2014, if you withdrew the old RRIF minimum of \$36,900 then your excess RRIF withdrawal amount would be equal to \$36,900 (old RRIF minimum) less \$26,400 (the new RRIF minimum). However, if instead of withdrawing the old RRIF minimum you only withdrew \$30,000 during 2015; in this case your excess RRIF withdrawal amount would be equal to \$30,000 (your actual RRIF withdrawal for the year) less \$26,400 (the new RRIF minimum). You will only be able to re-contribute \$3,600.

The table provided can assist you in calculating your excess RRIF withdrawal amount. You have until February 29, 2016 to make this re-contribution to your RRIF. After this date, you will not be permitted to re-contribute under any circumstances.

You will receive a T4RIF for the amount you originally withdrew and this will be included in your taxable income for 2015. However, you will also receive a contribution receipt for the amount you re-contributed to your RRIF. This will allow you to claim a deduction on your 2015 income tax return. If you re-contribute the excess amount, the net effect is to only include the new minimum RRIF amount in income for 2015.

If you have more than one RRIF account, you are not required to make your re-contribution to the same RRIF from which you withdrew the funds, or to the same financial institution or the same RRIF plan type. You can re-contribute to any of your RRIFs with any financial institution. Because of this flexibility, it is your responsibility to ensure you are making the correct re-contribution. Note however that you cannot make a re-contribution to a locked-in plan, or to a spousal RRIF. If you would like to take advantage of the new minimum rates on a locked-in plan or a spousal RRIF, the re-contribution must be made to a regular RRIF account. If you do not have one you will need to open a new RRIF to make the re-contribution.

If you choose to make an in-kind re-contribution using some of your publicly traded securities, you have to use the fair market value of the securities at the time of the re-contribution. This can result in a gain or loss. However, if it results in a loss, the loss will be denied.

### **I WOULD PREFER TO RECEIVE THE OLD RRIF MINIMUM AMOUNT FOR 2015. WILL THE AMOUNT ABOVE THE NEW RRIF MINIMUM BE SUBJECT TO WITHHOLDING TAX?**

When you withdraw more than the minimum annual amount from your RRIF, the tax rules require that the plan administrator withhold a certain

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amount of withholding tax on the excess amount above the RRIF minimum. Withholding tax does not apply to RRIF minimum payments. Although the new lower RRIF minimum rates are applicable to 2015, the transitional rules allow you to take up to the old RRIF minimum amount, only for 2015, and not be subject to withholding tax on the portion above the new RRIF minimum. Of course if you withdraw an amount in excess of the old RRIF minimum amount, you will be subject to withholding tax on the portion above the old minimum amount.

#### **NON-RESIDENT INDIVIDUALS**

If you are a non-resident of Canada and you withdraw an amount from your RRIF you may be subject to Canadian nonresident withholding tax of 25%. However, many tax treaties provide for a reduced withholding tax rate and some even provide for an exemption from withholding tax on “periodic pension payments”.

To qualify as a periodic pension payment, the total withdrawals from your RRIF must remain below a certain threshold that is partially based on your RRIF minimum amount for the year. For 2015 only, if you take a RRIF payment that is within this threshold based on the old RRIF minimum amount, your payment will still qualify as a periodic pension payment and you will still qualify for the reduced Canadian non-resident withholding tax rate (for more details on how these rules work refer to the article, “Canadian Non-Resident Withholding Tax”).

#### **I WITHDREW THE OLD RRIF MINIMUM FROM MY SPOUSAL RRIF. IF I DECIDE NOT TO RE-CONTRIBUTE THE EXCESS RRIF WITHDRAWAL AMOUNT, WILL THE ATTRIBUTION RULES APPLY TO THE AMOUNT ABOVE THE NEW RRIF MINIMUM FOR 2015?**

If you only take the minimum amount from your RRIF, the income attribution

rules do not apply. Any withdrawal made from a spousal RRIF in excess of the minimum RRIF withdrawal is attributed back to the contributor to the extent of any spousal RRSP contributions made in the year of withdrawal or the two previous years. For 2015 only, if you take the old RRIF minimum amount, the attribution rules will not apply.

#### **CONCLUSION**

If you have not taken your RRIF minimum or only taken a portion of your RRIF minimum, you have until December 31, 2015 to request to take only the new RRIF minimum amount. Otherwise you will receive the old RRIF minimum. However, if you received an amount above the new minimum RRIF amount, you have until February 29, 2016 to re-contribute the excess RRIF withdrawal amount.

If you have questions on any of the issues discussed in this article, please speak to your RBC advisor.

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