



January 14, 2010

FINANCIAL ADVISORY SUPPORT

Ways to Withdraw Cash Tax-free from your RRSP

You may find yourself in a situation where you want access to the funds inside your RRSP. For example, you may want to use some of the money to buy a home or pay for education. Generally you have to pay tax on amounts you withdraw from your RRSP in the year you make the withdrawal. However, there are ways to withdraw funds from your RRSP without being subject to tax in the year of withdrawal. The following article highlights some of the methods that are available to make a tax-free RRSP withdrawal.

- **Swap or substitution** — You can transfer securities into your RRSP and withdraw cash equal to the market value of your securities on a tax-free basis. This type of swap does not constitute an RRSP contribution or generate an RRSP income slip. However, if the securities you put into your RRSP have an unrealized gain, the substitution will trigger a taxable capital gain. Alternatively, if the securities are in a loss position, you will never be able to use this loss for tax purposes.
- **Home Buyers' Plan** — You and your spouse or common-law partner can withdraw up to \$25,000 each tax-free from your RRSP to purchase or build your first home if you are considered to be a first-time homebuyer. You must repay the amounts you withdraw from your RRSP over a period of no more than 15 years. If you do not repay all amounts in accordance with the terms of the plan, these sums will be added to your taxable income for the year in which the repayment is due.
- **Lifelong Learning Plan** — You and your spouse or common-law partner can withdraw up to \$20,000 (maximum of \$10,000 each per year) tax-free from your RRSP to use for post-secondary education or training for you or your spouse or common-law partner. You cannot use this program to pay education costs for your child. If you withdraw monies under the terms of this plan, you must pay them back to your RRSP over a period of no more than 10 years. If you do not repay these amounts in accordance with the terms of the plan, these sums will be added to your taxable income for the year in which the repayment is due.
- **RRSP overcontribution** — If you overcontribute to your RRSP, you can withdraw the overcontribution from your RRSP and pay no income tax if you make the withdrawal within a certain time period. The Canada Revenue Agency (CRA) has specific tax forms for this purpose. Note that the overcontribution penalty of 1% per month on any RRSP overcontribution above \$2,000 may still apply.

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- **Mortgage in RRSP** — If you qualify to hold your mortgage in your RRSP, you can withdraw funds from your RRSP on a tax-free basis to fund your mortgage. The mortgage must be on your principal residence. There must be adequate funds in your RRSP to fund the mortgage and your RRSP must be self-directed. There may be restrictions on how you can use the funds generated from holding a mortgage in your RRSP.

The methods of withdrawing money from your RRSP discussed above have been around for many years and are considered valid strategies. However, from time to time, tax-free RRSP withdrawal schemes are promoted that are not legitimate. If you withdraw money under one of these schemes, it is likely you will have to pay taxes on the amount you withdraw. The CRA warns against such schemes on the following web page:

www.cra-arc.gc.ca/nwsrm/lrts/2009/1090317-eng.html

If you have questions or would like clarification on any of the issues discussed in this article, do not hesitate to discuss them with your advisor.



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