Wealth Management

the Navigator

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC WEALTH MANAGEMENT SERVICES

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RRIF payments and withdrawals

You can think of a Registered Retirement Income Fund (RRIF) as an extension of your Registered Retirement Savings Plan (RRSP). Your RRSP is used to save for your retirement while your RRIF is used to provide you with retirement income. The main benefit of a RRIF is that it provides you with maximum flexibility in establishing an income stream during your retirement. Although you are generally required to take a minimum payment from your RRIF each year, there is no maximum and you can make withdrawals as often as you wish. Another major advantage of a RRIF is that the assets that remain in the plan continue to grow on a tax-deferred basis until you withdraw them. This article focuses on the main considerations associated with receiving income from your RRIF, including calculating your minimum payment as well as the withholding taxes on your RRIF withdrawals.

Any reference to a spouse in this article includes a common-law partner.

Establishing your RRIF

Usually, you can only contribute to a RRIF by directly transferring certain property to it. You can establish a RRIF by transferring amounts from an RRSP, a Pooled Retirement Pension Plan (PRPP), a Registered Pension Plan (RPP), a Specified Pension Plan (SPP) or from another RRIF.

Starting in the year after the year you establish a RRIF, you have to take an annual minimum amount. In other words, there is no minimum payment required in the calendar year in which you convert your RRSP to a RRIF.

The minimum amount is calculated based on your age at the end of the previous year. If you have a spouse, you can elect to have the minimum payment calculated based on your spouse's age. If your spouse is younger than you, this will lower your required minimum payment. You must make this election when you first establish your RRIF. Once you make the election, you cannot change it at a later date, even if your spouse dies. You would have to transfer your existing RRIF assets to a new RRIF in order to make a new election for whose age to use in calculating your minimum payments. Keep in mind, that when you open a new RRIF, you must receive the minimum payment for the year. The minimum cannot be transferred to the new RRIF.

Although there are various maturity options for your RRSP, you may decide to transfer your RRSP property to a RRIF. You can do so at any time, however you must do so by the end of the calendar year in which you turn 71. The investments held in your RRSP should be transferred directly into the RRIF account. You are generally not required to liquidate your RRSP investments prior to transferring your RRSP property to a RRIF. In the case where you convert all or part of your RRSP to a RRIF before age 71, you are able to transfer the value of your RRIF in excess of the annual minimum payment back to your RRSP.

Receiving income from your RRIF

You can withdraw more, but not less than the annual minimum. The excess amount you withdraw from your RRIF cannot be applied as part of your minimum for the next year. You can choose to receive your RRIF payments monthly, quarterly, semi-annually or annually, depending on your income requirements. If you do not require income from your RRIF to meet your financial needs, you may consider receiving the annual minimum payment at the end of the year to maximize the tax-deferral benefits of your RRIF.

Calculating your RRIF minimum payment

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 age (if applicable) at the end of the previous year (depending on whose age you elected at the time the RRIF was established).

For ages under 71, the prescribed percentage factor is calculated by the following formula:

1/(90 – age on December 31 of the previous year) x 100

For example, if the RRIF is based on your age, and you are age 56 as of December 31 of the previous year, the prescribed percentage factor would be 1/ (90 – 56) x 100, or 2.94%. If the value of your RRIF at December 31 of the previous year is $500,000, then your required RRIF minimum payment for the year would be $14,700.

For ages 71 and older, the prescribed percentage factor is found in the tax regulations. Please refer to the attached RRIF minimum table for the prescribed percentage factors as set out in the regulations.

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 from the RRIF. 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.

For example, if the RRIF is based on your age, and you are age 75 as of December 31 of the previous year, the prescribed percentage factor per the regulations would be 5.82%. If the value of your RRIF at December 31 of the previous year is $500,000, then your required RRIF minimum payment for the year would be $29,100.

Taxes on RRIF income

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. However, there are certain cases (discussed in the next section) in which financial institutions are required to withhold taxes from your RRIF payments. These amounts withheld are remitted to the Canada Revenue Agency (CRA) on your behalf and are a credit towards your total taxes payable.

Withholding taxes

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 from the RRIF. 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 withholding tax rates for Canadian residents are the same for all provinces and territories except Quebec. Withholding tax for non-residents is discussed later in this article. The following table shows the percentage of withholding tax that applies when you make a single lump sum withdrawal:

Withdrawal Amount	Province/ Territory other than Quebec	Province of Quebec[1]
$0 - $5,000	10%	20%
$5,001 - $15,000	20%	25%
over $15,000	30%	30%

1) For Quebec residents the withholding tax is equal to provincial withholding tax of 15% for all withdrawal amounts plus federal withholding tax of 5%, 10% or 15% depending on the amount.

A series of payments

The withholding tax amount is generally based on the excess portion of each individual lump-sum payment, except where you make a series of pre-authorized smaller withdrawals. If you make a series of smaller withdrawals (i.e., in instalments to fulfil a single request) the CRA has stated that the rate of withholding on each individual payment should be based on the total sum requested and not on each individual payment. In these situations, the CRA considers the series of payments to be blended payments (i.e., part minimum amount and part excess amount). Accordingly, the excess portion of each instalment would be subject to withholding tax at the rate that would apply had you requested to receive one lump-sum payment in the year rather than a series of payments.

For example, assume you are a resident of Saskatchewan and you decide to withdraw $600 every month from your RRIF ($7,200 on an annual basis) using a pre-authorized withdrawal program. Further, assume your annual minimum payment is $1,200. The sum of the amounts you plan to withdraw in the year in excess of the RRIF minimum is $6,000 ($7,200 - $1,200). As the total falls in the $5,001 - $15,000 range, the portion of each individual payment that is in excess of the minimum will be subject to 20% withholding and not 10% that would normally apply to a single request of $600.

A series of payments with an additional request for funds

In a situation where you receive regular installment payments and then submit a request for an additional amount during the year, the CRA will consider this to be a separate request and will only require tax to be withheld on the excess portion of that payment, regardless of the amount of your regular instalment payments. Building on the previous example, if you decided to withdraw an additional $4,000 as a lump-sum from your RRIF in June, this payment would be treated as a separate request. Since it is an excess amount above the minimum amount (already received in monthly instalments) but below $5,000, it would be subject to a 10% withholding tax rate, and not the 20% withholding tax rate applied to the excess withdrawals in the previous example.

A series of separate requests

If it appears like you are making a series of separate requests in order to minimize the withholding tax, the CRA's position is that the withholding tax rate should be determined as if there was one request equal to the total of all amounts requested and a higher withholding rate could apply. This could be the case where you make a series of requests in a short period of time. Continuing with the same example, assume that in addition to the $4,000 withdrawal in June, you request another $4,000 the next day. Because the requests are within a short period of time, the withholding tax rate should be determined as if there was one request equal to $8,000 rather than two separate requests. Since the entire $8,000 will be an excess amount above the minimum amount (already received in monthly instalments) it will be subject to withholding tax rate of 20% rather than each $4,000 withdrawal being subject to 10%.

It is possible that the amount of withholding tax on your RRIF withdrawals may not be sufficient to cover your actual tax liability.

Quarterly tax instalments

It is possible that the amount of withholding tax on your RRIF withdrawals may not be sufficient to cover your actual tax liability. This could contribute to you having to pay additional tax when you file your income tax return for the year. If your net tax owing (your total tax liability less all amounts withheld at source) for the current year and either one of the two immediately preceding years exceeds $3,000 ($1,800 in Quebec), you will be asked by the CRA to pay tax instalments in subsequent years.

Increasing your withholding tax

To minimize the possibility of having to make future quarterly tax instalments, you may request that a larger amount of tax be withheld on your RRIF withdrawals by completing CRA's Form TD1, *Personal Tax Credits Return (TD1 Form)*. Quebec residents should also complete Form TP-1017-V, *Request to Have Additional Income Tax Withheld at Source*. The form(s) must be completed and provided to your financial institution.

Reducing your withholding tax

There may be situations where the required amount of tax withheld on your RRIF payments would be more than sufficient to cover your final tax liability on your personal tax return. This will especially be the case where your RRIF withdrawals would be subject to the highest rate of withholding tax and those payments make up the majority of your income for the year.

You may request reduced or no withholding tax by completing the TD1 Form and sending it to your financial institution. Note that this method of reducing withholding tax is not accepted by Revenue Quebec. In some cases, your financial institution may also require you to provide them with authorization from the CRA to reduce or waive the withholding tax. To obtain approval from the CRA, you will need to send them a completed Form T1213, *Request to Reduce Tax Deductions at Source*. Quebec residents must also use Form TP-1016, *Application for a Reduction in Source Deductions of Income Tax* to request reduced withholding tax from Revenue Quebec.

Tax reporting slips

All amounts that are paid out of your RRIF in a calendar year are reported to you on a T4RIF. This tax slip is issued by the end of February of the calendar year following the year of withdrawal. The T4RIF reports the gross income paid out to you as well as any federal and provincial taxes (with the exception of Quebec) that have been withheld and remitted to the government. For Quebec residents, the T4RIF will show the gross income and only the federal withholding tax. This is because residents of Quebec also receive a Relevé 2 slip for provincial income tax purposes. The Relevé 2 reports the gross income withdrawn from the RRIF as well as the Quebec withholding tax.

Spousal RRIFs and income attribution

RRIF minimum payments are not subject to the income attribution rules so if you withdraw only the minimum amount from a spousal RRIF, there will be no income attribution. Keep in mind that in the year you established the RRIF, the required minimum payment is zero. If you withdraw more than the minimum payment from your spousal RRIF, the excess will attribute back to your spouse who made the contribution to the extent there were any spousal RRSP contributions made in the year of the withdrawal or the two previous calendar years. Please refer to our article on spousal RRSPs for an example on how the income attribution rules apply when you make a withdrawal from a spousal RRIF.

RRIF transfers

In-kind transfers

It is possible to take a RRIF payment by transferring 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 transfer them. That said, if you take a payment in-kind from your RRIF that exceeds the minimum, you must have enough cash available in your RRIF to pay the withholding tax. If you don't, you may have to sell assets in your RRIF to generate enough cash in order to satisfy the withholding tax requirement.

The withholding tax is calculated based on the amount of your in-kind withdrawal that exceeds the minimum. The amount of your RRIF withdrawal will equal the FMV of the investments at the time of the transfer. The FMV of the investments at the time of the transfer will also become the new adjusted cost base of those transferred securities.

It is possible to take a RRIF payment by transferring 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 transfer them.

Switching financial institutions

If you are transferring all of your RRIF assets from one financial institution to another, the transferring financial institution is required to withdraw and pay you your annual minimum payment before transferring your RRIF account. For example, if your annual minimum payment is $8,000 and you have only withdrawn $1,000 to date, the financial institution will pay out $7,000 to you before they transfer your remaining RRIF account.

Separation or divorce

Where RRIF property is transferred from your RRIF to your former spouse's RRIF due to a decree, court order, or written separation agreement relating to a division of property resulting from the breakdown of your marriage, the property can be transferred on a tax-deferred basis. In the case of a breakdown in the marriage, your financial institution is not required to retain or pay out the minimum amount to you before the transfer.

The attribution rules previously mentioned for spousal RRIFs will cease to apply following a divorce judgement or executed separation agreement.

Pension income splitting

If you are 65 years or older during the year and receive RRIF income, you can split up to 50% of your RRIF income with your spouse. By reallocating your RRIF income to your lower income spouse, you are able to tax it in their hands at their lower marginal tax rate and reduce your family's overall tax bill. Further, by reallocating your RRIF income, you may also avoid having your Old Age Security (OAS) or other income-tested government benefits reduced.

To split the RRIF income, you and your spouse have to make a joint election on CRA Form T1032, *Joint Election to Split Pension Income*. The form must be signed and attached to both your and your spouse's income tax returns.

When you allocate the RRIF income that was subject to withholding tax to your spouse, a proportionate amount of the withholding tax is also allocated to your spouse.

Pension income tax credit

If you are 65 years of age or older during the year and received RRIF income, you may be eligible for a federal pension income tax credit of up to $2,000. If you are currently receiving eligible pension income but your spouse is not, you may wish to allocate $2,000 of your pension income to your spouse. This will allow both you and your spouse to claim the pension income tax credit, if your spouse is also 65 years of age or older. If your spouse does not need to claim all of the credit in order to reduce their federal taxes to zero, they may transfer any unused amount to you, for you to claim on your tax return.

Non-residents of Canada

If you are a non-resident of Canada, generally a withholding tax of 25% applies to your RRIF payment, even if you only receive the minimum amount. The rate of withholding tax that applies may be lower if Canada has a tax treaty with the country where you are resident. For many countries that have a tax treaty with Canada, including the United States, withdrawals from a RRIF are subject to a 15% non-resident withholding tax, provided payments are considered periodic payments. A RRIF payment would be considered periodic if the payments made during the calendar year are less than the greater of:

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

A notable withholding tax exception is periodic RRIF payments made to residents of the United Kingdom (UK). There will be no withholding tax on the payments made from a RRIF during a calendar year to a resident of the UK, provided the withdrawal is less than the limits just mentioned.

If you are 65 years or older during the year and receive RRIF income, you can split up to 50% of your RRIF income with your spouse. By reallocating your RRIF income to your lower income spouse, you are able to tax it in their hands at their lower marginal tax rate and reduce your family's overall tax bill.

Payments and taxes withheld are reported to non-residents on an NR4 slip.

Conclusion

A RRIF provides you with maximum flexibility in planning for your retirement. Ensure that you have a good understanding of how RRIF withdrawals work to better plan for your retirement cash flow. If you have questions on any of the topics discussed in this article, please speak to an RBC advisor.

This article may contain several 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.