Wealth Management

RBC Wealth Management Services

Spousal RRSPs

The potential benefits of contributing to your spouse's RRSP

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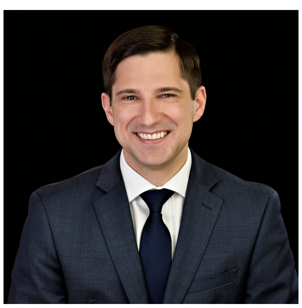

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Making contributions to your spouse's RRSP may be beneficial in a number of circumstances. When you make a contribution to your spouse's RRSP, that RRSP is considered a spousal RRSP. This article provides a basic overview of spousal RRSPs and includes some of the potential benefits and considerations of such RRSPs.

Married couples as well as those who satisfy the definition of "common-law partner" under the Income Tax Act can set up spousal RRSPs. Any reference to spouse in this article also includes a common-law partner.

This article outlines several strategies, not all of which may apply to your particular financial circumstances. The information in this article 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 legal advisor before acting on any of the information in this article.

What is a spousal RRSP?

A spousal RRSP is an RRSP that has received contributions from the RRSP owner's (the annuitant's) spouse (the contributor) or an RRSP that has received transfers from other spousal RRSPs. When the annuitant converts their spousal RRSP to a registered retirement income fund (RRIF), the RRIF is considered a spousal RRIF.

The deduction for the spousal RRSP contribution is claimed by the contributor who is likely in a higher tax bracket than the annuitant. The RRSP/RRIF withdrawals will be included in the annuitant's income instead of the contributor's income, subject to the attribution rules discussed later in this article.

How much can you contribute to a spousal RRSP?

You will need to ensure you have sufficient unused RRSP contribution room to make a contribution to a spousal RRSP. A spousal contribution affects your RRSP contribution room, not the RRSP annuitant's contribution room.

You may claim a deduction in a year for contributions you make to a spousal RRSP and your own RRSP.

The main advantage of a spousal RRSP is that it enables you and your spouse to income split by having RRSP income taxed in the lower income spouse's hands.

When you make a contribution to a spousal RRSP, the receipt given to you should identify you as the contributor and your spouse as the annuitant.

Your RRSP deduction limit is not reduced by any contributions made by your spouse to their own RRSP nor will your deduction limit be reduced by any contributions your spouse makes to a spousal RRSP of which you are the annuitant.

Potential benefits of a spousal RRSP

Income splitting

The main advantage of a spousal RRSP is that it enables you and your spouse to income split by having RRSP income taxed in the lower income spouse's hands. The strategy of income splitting takes advantage of our progressive tax system where, as your taxable income increases, your marginal tax rate increases. Because of this system, you can reduce your overall family tax bill by having income taxed in a lower income spouse's hands.

By contributing to a lower income spouse's RRSP, the contributor, who is typically the higher income earner, gets a deduction at their marginal tax rate and the lower income spouse will pay tax at a lower marginal tax rate when withdrawals are eventually made from the RRSP. Please keep in mind that the income attribution rules (discussed later in the article) may affect this strategy.

Pension income splitting measures vs spousal RRSP

Since the introduction of the pension income splitting measures, there has been some discussion as to whether contributing to a spousal RRSP still makes sense. RRIF income is considered eligible pension income for the purposes of pension income splitting where the annuitant of the RRIF is age 65 or older. The following are some of the key reasons why, even with the pension income splitting measures, using a spousal RRSP may still be a useful strategy for you and your spouse:

Enhanced income splitting: Under the pension income splitting provisions, an individual can allocate up to 50% of their eligible pension income to their spouse. There will be many cases where a couple will not be able to achieve the optimum tax result from splitting income through these provisions alone. For example, consider a scenario where the higher income earning spouse has a significant amount of non-registered investment income. Non-registered investment income cannot be split under these provisions. If the higher income spouse makes regular RRSP contributions, at retirement, they will be able to only allocate up to 50% of their eligible pension income to the lower income spouse. This will not be sufficient to equalize the total taxable income between the couple. If during their working years, the higher income spouse only made spousal RRSP contributions, the lower income spouse can draw funds from the spousal RRSP to equalize their income while the higher income spouse is only taxed on their non-registered investment income.

Income splitting prior to age 65: If you and your spouse retire prior to age 65 and need to make withdrawals from your RRSP/RRIF to supplement your retirement income, it may be beneficial to be able to draw on a spousal RRSP/RRIF owned by the lower income spouse to fund the shortfall. This is because RRIF income cannot be split prior to the RRIF annuitant reaching age 65. Therefore, if all of the RRSP/RRIF assets were in the

With proper advance planning to avoid income attribution, it may make sense to use a spousal RRSP to pay expenses during a period of low earnings prior to retirement such as a sabbatical, a period of unemployment or parental leave.

higher income spouse's name, any withdrawals made prior to age 65 will be taxable in the higher income spouse's hands.

Making RRSP contributions past age 71

Those who are age 71 or older cannot contribute to their own RRSP even if they have unused RRSP contribution room. However, if they have a spouse who is under age 71, they can continue to make RRSP contributions by contributing to a spousal plan if they have unused RRSP contribution room.

Use of the Home Buyers' Plan and Life Long Learning Plan

Having a spousal RRSP enables both spouses, rather than just one of the spouses, to potentially make use of these government programs. However, repayments to an RRSP under these plans cannot be made with contributions to a spousal RRSP. The annuitant of the RRSP who makes a withdrawal under these plans must make the repayments to the RRSP.

Planned leaves of absence, low income years

Spousal RRSPs do not necessarily have to be used for retirement. With proper advance planning to avoid income attribution, it may make sense to use a spousal RRSP to pay expenses during a period of low earnings prior to retirement such as a sabbatical, a period of unemployment or parental leave. It is important to keep in mind that once the funds are withdrawn from an RRSP, they no longer benefit from tax-deferred growth.

Contributions made after death

Contributions cannot be made to a deceased individual's RRSP. If the deceased has unused RRSP contribution room, the deceased individual's legal representative can make contributions to the surviving spouse's RRSP in the year of death or during the first 60 days after the end of that year, if the surviving spouse is under age 71. The contributions can be claimed on the deceased individual's final tax return.

Income attribution

Income attribution is the term used when income that is normally taxed in the hands of one taxpayer is attributed to another taxpayer and taxed in their hands instead.

For spousal RRSPs, the income attribution rules can result in RRSP withdrawal being attributed back to the contributing spouse. This means that the income withdrawn from the spousal RRSP will be taxed in the hands of the contributor, usually the higher income spouse, at their higher marginal tax rate. Effectively, the application of the income attribution rules means that income splitting with the lower income spouse is not achieved.

When income attribution applies

Generally, when the annuitant of a spousal RRSP, usually the lower income spouse, makes a withdrawal from their spousal RRSP, the income is taxed in their hands. However, income attribution applies when:

- The contributing spouse makes or has made a contribution in the year of the withdrawal; or
- The contributing spouse has made a contribution in one of the two immediately preceding taxation years;

The amount of the RRSP withdrawal that is subject to attribution will be limited to the total spousal RRSP contributions made during the three-year period described above. For example, let's assume Bob makes contributions of $3,000 in each of 2014, 2015, and 2016 (totalling $9,000) to Debbie's RRSP. Debbie then makes a

RRIF minimum payments are never subject to the income attribution rules.

withdrawal of $10,000 from the spousal RRSP in 2016. $9,000 will be attributed back to Bob, while the remaining $1,000 will be taxable to Debbie. In this example, Debbie can withdraw as soon as January 1, 2019 without triggering the attribution rules.

RRIF withdrawals and income attribution

RRIF minimum payments are never subject to the income attribution rules. Keep in mind that in the first year of a RRIF, the minimum payment is zero. 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 in the two previous years.

The following example illustrates the application of the attribution rules in the case of a spousal RRIF. Let's assume that Jack makes contributions to a spousal RRSP for his spouse, Diane, in 2013, 2014, 2015 and 2016 in the amount of $5,000 each year. Diane turns 71 in 2016, and as a result, converts her spousal RRSP into a spousal RRIF in 2016. After this conversion, she makes a withdrawal of $8,000 from the spousal RRIF on December 15 of every year from 2016 to 2019. Attribution of the RRIF withdrawals is outlined in the following table:

Year	Age on Jan. 1	RRIF min % (A)	RRIF balance on Jan. 1 (B)	Minimum RRIF withdrawal required (C) = (A) x (B)	Actual RRIF withdrawal made (D)	Amount attributed to Jack (E)	Amount taxed to Diane (D) – E)	Growth during the year*
2016	70	0%	$100,000	$0	$8,000	$8,000	$0	$4,000
2017	71	5.28%	$ 96,000	$5,069	$8,000	$2,931	$5,069	$3,840
2018	72	5.40%	$ 91,840	$4,959	$8,000	$3,041	$4,959	$3,674
2019	73	5.53%	$ 87,514	$4,840	$8,000	$0	$8,000	$3,501

*Assuming a rate of return of 4%.

Note that there can be no further attribution of spousal RRIF withdrawals, regardless of the amount of the withdrawal beginning 2019 since the contributor is only able to make a contribution at the end of the year in which their spouse turns 71 (in this case, by December 31, 2016).

The income attribution rules for spousal RRSPs do not apply on spousal RRSP withdrawals made under the Home Buyers' Plan or the Lifelong Learning Plan.

Exception to the income attribution rules

The income attribution rules for spousal RRSPs do not apply in the following circumstances:

- Spousal RRSP withdrawals made during and after the year of death of the contributing spouse;
- An amount from the spousal RRSP is deemed to be received by the annuitant because of death;
- Spousal RRSP withdrawals made when either spouse is a non-resident of Canada;
- Spousal RRSP withdrawals made when the spouses are living separate and apart due to marriage breakdown;
- A spousal RRSP withdrawal that is a commutation payment that is transferred directly from the plan to another RRSP, to a RRIF, or to an issuer to buy an eligible annuity that cannot be cashed in for at least three years;
- Spousal RRSP withdrawals made under the Home Buyers' Plan or the Lifelong Learning Plan. It is the annuitant's responsibility to make the minimum repayments required under these plans. If the required repayment is not made, the required repayment amount will be included in the income of the annuitant of the spousal RRSP, not the contributing spouse, regardless of any recent spousal RRSP contributions;
- An amount from a spousal RRSP that is directly transferred to a defined benefit pension plan to buyback past service where the pension plan member and the annuitant of the spousal RRSP are the same person.

Commingling a spousal RRSP with a regular RRSP or where both the annuitant and the contributing spouse makes contributions

When a spousal and regular RRSP with the same annuitant are commingled, the combined account is identified as a spousal RRSP account. The attribution rules apply if the contributing spouse has made a contribution to the spousal RRSP in the same or in any of the two prior years. Similarly, the income attribution rules apply if the annuitant spouse makes a withdrawal from a spousal RRSP where the contributing spouse makes a contribution in the same year or in any of the two prior years even if the annuitant has also made contributions to the RRSP. The spousal contributions are considered to be withdrawn first.

Consider the following example. Marie contributes to her RRSP in 2013, 2014, 2015 and 2016. Her spouse, Mark makes spousal RRSP contributions to her plan in 2013 and 2015.

When a spousal and regular RRSP with the same annuitant are commingled, the combined account is identified as a spousal RRSP account.

Contributions to Marie's RRSP

Year	Made by Mark	Made by Marie
2013	$5,000	$4,000
2014	nil	$3,000
2015	$3,000	$2,000
2016	nil	$5,000

If your spouse has their own RRSP plan — not a spousal plan — they can withdraw from that plan without triggering the income attribution rules.

In 2017, Marie determines she needs to withdraw $9,000 from her RRSP. Since both Marie and her spouse have made contributions to the account, of the $9,000 withdrawal, $3,000 will be attributed back to Mark. In order to prevent this, Marie could wait until 2018 to make the withdrawal. Alternatively, if Mark and Marie each contribute to a separate account (Marie to her own RRSP and Mark to a spousal RRSP for Marie), the income attribution rules will not apply if Marie withdraws from her own RRSP.

When setting-up a separate RRSP to receive spousal contributions, you should consider any additional cost of having more than one RRSP.

More than one spousal plan

In the case where your spouse has more than one spousal RRSP, the income attribution rules will still apply if your spouse makes a withdrawal from one of their spousal RRSPs and you make a contribution to any of your spouse's RRSP in the year of withdrawal or any of the two previous calendar years. The fact that your spouse is withdrawing from one spousal plan and you are contributing to another spousal plan does not prevent the income attribution rules from applying.

If your spouse has their own RRSP plan — not a spousal plan — they can withdraw from that plan without triggering the income attribution rules, even if you make a contribution to their spousal RRSP in the year of withdrawal or any of the previous two calendar years.

Who reports taxes withheld where attribution applies

When a withdrawal is made from a spousal RRSP/RRIF, a tax slip is issued to the annuitant of the plan even when attribution applies. The taxes withheld on the withdrawal are also reported on this tax slip. Only the annuitant of the spousal RRSP will receive a tax slip and only the annuitant can claim the taxes withheld on their tax return. The contributing spouse who is reporting attributed income cannot claim the taxes withheld.

Transferring the commuted value of your pension benefits

Under certain circumstances, you may be able to transfer all or a portion of the commuted value of your pension benefits to a locked-in RRSP. This option may be available to you when you leave your employer. These assets must be transferred to your own locked-in RRSP; they may not be transferred to a spousal RRSP. However, if part of the commuted value cannot be transferred to a lock-in plan and is taxable to you, you can consider contributing the non-locked in portion to a spousal RRSP if you have unused RRSP contribution room to reduce the tax payable.

Retiring allowance

If you receive a retiring allowance from your employer and you have years of service with that employer prior to 1996, you may be able to transfer all or a portion of the retiring allowance to your RRSP without using any unused RRSP contribution room. This is called an "eligible retiring allowance" rollover. The eligible retiring allowance must be transferred to your own RRSP if you do not want to use your RRSP contribution room. However, if you have sufficient unused RRSP room, you may want to consider transferring your entire retiring allowance or a portion of it to a spousal RRSP by using your unused RRSP contribution room.

Summary

Making contributions to a spousal RRSP can be useful in a number of cases. Speak with your qualified tax advisor to determine if setting up a spousal RRSP makes sense for you and your spouse.

Please contact us for more information about the topics discussed in this article.