The Navigator

Wealth Management

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC WEALTH MANAGEMENT SERVICES

Registered Retirement Savings Plans (RRSP)

The basics

Your RRSP will likely represent a key source of your retirement income. The savings that you accumulate in your RRSP over the years will be converted to an income source once you retire. While recognizing the importance of this source of retirement income is a good first step, fully understanding the rules specific to RRSPs and the related saving strategies available is essential to a complete retirement plan. A thorough understanding of these rules and strategies, accompanied by effective management of your RRSP assets, will help you accumulate savings for your retirement. The purpose of this article is to review the basics of RRSP investing and provide an outline of strategies available to maximize your RRSP savings.

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

What is an RRSP?

An RRSP is a tax-sheltered investment vehicle that provides you with an effective means of saving for retirement. Contributions to an RRSP may be tax deductible. This means that you can claim the contributions as a deduction on your income tax return and reduce your taxable income in the year you claim the deduction. As well, income and capital gains earned in the plan compound on a tax-deferred basis and are only taxable as earned income when you withdraw funds from the plan.

You may contribute to an RRSP up until the end of the year in which you, or your spouse or common law partner (referred to in this article as your "spouse") in the case of a spousal RRSP, reaches age 71.

The benefits of RRSP investing

There are three primary benefits to investing in an RRSP:

1. Tax deduction

Contributions to an RRSP are deductible for tax purposes within certain prescribed limits. Provided you have unused RRSP contribution room, an RRSP contribution can be claimed as a deduction against all sources of taxable income. This deduction reduces your amount of taxable income for the year and thus your taxes payable. The actual tax savings will depend on your marginal tax rate. The table below outlines the out of pocket the cost

The most significant benefit of investing in an RRSP is the tax-deferred compounding of income and capital gains within the plan.

of a $1,000 RRSP contribution after claiming the deduction.

Marginal tax rate	Tax saved	Out of pocket cost
25%	$250	$750
40%	$400	$600
45%	$450	$550

RRSP contributions are generally deductible in a tax year provided that the contribution is made in that tax year or in the first 60 days of the following tax year. There is no requirement, however, to claim the RRSP contribution as a deduction in the tax year it is made. RRSP contributions can be carried forward indefinitely and claimed as a deduction in a future tax year.

If your income tends to fluctuate from year to year, it may be advantageous to defer the tax deduction to a future tax year when your income is higher, and thus your marginal tax rate, will be significantly higher. While this strategy delays the benefit of the tax deduction, choosing a year where you have a higher marginal tax rate may allow you to maximize your tax savings and your contribution can benefit from tax-deferred growth in the RRSP.

2. Tax-deferred compounding

The most significant benefit of investing in an RRSP is the tax-deferred compounding of income and capital gains within the plan. The term tax-deferred means that all income and capital gains earned within the RRSP is not taxed in the year it is earned and accumulates tax-free until withdrawn.

3. Income splitting

Utilizing income splitting strategies between you and your spouse can provide significant tax savings. The strategy of income splitting takes advantage of our progressive tax system where, as your taxable income increases, your marginal tax rate increases. This system allows you to reduce your overall family tax bill by having income taxed in a lower income spouse's hands.

One of the most simplistic, yet effective, methods of income splitting between spouses is contributing to a spousal RRSP for a spouse who has less retirement savings. For additional information, please ask your RBC advisor for our article on spousal RRSPs. The objective of this strategy is to provide you and your spouse with similar retirement incomes rather than having all of your family's retirement income taxed in one spouse's hands.

Contributions to your RRSP

There are a number of rules and limits that you should be aware of when making contributions to an RRSP.

RRSP contribution limit

Your annual RRSP contribution limit is based your earned income from the previous tax year, your participation in a Registered Pension Plan (RPP) or a Deferred Profit Savings Plan (DPSP), as well as the prescribed contribution limit.

What is earned income?

Earned income includes the following types of income:

- Salary or wages from employment. This amount is reduced by deductible employment-related expenses such as union or professional dues.
- Disability pensions paid under the Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) (you must be a resident of Canada when you receive the payments) and taxable income from a disability plan. Regular CPP and QPP retirement pensions do not qualify as earned income.
- Net income from a business carried on by a self-employed individual or by an active partner of a partnership.

If you are terminating your interest in an RPP or DPSP before retirement, you may receive a pension adjustment reversal (PAR), which can restore some of your lost RRSP contribution room.

- Net rental income from real property.
- Payments from supplementary unemployment benefit plans (not Employment Insurance).
- Taxable spousal and child support payments
- Royalties and net research grants.

Please note that no RRSP contribution room is created from the receipt of a retiring allowance/ severance payment.

Earned income must be reduced by the following amounts:

- Losses from a business carried on by a self-employed individual or by an active partner of a partnership.
- Net rental losses from real property.
- Deductible spousal and child support payments.

Calculating your RRSP contribution limit

If you have not participated in an RPP or DPSP in the previous tax year, the maximum RRSP contribution you can make for a year is equal to the lesser of:

- 18% of your earned income for the previous tax year; or
- The prescribed annual limit for the year

Year	Prescribed Annual Maximum Limit	Income Level
2016	$25,370	$140,945
2017	$26,010	$144,500
2018	$26,230	$145,722

To contribute the maximum amount in 2018, for example, your 2017 earned income would have needed to be equal or greater than $145,722.

If you are a member of an RPP or DPSP, this maximum limit may be reduced by the value of benefits you have accumulated in the RPP or DPSP. The value is calculated by your employer and is reported to you and the Canada Revenue Agency (CRA) as a pension adjustment (PA). You must subtract the PA factor indicated on your prior year's T4 slip from the maximum limit for the current tax year. The purpose of a PA is to reflect the value of the tax-deferred benefit that a member is receiving by participating in an RPP or DPSP. Reducing the overall contribution limit by a pension factor is intended to equate the tax-deferred retirement benefits provided to pension plan members with the tax deferred retirement benefits available to non-members.

If you are a member of a defined benefit pension plan, you may also have a past service pension adjustment (PSPA), which will reduce your available contribution limit. A PSPA could result if you purchase pension benefits relating to prior years of employment (after 1989) or where the pension plan is being amended retroactively to improve the benefits for members in respect of years of pensionable service after 1989.

If you are terminating your interest in an RPP or DPSP before retirement, you may receive a pension adjustment reversal (PAR), which can restore some of your lost RRSP contribution room. The PAR is intended to increase your RRSP contribution room where your termination benefit under the RPP or DPSP is less than the sum of all PAs that were previously reported.

Finally, if you are part of a group RRSP, it is important to remember that group RRSP contributions count towards your regular RRSP contributions for the year. If you are part of a group plan offered by your employer, be sure to take these contributions into account when determining how much you should contribute to an RRSP.

If you do not contribute your maximum annual contribution to your RRSP, you can carry forward the unused portion and make the contribution in a future year.

Here is an example that illustrates how to calculate your RRSP contribution limit:

Throughout 2017, Susan was employed by a company which sponsors a pension plan for its employees. Her employer reported a 2017 PA of $6,000 on her 2017 T4 slip. Susan's employment income in 2017 was $50,000. She has always made her maximum RRSP contribution each year. Susan's 2018 contribution limit would be calculated as follows:

Unused contribution from prior years	NIL	(a)
PLUS the lesser of		
18% of earned income from prior year ($50,000 x 18% = $9,000) **OR** the maximum annual 2018 contribution ($26,230)	$9,000	(b)
LESS pension adjustment from prior year	$6,000	(c)
TOTAL: (a + b) – c	$3,000	(d)
LESS past services pension adjustment (PSPA)	NIL	(e)
PLUS pension adjustment reversal (PAR)	NIL	(f)
Allowable deductible contribution: d – e + f	$3,000	(g)

Each year, the CRA sends out, along with your Notice of Assessment for your tax return, a calculation of what your RRSP deduction and contribution limits are for the year. For a better understanding of how to interpret your RRSP deduction limit statement, please ask your RBC advisor for the article titled, RRSP Deduction Limit Statement.

Carrying forward unused RRSP contribution room and unused deductions

If you do not contribute your maximum annual contribution to your RRSP, you can carry forward the unused portion and make the contribution in a future year. This unused portion can be carried forward indefinitely. Be aware, however, that waiting until a future year to catch up on deductible contribution room will, in most cases, result in a smaller RRSP due to the loss of tax- deferred growth.

As well, if you have unused RRSP contribution room, you can make a contribution to your RRSP for the tax year and not claim the deduction for that tax year. For example, if you contribute $5,000 to your RRSP in 2017, you can carryforward some or all of your deduction to the 2018 or subsequent tax years. You may wish to use this strategy if you want access to tax-deferred growth immediately, but expect to be in a higher tax bracket in a future tax year and would benefit more from a deduction in that year. Contributions that you have already made but not yet deducted will appear on your Notice of Assessment's RRSP deduction limit as unused contributions. Please note that even if you have not yet claimed the deduction, your RRSP contribution room will still be reduced.

Excess contributions

You are able to make a contribution to your RRSP in excess of your RRSP contribution limit up to a

If you do not have the cash to make your RRSP contribution, you can contribute eligible investments from your non-registered account to your RRSP at their fair market value.

cumulative amount of $2,000 without being subject to a penalty tax. This $2,000 excess contribution limit is intended as a buffer in the event you inadvertently exceed your actual limit for the year.

Making a $2,000 excess contribution may appear to be advantageous as you are not subject to a penalty tax and you are able to benefit from tax-deferred growth on this amount. However, you should note that are you not able to deduct an excess contribution from your taxable income. If you do not deduct the $2,000 from your income, then that amount is subject to double taxation; once as you never deducted it when it was contributed to the RRSP (you would have generally paid tax on this amount when it was earned) and a second time when you withdraw it from the plan. If possible, you may wish to consider treating this excess contribution as part of a future year's contribution limit to make it tax deductible.

If you do exceed your available contribution limit by more than $2,000 on a cumulative basis, you will be subject to a 1% CRA penalty tax on the excess amount for each month that the excess amount remains in the plan or until the excess amount is absorbed by new RRSP contribution room. Note that you will only be subject to a penalty tax on the excess amount if there is an excess amount in the plan at month end. To avoid the penalty tax or stop the penalty tax from accruing, you may wish to withdraw the excess amount from your RRSP. The removal of this excess amount from the RRSP may result in an inclusion of the excess amount as taxable income in the year of withdrawal. You may be able to claim a deduction equal to the amount withdrawn if you reasonably expected to be able to deduct the contribution and you withdrew the excess contribution in the tax year you made the contribution or the following tax year or in the tax year you received a Notice of Assessment or Reassessment or in the following year.

For additional information, please ask your RBC advisor for the article on RRSP over-contributions.

In-kind contributions

If you do not have the cash to make your RRSP contribution, you can contribute eligible investments from your non-registered account to your RRSP at their fair market value. For tax purposes, investments transferred to the RRSP (i.e. in-kind contributions) are treated as if they are actually sold. Therefore, this transfer can trigger a taxable capital gain.

Unfortunately, if the fair market value of the transferred investment is less than its original cost, the resulting capital loss cannot be claimed. Also, any accrued interest on the investment up to the transfer date (i.e. interest that has been earned but not paid) must be reported as income by you on your tax return for the year of the transfer.

For example, on the transfer of two securities to an RRSP—one with a gain of $1,500 and the other with a loss of $500—the gain of $1,500 is included in income, but the loss cannot be used to reduce the gain to $1,000. You will need to report $1,500 of capital gains on your tax return as a result of this contribution. If you would like to be able to claim the loss, you can sell the securities in your non-registered account and then contribute cash to your RRSP. To avoid having your loss denied, be sure to wait at least 30 days after the sale before buying back the identical security inside your RRSP.

Transfers into your RRSP

Certain amounts may be transferred into your RRSP without requiring unused RRSP contribution room. For example, when an employee retires or terminates their employment,

The investment options for your RRSP are wide ranging, but there are specific restrictions regarding the types of investments that qualify.

they may be offered a taxable lump-sum payment, classified as a "retiring allowance". It may be possible to transfer a portion of this payment to an RRSP on a tax-deferred basis without requiring unused RRSP contribution room. For further information about retiring allowances, ask your RBC advisor for a copy of the article "Retiring Allowance Planning When you Leave your Employer".

RRSP assets (i.e. cash and securities) can also be transferred on a tax-deferred basis between RRSP accounts. A common reason for transfers between RRSPs is to consolidate your RRSPs into one plan. This may simplify the administration of your RRSPs, making it easier to maintain a proper asset mix and evaluate performance. It may also reduce expenses to you relating to the administration of your RRSPs.

RRSP investment strategy

Many investors take a conservative approach to investing in their RRSP since it is generally intended to provide income and financial security in retirement. Your investment strategy should depend on your own personal circumstances. If you have a large balanced portfolio outside of your RRSP or wish to have only the most secure investments you will likely have a large percentage of your fixed-income investments inside your RRSP. On the other hand, if you are more of a growth-oriented investor, you may still want to allocate a large portion of your RRSP to equity investments.

Investments that produce capital gains and dividends from Canadian corporations are taxed more favourably than interest income. Therefore, from a tax perspective, you may want to hold more equity positions outside your RRSP and more fixed income inside your RRSP.

Regardless of your own circumstances, it is important that equity investments not be ignored as they represent a potential hedge against the impact of inflation. One of the most common mistakes made by retirees is to convert all of their RRSP to fixed-income investments. By adopting this strategy, you may be ignoring the potential impact that inflation will have on your retirement lifestyle.

Investment options for your RRSP

The investment options for your RRSP are wide ranging, but there are specific restrictions regarding the types of investments that qualify. Your investment options will also vary depending on the type of RRSP account you have and which financial institution you choose to hold your RRSP. A self-directed RRSP will provide the widest range of possible investment options.

Qualified investments

The following investments are the more common qualified investments you are allowed to hold inside of your RRSP. Please note that you must check with your own RRSP provider to determine if the investment can be held with them.

- Cash (Canadian dollars and foreign currency) and Deposits of such cash in a Canadian financial institution or in a branch in Canada of an authorized foreign bank
- Guaranteed Investment Certificate (GIC)
- Canada Savings Bonds and provincial savings bonds
- Federal, provincial and municipal bonds and coupons
- Most securities listed on a "designated stock exchange" (DSE), such as shares of corporations, warrants and options, and units of exchange-traded funds and real estate investment trusts. A DSE includes the TSX, TSX Venture, CNSX, MSE,

If you have a spouse that will be in a lower tax bracket than you on retirement, you may wish to consider making a contribution to a spousal RRSP rather than your own RRSP.

NYSE, NASDAQ, and certain other foreign exchanges. A list of DSEs is published on the Department of Finance Canada website.

- Mutual funds and segregated funds
- Debt obligations of a corporation, the shares of which are listed on a DSE in or outside of Canada
- Debt obligations that have an investment grade rating
- Insured mortgages or hypothecs that meet certain criteria

Private company shares may be held in an RRSP if specific requirements are met.

Non-qualified investments

The following are common non-qualified investments that you are not allowed to hold inside of your RRSP.

- Foreign mutual funds
- Currency and index options
- Futures contracts, forward contracts and swap contracts.
- Purchase of unlisted put options, sale of any put option and sale of any uncovered call option
- Unlisted limited partnerships
- Works of art, antiques or real estate
- Gold or silver coins, bullion, wafers, certificates, etc. that do not meet specific criteria, and all other precious metals

Strategies to maximize your RRSP

There are a number of strategies available that can help you maximize the value of your RRSP.

Spousal RRSPs

If you have a spouse that will be in a lower tax bracket than you on retirement, you may wish to consider making a contribution to a spousal RRSP rather than your own RRSP. This can help maximize your retirement benefits and minimize the taxes payable.

A spousal RRSP is an RRSP that has received contributions from the plan holder's spouse. 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 their marginal tax rate when withdrawals are eventually made from the RRSP, subject to the attribution rules.

For additional information on this strategy and determine if it is appropriate for you and your spouse, please ask your RBC advisor for the article on Spousal RRSPs.

Contribute early

The vast majority of Canadians make their contributions at the end of the tax year. By making your RRSP contribution at the beginning of the year—early 2018 for the 2018 tax year, instead of early 2019—or by making regular monthly contributions, you may be able to build yourself a significantly larger RRSP. This is because of the additional months of compound growth that result from making your contribution sooner rather than later.

Borrowing to make an RRSP contribution

The interest you pay on a loan that is invested in a non-registered account may be tax deductible. The interest on a loan used to make an RRSP contribution is not tax deductible. Deciding whether or not to borrow to contribute to your RRSP is also complicated by the fact that you can carry forward your unused contribution limit to a future tax year when you may have the funds available to make the contribution. While carrying forward your contribution room will avoid borrowing costs, tax-deferred growth will be forfeited. In general, if you expect to be able to repay an RRSP loan within one year, this strategy should prove advantageous. You can use your tax

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savings from the contribution to help repay your RRSP loan. For additional information on this strategy and determine if it is appropriate for you, please ask your RBC advisor for the article on RRSP loans.

Paying down your mortgage versus contribution to your RRSP

You may find that every year you ask yourself, "Should I pay down the mortgage or make my RRSP contribution?" The answer to this question depends on your tax bracket, your mortgage rate and the assumed growth rate of your RRSP. You may decide that the best thing for you is to contribute to your RRSP each year and use the tax savings to reduce your mortgage balance.

Should you contribute to your Tax-Free Savings Account (TFSA) or an RRSP

You may be wondering whether you should invest in a TFSA or RRSP. The answer depends on a number of factors including your tax bracket, your investment time horizon, your asset mix and your need for liquidity. For short-term goals the TFSA provides greater flexibility. For long-term goals, such as your retirement, the RRSP can provide you with a deduction when your tax rate is high and a taxable amount when your income and marginal tax bracket is presumably lower during retirement. If you are unable to fund both an RRSP and a TFSA during your peak earning years when you are in a higher tax bracket, contributing to your RRSP may make sense to give you the benefit of the income tax deduction. You could then withdraw the funds from your RRSP when you are in a lower tax bracket, possibly in retirement, and contribute to a TFSA to generate tax-free investment income that you can access whenever you need it.

Please speak with your RBC advisor about doing a calculation using the RBC TFSA illustration tool and ask for the article titled, Strategies to Incorporate the Tax-Free Savings Account (TFSA) Into Your Financial Plan.

Withdrawals from an RRSP

Although you may wish to try and leave your RRSP untouched until retirement, there may be occasions when a withdrawal is necessary. It is possible to withdraw or deregister funds from your RRSP at any time, unless held in a locked-in plan. The amount withdrawn must be included in your taxable income in the year of withdrawal. Income and capital gains withdrawn do not retain their original tax treatment. Thus when funds are withdrawn, whether the withdrawal represents interest, capital gains, dividends earned or contributions, all amounts are treated as regular taxable income, subject to tax at your marginal tax rate.

Withdrawing from an RRSP before age 71

You may wonder when is the best time to begin withdrawing the funds you've built up in your RRSP. You may ask whether you should wait until age 71, when it is mandatory to wind up your RRSP, and get more tax-deferred growth, or whether you would be better off making early withdrawals from your RRSP even if you don't need the money.

In general, if you require your RRSP funds for your day-to-day living expenses and you have no other sources of income (e.g., non-registered assets, employer pension income, CPP and Old Age Security (OAS)) then there may be no other choice but to start early RRSP withdrawals.

In circumstances where you have both non-registered and registered assets, a common rule of thumb is to use your non-registered assets first before starting to withdraw from your registered account. The argument is that if you are withdrawing from

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an RRSP earlier than necessary, you are prepaying the tax on your RRSP withdrawal and you would lose the potential tax-deferred compounding in the registered plan.

There are, however, specific situations where it may be more attractive to consider withdrawing from your registered assets before withdrawing from your non-registered assets. Here are some examples:

- You are getting close to age 71 (therefore less years remaining for tax-deferred compounding);
- You are in a lower tax bracket now than you expect to be when you are required to take mandatory Registered Retirement Income Fund (RRIF) minimum payments or your pension income begins;
- You are concerned about a potential OAS clawback on or after age 65 due to large minimum RRIF withdrawals or when pension income starts;
- You are concerned about a high tax liability on a large RRIF remaining on the death of the last surviving spouse; and
- You are concerned that a large RRIF will increase your taxable income for years after age 71 when you have to receive mandatory payments and this increase may impact income tested government benefits such as the guaranteed income supplement (GIS) and provincial drug benefits available in some provinces.

If you are 65 or older, it may be advantageous to convert a portion of your RRSP to a RRIF to generate eligible pension income that qualifies for the $2,000 pension income tax credit. If you are in the lowest marginal tax bracket, this credit may allow you to receive $2,000 of RRIF income tax free for federal tax purposes. This tax savings should be compared to the loss of the tax-deferred growth in the registered plan. If you have a lower income spouse with no retirement savings, you can also split up to 50% of your RRIF payments with your spouse. This allows you to transfer some of the income that would otherwise be taxable at your high marginal tax rate to your spouse.

The decision to begin withdrawing from an RRSP prior to age 71 is not easy to answer. Your personal situation including your goals, objectives, tax rates, asset allocation and risk tolerance must be analyzed before a recommendation can be made.

Withholding tax

Most withdrawals that you make from an RRSP are subject to withholding taxes. The amount you withdraw determines the rate of withholding tax that will be applied at the time of the withdrawal. The withholding tax rates 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 other than Quebec	Province of Quebec*
$0 – $5,000	10%	20%
$5,001 – $15,000	20%	25%
over $15,000	30%	30%

* 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% and 15% depending on the amount.

Certain amounts you withdraw from your RRSP are not subject to withholding taxes. They include:

- An RRSP withdrawal under the Home Buyers’ Plan
- An RRSP withdrawal under the Lifelong Learning Plan

It is important to note that the withholding tax applied to your RRSP withdrawal does not necessarily represent your final tax liability with respect to your RRSP income.

- The removal of unused RRSP contributions where you have an approved CRA Form T3012A — *Tax Deduction Waiver on the Refund of Your Unused RRSP, PRPP, or SPP Contributions from your RRSP*

It is important to note that the withholding tax applied to your RRSP withdrawal does not necessarily represent your final tax liability with respect to your RRSP income. Your RRSP income is subject to tax at your marginal tax rate. If your marginal tax rate is greater than the rate of withholding tax applied, you may have to pay more tax on the RRSP withdrawal when you file your tax return for the year. If your marginal tax rate is less than the withholding tax applied, you may receive a refund after you file your tax return for the year.

Impact of a series of withdrawals

You may wish to make a series of withdrawals from an RRSP rather than taking one lump-sum payment. This may have an impact on the withholding tax rate that will apply on your withdrawals.

If you make a series of smaller withdrawals from a registered plan (i.e., instalments to fulfil a single request) the rate of withholding on each individual payment should be based on the total sum requested and not on each individual payment. For example, if you were to make a withdrawal request for $12,000 at the beginning of the year and ask that it be split into monthly payments, each payment would be considered to be a portion of a single request. Because the total amount of the withdrawal for the year is known in advance, the withholding tax rate that applies to each payment is based on the total payment. In this example, the withholding tax rate that applies to each monthly payment of $1,000 would be 20% in provinces other than Quebec. If, later in the year, you request an additional amount, over and above the instalment payments, this will be considered to be a separate request and the withholding tax rate that will be applied will be based on that payment only.

If it appears like you are making a series of separate requests in order to minimize the withholding tax, it is the CRA's position 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 (e.g., on the same day or 5 consecutive days).

Quarterly tax instalments

It is possible that the amount of withholding tax on your RRSP withdrawals may not be sufficient to cover your actual tax liability related to these income sources. You may have to pay additional tax on your RRSP withdrawals when you file your income tax return and this may result in you having to make tax instalments in subsequent years.

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. You will not, however, have to pay your income tax by instalments for the current year if your net tax owing for the current year will be $3,000 or less ($1,800 or less in Quebec) even if you received an instalment reminder from CRA.

For more information regarding tax instalments, ask an RBC advisor for our article on quarterly tax instalments.

Increasing your withholding tax

To avoid the possibility of having to make future quarterly tax instalments, you may request that a larger amount of tax be withheld on

Withdrawals from RRSPs made by non-residents of Canada are subject to different withholding tax rules. In general, RRSP withdrawals are subject to a 25% withholding tax.

your RRSP 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 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 your RRSP withdrawals are subject to the high withholding tax rate and they make up the majority of your income.

You may request reduced or no withholding tax by completing the TD1 Form and sending it to your financial institution. Note that this method alone is not available for Revenue Quebec purposes. 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 would 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 an RRSP in a calendar year are reported to you on a T4RSP. This tax slip is issued by the end of February of the calendar year following the year of withdrawal. The T4RSP 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 T4RSP 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 RRSP as well as the Quebec withholding tax.

Non-residents

Withdrawals from RRSPs made by non-residents of Canada are subject to different withholding tax rules. In general, RRSP withdrawals are subject to a 25% withholding tax. The rate of withholding tax that applies may be lower if Canada has a tax treaty with the country where you are resident. Payments and taxes withheld are reported to non-residents on an NR4 slip.

Conclusion

RRSPs are one type of savings vehicle that can be used for retirement. Understanding the rules specific to RRSPs can help you incorporate this savings vehicle in your retirement plan. Speak with a qualified tax advisor to ensure that you have taken into account your circumstances before contributing to or making a withdrawal from your RRSP.

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 advisor before acting on any of the information in this article.

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

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