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FINANCIAL ADVISORY SUPPORT

Withholding Taxes on RRSP and RRIF Withdrawals

A series of withdrawals are treated as a single lump sum for the purposes of calculating the required rate of withholding tax for RRSP and RRIF withdrawals

When withdrawals are made from RRSPs and RRIFs, there is usually a requirement that a portion of the payment be withheld as a withholding tax and be remitted to the Canadian tax authorities. How much tax is actually withheld depends on a number of factors including the nature of the withdrawal, the amount of the current withdrawal, whether or not that withdrawal is part of a pattern or series of withdrawals and the province of residence of the recipient. The withholding tax rules described in this article also apply to withdrawals from locked-in plans such as LIFs, PRIFs and LRIFs.

Regular withholding

Most withdrawals that you make from an RRSP or RRIF are subject to withholding taxes. The rate of withholding tax varies based on both the amount of your withdrawal and your province of residence. The following table shows the percentage of withholding tax that is currently required when you make a single lump sum withdrawal.

Withdrawal amount	Province 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.

Certain amounts withdrawn from RRSPs and RRIFs are not subject to withholding taxes. The most notable of these exceptions are your annual minimum amount withdrawn from a RRIF, your Home Buyers' Plan and Lifelong Learning Plan withdrawals, and the removal of excess undeducted RRSP contributions where you have an approved Canada Revenue Agency (CRA) form T3012A — Tax Deduction Waiver on the Refund of Your Unused RRSP Contributions.

Impact of a series of withdrawals on withholding tax rate

While the low rate of withholding tax on withdrawals of \$5,000 or less provides you with an opportunity to minimize the amount of taxes withheld at the time of withdrawal, the low rate does not apply to a series of pre-authorized smaller withdrawals. When you make a series of smaller withdrawals from a registered plan, the CRA requires that the total of the series of withdrawals that is over and above the RRIF minimum be compared to the table above to determine the appropriate withholding tax rate.

The CRA has confirmed this required 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/rrsprrif-reerferr/fq-eng.html#withholding — Registered Retirement Savings Plans and Registered Retirement Income Funds (RRSPs and RRIFs) — Frequently asked questions — Question 7.

For example, suppose you are a resident of a province other than Quebec and you decide to withdraw \$600 every month from your RRIF (\$7,200 on an annual basis) using a pre-authorized withdrawal program. In this example, 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 comes from the middle range income, which is between \$5,001 and \$15,000.

Building on this example, suppose midway through 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 page 1. This additional withdrawal would mean that a total of \$16,000 (\$6,000 + \$10,000) would be subject to withholding taxes in the year. As this amount is greater than \$15,000, this would mean that all future payments from the RRIF (after the \$10,000 payment is made) would then be subject to the 30% withholding tax rate.

Series of withdrawals from an RRSP

In a different example, if instead the withdrawals were made from an RRSP, and a series of separate deregistration requests were placed for successive days, it is quite likely that the initial withdrawal would be subject to the lump sum withholding tax rates from the table on page 1. But, later withdrawals within the same pattern or series of withdrawals may be considered cumulative and subject to a higher withholding tax rate from the table.

Based on the CRA's guidance, your advisor should not advise you to make RRSP withdrawals using a series of requests for the purpose of minimizing your withholding taxes. If you request a series of withdrawals to remove funds from your RRSP on an unsolicited basis, you should be aware that the CRA advises against this practice. As explained in the previous paragraph, a series of withdrawals from your RRSP will still be subject to potentially higher withholding tax rates, and you are ultimately responsible for any resulting tax liability when you file your own personal income tax return.

Tax reporting slips

All amounts that are paid out of an RRSP or a RRIF in a calendar year are reported on tax slips. The T4RRSP and the T4RRIF are issued by the end of February of the following calendar year. These slips not only include all of the income paid out, but also any taxes that have been withheld and remitted to the government.

Residents of Quebec also receive a Relevé 2 slip to be used for provincial income tax purposes. Both the T4RRSP/T4RRIF slip and the Relevé 2 report the gross amount of income withdrawn from the registered plan, but the amount of withholding taxes shown on the slips will differ as the Relevé 2 will show only the Quebec withholding tax to be reported and the T4RRSP/RRIF will show only the federal withholding tax to be reported.

A waiver might be available to reduce the withholding tax

There may be situations where the required amount of withholding tax is larger than the final tax liability that you will face when you prepare your personal tax return. This will especially be true in situations where withdrawals from RRSPs or RRIFs are done on a systematic basis at the high withholding tax rate and they make up the majority of your income.

In order to apply for a waiver, the CRA form T1213 — Request to Reduce Tax Deductions at Source for Year(s) ____ should be completed and submitted to the Client Services Division of your CRA tax services office. It is more likely for your request for a reduction in withholding taxes to be approved if you are able to provide specific details supporting it.

Quarterly tax instalments may be required

In certain situations, it is possible that the amount of withholding tax on RRSP and RRIF payments may not be sufficient to cover your full tax liability related to these income sources.

The key issue in determining whether you are required to make instalments is whether your net tax owing (your total tax liability less all amounts withheld at source during the year) for the current year and either one of the two preceding years exceeds \$3,000.

This formula is generalized; see the CRA publication P110 — Paying Your Income Tax by Instalments for more details. This publication also provides you with details on the three different methods for calculating your required instalments. You are entitled to use the method that is to your best advantage.

In order to avoid the requirement for future instalments, consider asking your advisor for a larger amount of withholding tax to be taken off of your RRSP or RRIF withdrawals.

Non-residents

Non-residents of Canada have different rules for withholding tax on amounts paid to them from RRSPs and RRIFs. Instead of the various withholding tax rates shown in the table on page 1, non-resident withholding tax is applied at a flat rate of 25%, unless the amount is reduced by an Income Tax Treaty between Canada and the country of residence of the accountholder. For additional details on non-resident withholding tax, request a copy of the article titled “Withholding Taxes — Part 2: The Impact on Non-Residents Investing through an Account in Canada” from your advisor.



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