



Ways to Withdraw Cash Tax-free from your RSP

CRA-approved methods

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You may find yourself in a situation where you have money inside an RSP that you want access to. For example, you may want the money to buy a home or pay for education. Unfortunately, you usually have to pay taxes on an RSP withdrawal in the year of the withdrawal. Fortunately, there are methods available for withdrawing RSP funds without being subject to tax in the year of withdrawal. The following article highlights some available methods for making a tax-free RSP withdrawal.

- **Swap or substitution** — You can put securities into an RSP and withdraw cash tax-free from your RSP equal to the market value of your securities. This type of swap does not constitute an RSP contribution or generate an RSP income slip. However, if the securities you put into your RSP have appreciated in value, the substitution will trigger a taxable capital gain. Alternatively, if the securities are at a loss, then this loss will disappear and you will never be able to use it for tax purposes.
- **Home Buyers' Plan** — You and your spouse or common-law partner can withdraw up to \$20,000 each tax-free from your RSP for the purchase of a “first-time” home. However, the monies that you withdraw from your RSP for this purpose must be paid back to your RSP over a period of 15 years; otherwise, the amount that is not repaid will be considered income for tax purposes.
- **Lifelong Learning Plan** — You and your spouse or common-law partner can withdraw up to \$20,000 each (maximum of \$10,000 each per year) tax-free from your RSP to use for your or your spouse's or common-law partner's post-secondary education or training. You cannot use this program to pay for your child's education costs. The monies that you withdraw under this plan must be paid back to your RSP over a period of 10 years; otherwise, the amount that is not repaid will be considered income for tax purposes.
- **RSP overcontribution** — If you make an RSP overcontribution, then you are permitted to withdraw the overcontribution from your RSP 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 RSP overcontribution above \$2,000 may still apply.

- **Mortgage in RSP** — If you qualify to have a mortgage in your RSP, then you are permitted to withdraw monies out of your RSP tax-free to fund a mortgage. The mortgage must be on your principal residence. There may be restrictions on the use of the funds generated from a mortgage in your RSP.

These methods of withdrawing money from an RSP have been around for many years and are valid strategies. However, there have been several tax-free RSP withdrawal schemes that have been unscrupulously promoted recently 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 withdrawn. Two that the CRA warns against (which can also be found at www.cra-arc.gc.ca/nwsrm/lrts/2005/051110-eng.html) are:

- Purchasing shares of a private company or interest in mortgages at inflated prices. The funds that are used for the purchase are then loaned back to the owner of the RSP at low or no interest.
- Marketers telling clients, “Take advantage of your RSP now — no tax to pay!” or “I will loan you \$5,000 to \$250,000 over five years if your RSP is locked in.”

If you have any questions or require clarification on any of the issues discussed in this document, do not hesitate to discuss these with your advisor.

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