Wealth Management

the Navigator

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC WEALTH MANAGEMENT SERVICES

Reduction of RRIF minimum withdrawals for 2020

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

The Canadian government has introduced a number of measures to help alleviate financial hardship for Canadians brought on by COVID-19. One such measure is the reduction of required Registered Retirement Income Fund (RRIF) minimum withdrawals by 25% only for 2020. The Quebec government has also announced that it will reduce mandatory RRIF withdrawals by 25% for the 2020 tax year.

As locked-in plans are subject to the same tax legislation as regular registered plans, the temporary reduction will also apply to life income funds (LIFs), restricted life income funds (RLIFs), locked-in retirement income funds (LRIFs), and prescribed RRIFs.

Reduction of RRIF minimum payment

Normally, your RRIF minimum payment for each year, after the year your RRIF is established, is calculated by multiplying the fair market value (FMV) of your RRIF at the end of the previous year by a prescribed percentage factor. The prescribed percentage depends on your age or your spouse's or common-law partner's age (if applicable) at the end of the previous year (depending on whose age you elected at the time the RRIF was established).

In light of the current volatile market conditions, the Canadian government has enacted legislation to reduce RRIF minimum payments by 25% for 2020. In other words, you are only required to withdraw 75% of your unreduced required minimum payment for 2020. For example, if your 2020 minimum amount would have been $10,000, the reduced minimum amount will be $7,500. This measure will provide you with the flexibility of keeping more funds in your RRIF in order to benefit from tax-deferral on funds you do not need to meet your living expenses.

If you have not yet withdrawn your 2020 RRIF minimum payment, or have withdrawn only a portion of the unreduced payment, you can request the reduced minimum. If you have already withdrawn more than the reduced 2020 RRIF minimum payment, you will not be permitted to re-contribute any amount back to your RRIF.

Segregated funds

Many segregated fund contracts include guaranteed income for life. A segregated fund held in a RRIF may have a higher contractually guaranteed income level than the unreduced or reduced minimum payment requirement. As such, if you hold a segregated fund in your RRIF and choose to withdraw the reduced RRIF minimum payment, it may have a negative effect on your lifetime guaranteed income. If you hold a segregated fund in your RRIF, speak with your insurance advisor for more information.

In-kind RRIF withdrawals

It is possible to take a RRIF payment by withdrawing investments in-kind from your RRIF directly into your non-registered account. It is not necessary for your RRIF investments to mature or to be liquidated before you withdraw them. Transferring your RRIF payment in-kind to your non-registered account can be beneficial if you believe that the investments will increase in value as the market recovers. Keep in mind that if you are taking a payment in-kind from your RRIF in excess of the unreduced minimum amount, you must have the cash available to make the withholding tax payment.

Tax Implications

Withholding tax

Residents

The amount you withdraw from your RRIF determines the rate of withholding tax that will apply to your withdrawal. There is no withholding tax applied to your minimum payment. If you elect to receive an amount above the minimum payment, income tax will be withheld at source on the amount in excess of the minimum.

The reduced minimum for this year will not affect the withholding tax rules. In other words, if you decide to receive the unreduced minimum amount, you will still not be subject to withholding tax. If you withdraw more than the unreduced minimum amount, you will be subject to withholding tax on the portion that is above the unreduced minimum amount.

Non-residents

If you are a non-resident of Canada and you withdraw an amount from your RRIF, you are generally subject to Canadian non-resident withholding tax of 25%. However, a lower withholding tax rate may apply if Canada has a tax treaty with the jurisdiction where you are resident. Many tax treaties provide for a reduced withholding tax rate and some even provide for an exemption from withholding tax on periodic payments.

If you have not yet withdrawn your 2020 RRIF minimum payment, or have withdrawn only a portion of the unreduced payment, you can request the reduced minimum.

A RRIF payment would be considered periodic if the payments made during the calendar year are less than the greater of:

- Twice the minimum payment required for the year; or
- 10% of the FMV of the RRIF at the beginning of the year.

The minimum payment in this case would be the unreduced minimum payment and not the reduced minimum.

Income taxes

Your RRIF withdrawals are included in your taxable income and are subject to tax at your marginal tax rate. Your total taxable income will determine your total taxes payable. This means that the withholding tax you were subject to on your RRIF payments (if any) may not be your final tax liability.

If the tax withheld is greater than your final tax liability, you will receive a tax refund. Conversely, if your final tax liability exceeds the tax withheld, you will need to have available funds to pay the taxes owing by April 30th, 2021. This is important to keep in mind, especially if you received an in-kind RRIF payment and you do not want to liquidate those securities to fund the potential tax liability.

Spousal RRIF

If you have a spousal RRIF and only withdraw the minimum required amount from the spousal plan, the income attribution rules do not apply. If you withdraw an amount in excess of the minimum, the excess is attributed back to the contributing spouse to the extent they made any spousal RRSP contributions in the year of withdrawal or the two previous years. The reduction of the minimum payment for 2020 will not affect the attribution rules. In other words, if you choose to receive the unreduced RRIF minimum amount, the attribution rules will not apply.

Conclusion

In an attempt to alleviate financial hardship, the government has reduced the required RRIF minimum withdrawals by 25% for 2020. If you do not need your entire unreduced RRIF minimum payment for your living expenses, consider taking advantage of the reduced minimum amount for this year. Withdrawing only the reduced minimum amount will not only help preserve your retirement savings but also delay the tax on funds you don't need this year.

That being said, consider whether it makes sense for you to receive the unreduced RRIF minimum payment and contribute the funds to a non-registered account. Taking your unreduced RRIF minimum payment may be advisable if you are in a low income tax bracket this year. Speak to your RBC advisor and your qualified tax advisor to assist you in making the best decision for you given your current financial circumstance.

This article may contain strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal, tax or insurance 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, legal and/or insurance advisor before acting on any of the information in this article.

In an attempt to alleviate financial hardship, the government has reduced the required RRIF minimum withdrawals by 25% for 2020