

# The Navigator

RBC WEALTH MANAGEMENT SERVICES

## RRIF Minimum Withdrawals

If you choose to convert your Registered Retirement Savings Plan (RRSP) to a Registered Retirement Income Fund (RRIF), you must do so by the end of the calendar year during which you turn age 71. When you convert to a RRIF, you will then be required to receive at least a minimum payment from the plan each year. The amount of the minimum payment will be based on your age and the value of the assets in the RRIF on December 31 of the previous year. However, it is important to note that you are not required to begin receiving the amount of the minimum payment until the calendar year following the year when you convert your RRSP to a RRIF.

### Calculating Your Minimum Payment

The minimum payment percentages for RRIF holders aged 60 and older are set out in the table on the following page. If your RRIF was established before January 1, 1993, you will be subject to a different minimum annual payment percentage than RRIFs established after this date. This is due to the fact that the legislation in effect before this date required that the RRIF was fully paid out to the individual by the end of the year in which they turned age 90.

If your spouse is younger than you, you may choose to base your minimum annual RRIF withdrawal on your spouse's age in order to minimize the amount

of the annual withdrawal, thereby keeping more assets in the RRIF to grow tax-deferred.

### Withholding Tax for Canadian Residents

As discussed above, when you convert your RRSP to a RRIF you will be required to receive at least an annual minimum payment from your RRIF. You can choose to receive this payment monthly, quarterly, semi-annually or annually, depending on your income requirements. If you do not require income you may decide to receive the annual minimum payment at the end of the year to maximize the tax-deferral benefits of your RRIF.

If you choose to receive the minimum amount from your

RRIF, withholding tax will not apply to this payment if you are a resident of Canada. If you elect to receive a payment that exceeds the minimum payment, then income tax will be withheld at source on the amount in excess of the minimum, using the lump-sum withholding tax rates shown in the table on the next page.

The rate of withholding tax you pay will vary based on both the amount you withdraw and the province where you live. The following table shows the percentage tax that is currently withheld when you make a single lump sum withdrawal.



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Age	Established up to December 31st, 1992	Established from January 1st, 1993
60		3.33%
61		3.45%
62		3.57%
63		3.70%
64		3.85%
65		4.00%
66		4.17%
67		4.35%
68		4.55%
69		4.76%
70		5.00%
71	5.26%	7.38%
72	5.56%	7.48%
73	5.88%	7.59%
74	6.25%	7.71%
75	6.67%	7.85%
76	7.14%	7.99%
77	7.69%	8.15%
78		8.33%
79		8.53%
80		8.75%
81		8.99%
82		9.27%
83		9.58%
84		9.93%
85		10.33%
86		10.79%
87		11.33%
88		11.96%
89		12.71%
90		13.62%
91		14.73%
92		16.12%
93		17.92%
94+		20.00%

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

\* For Quebec the withholding tax is composed of a provincial amount of 16% for all withdrawal amounts plus a federal amount that varies to equal the totals shown.

### Impact of a Series of Withdrawals on Withholding Tax Rate

If you live in a province or territory other than Quebec, withholding tax is charged at a rate of 10% on RRIF withdrawals of \$5,000 or less (see the table above). This gives you an opportunity to minimize the taxes that are withheld at the time you make the withdrawal; however, the low rate does not apply if you make a series of preauthorized smaller withdrawals. If you make a series of smaller withdrawals from a registered plan, the Canada Revenue Agency (CRA) requires that the total amount withdrawn in the series of withdrawals that exceeds the RRIF minimum be used to determine the appropriate withholding tax rate for each of the withdrawals.

The CRA has confirmed this treatment in a number of its documents including:

- CRA Views 9513575 — Computation of withholding tax from a registered retirement income fund
- Registered Plans Directorate Newsletters (formerly Pension Reform Updates) 2005-11-14 — Withholding tax on payments from a Registered Retirement Income Fund (RRIF)
- [www.cra-arc.gc.ca/tx/rgstrd/rrsprif-reerferr/fq-eng.html](http://www.cra-arc.gc.ca/tx/rgstrd/rrsprif-reerferr/fq-eng.html) — Registered Retirement Savings Plans and Registered Retirement Income Funds (RRSPs and RRIFs) — Frequently asked questions — Question 7.

For example, assume you are a resident of a province other than Quebec who withdraws \$600 every month from your RRIF (\$7,200 on an annual basis) using a pre-authorized withdrawal program. Assume your annual minimum payment is \$1,200. As the sum of the amounts you plan to withdraw in the year in excess of the RRIF minimum is \$6,000 (\$500 x 12 months), the required withholding tax percentage is 20%. This percentage applies to middle range income, which is between \$5,001 and \$15,000.

Building on this example, during the year, you decide to withdraw an additional \$10,000 from your RRIF. The \$10,000 withdrawal would be subject to the 20% withholding tax rate based on the lump sum payment from the table on the previous page. This additional withdrawal would mean that a total of \$16,000 (\$6,000 + \$10,000) would be subject to withholding taxes for that year. As this amount is greater than \$15,000, this means that all future payments from the RRIF (after the \$10,000 payment is made) would be subject to the 30% withholding tax rate.

### **RRIF Withdrawals from a Spousal RRIF and Income Attribution**

RRIF minimum payments are not subject to the income attribution rules. Keep in mind that in the year that your RRIF is established the minimum payment is zero dollars. If you withdraw more than the minimum payment from a spousal RRIF, the excess will attribute back to the spouse who made the contribution to the extent of any spousal RRSP contributions that were made in the year of the withdrawal or the two previous years. This allows payments from a spousal RRIF, up to the minimum amount for the current year, to avoid attribution to the contributing spouse for spousal RRSP contributions made in the current year or two previous calendar years.

### **In-Kind Transfers to a Non-Registered Account**

When you take a payment from your RRIF, the investments in your RRIF may be transferred in-kind directly into a non-registered account in your name. You will not be charged a fee if you elect to make the transfer in-kind. It is not necessary for your RRIF investments to mature or to be liquidated before you can transfer them to the non-registered account.

### **Withholding Tax on In-Kind RRIF Withdrawals**

As mentioned previously, income tax must be withheld at source on amounts in excess of the minimum payment. If you take a payment in-kind from your RRIF that exceeds the minimum amount, you must have cash available to pay the withholding tax. The withholding tax is normally calculated based on the amount that exceeds the minimum amount.

### **Annual Tax Reporting**

It is important to be aware that the fair market value of the securities transferred in-kind to your non-registered account, as a withdrawal, will be reported on a T4RIF tax slip and Relevé 2 (for Quebec residents). You are required to include this amount as income on your personal tax return. There may be a potential

tax liability on your personal tax return as a result of your withdrawal. You will need to pay this potential liability using other income sources if you decide not to liquidate the securities you have transferred in-kind to your non-registered account.

### **Withholding Tax For Non-Residents of Canada**

If you are a non-resident of Canada, a withholding tax of 25% will apply to your payment, even if you only choose to receive the minimum amount. The rate of withholding tax that applies will be reduced if Canada has a tax treaty with the country where you live. For many countries that have a tax treaty with Canada, including the United States, withdrawals from a RRIF are subject to a 15% non-resident withholding tax only if payments from the RRIF during the calendar year are less than the larger of the two following amounts:

- i) Twice the minimum withdrawal required for the year; or
- ii) 10% of the fair market value of the RRIF at the beginning of the year.

One notable exception is RRIF payments made to residents of the United Kingdom. If payments from the RRIF during a calendar year are made to a resident of the U.K. and the amount of the RRIF withdrawal is less than the tax

treaty limits described above, then withholding tax will not apply to the payments made.

If the country where you live does not have a tax treaty with Canada, then you will pay non-resident withholding tax at a rate of 25% when you make a withdrawal from your RRIF, even if you only receive the minimum amount.

For more information on any of the issues discussed in this article, please speak with your RBC advisor.

➤ Please contact us for more information.

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