Education Library

Registered Retirement Savings Plan

RETIREMENT PLANNING

RICHARDSON GMP

2019 reference guide

As each new year begins, many investors who have not been making ongoing monthly contributions to their Registered Retirement Savings Plan (RRSP), prepare to contribute. To assist, we have developed this Reference Guide with important information including key dates, contribution limits and strategies.

Don't miss the last day for contributions: Friday, March 1, 2019

To make a tax deductible contribution, the contribution must be made within 60 days after December 31st. Contributions to be deducted against 2018 income will have to be made by Friday, March 1, 2019.

Determining your deduction limit

To determine your personal deduction limit, it is best to look at your most recent **Notice of Assessment**, which was returned by CRA with your most recent tax return. If, for some reason, you cannot locate the Notice of Assessment, the information is available through the automated Tax Information Phone Service (T.I.P.S.) at 1.800.267.6999.

Planning tip: In order to retrieve the information, you will need your Social Insurance Number, month and year of birth and the total income reported on line 150 of your most recent tax return.

The deduction limit is calculated as:

- 18% of earned income for the preceding year to the savings limit (shown below)
- less pension adjustments and past service pension adjustments
- plus pension adjustment reversals
- plus unused deduction room from previous years

The saving limits are as follows:

	2016	2017	2018	2019
Money purchased RPPs	$26,010	$26,230	**$26,500**	$27,230
RRSPs	$25,370	$26,010	**$26,230**	$26,500

CRA resources

CRA has developed two resources that will be particularly helpful during RRSP season:

1. My Account is a comprehensive tool for accessing information about an Income Tax file through a web based application. This service is meant for personal use and not for third parties and will provide information about your personal tax status, including information on past RRSP contributions claimed, your current RRSP deduction limit as well as information on the Home Buyers' and Lifelong Learning Plans. If you would like further information or would like to register for My Account, visit this CRA Website: https://www.canada.ca/en/revenue-agency/services/e-services/e-services-individuals/account-individuals.html
2. CRA has also developed a general guide on registered plans of all types called "**RRSPs and Other Registered Plans for Retirement**" located at the following website: https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/t4040-rrsps-other-registered-plans-retirement-2016/rrsps-other-registered-plans-retirement.html

This guide may also be used to calculate your 2018 RRSP deduction limit.

RRSP strategies

Contribute to an RRSP in the current year and claim the deduction in future years

Depending on your contribution room, it is possible to contribute to your RRSP without claiming the tax deduction immediately. This strategy is beneficial if you are in a low tax bracket now but you want to take advantage of the tax deferred growth within the RRSP. You can claim the deduction later when you may be in a higher tax bracket.

Consider contributing to a spousal RRSP

The spousal RRSP allows the contributing spouse who is in a higher tax bracket to take a tax deduction as long as the funds remain in the plan for 3 calendar years. The family will realize tax savings if the other spouse is in a lower tax bracket.

Be cautious when making "in kind" contributions to an RRSP

When a non registered security is contributed to an RRSP "in kind", a disposition occurs and, if there is a gain, a taxable capital gain is realized. Conversely, if there is a loss, it will not be recognized for tax purposes and the capital loss will be deemed nil, foregoing any potential offset of a taxable capital gain. If you have a non registered security with a loss, you should not transfer the security to your RRSP. Instead, you should sell the security, realize the loss and then contribute the cash to the RRSP. In this way you can realize the taxable capital loss provided you do not purchase the same security again within 30 days.

Using RRSPs after age 71

Under Canadian tax rules, you must convert your RRSP to an income option by December of the year in which you turn age 71. If you do not convert to an income option before the end of the year, the plan will be deregistered and the entire value of the plan is added to your taxable income for that year. While you cannot avoid the transition, there are several planning strategies available.

Turning age 71 - There's still time to contribute or to top up

Although there is a requirement to convert an RRSP to an income option, there is no rule which prevents maximizing contributions in the year you turn 71 including any unused contribution room from previous years. It is important to remember that these contributions must be made before the end of the calendar year that you turn age 71. The ability to make contributions in the first 60 days of the following year cannot be utilized once you turn age 71. It is also important to make the contribution early enough before year end to assure sufficient time to convert these contributions to a retirement income option. We would suggest completing these contributions by the end of November to ensure all the transactions including conversion to an income option are completed before year end.

Earned income after age 71

If you will be creating deduction room by having Earned Income here are two planning strategies to consider when you are over age 71.

1. If you have a spouse or a common-law partner (including a same sex partner), who is under the age of 71 you can still contribute to that person's RRSP. It will be a Spousal RRSP and that person will have full ownership of the assets, but the contributor will be able to deduct the contribution from their other income.

2. The second opportunity is a little more complicated. If you have turned age 71 in the year, and you do not have a spouse or common-law partner under age 71, you may choose to take advantage of the overcontribution rules and timing of contributions. This strategy involves making an overcontribution in December of the year you turn 71 and requires the payment of a penalty tax of 1% per month on the overcontribution amount. In January of the following year, the contribution room is created based on the previous year's Earned Income, eliminating the overcontribution and any further penalty tax.

Planning tip: Earned Income includes employment income, business income, rental income and other miscellaneous income sources including taxable spousal support. It does not include pension benefits, Canada Pension Plan (CPP) or OAS (Old Age Security) benefits, Employment Insurance (EI), amounts from registered plans, investment income or taxable capital gains.

Disabled beneficiary

A parent may name a trust for a disabled beneficiary as the recipient of RRSP assets on the death of the plan holder while utilizing the rollover provisions. It is important to realize that proper estate planning must be implemented to utilize the rollover provisions for registered assets to dependent adult children without generally risking the loss of government benefits or support.

Rollover of RRSP proceeds to a Registered Disability Savings Plan (RDSP)

For deaths of a planholder occurring after March 3, 2010, the RRSP rollover rules allow a rollover of a deceased individual's RRSP proceeds to the Registered Disability Savings Plan (RDSP) of the deceased individual's financially dependent infirm child or grandchild. These rules also apply for amounts transferred to an RDSP from Registered Retirement Income Fund (RRIF) proceeds and certain lump-sum amounts paid from Registered Pension Plans (RPP).

Unused RRSP room at death

When a plan holder dies, you cannot contribute to the deceased's RRSP. However, if the deceased has a surviving spouse or common-law partner under the age of 71, a Spousal RRSP contribution can still be made provided the deceased had sufficient RRSP contribution room before death. The legal representative of the estate must contribute within 60 days after the year end in which the death occurred. This contribution could then be deducted from the income on the deceased's terminal return. Note, however, that no additional RRSP contribution room is generated from income earned in the year of death.

RRSP/RRIF losses after death

The legal representative of an estate can request a tax deduction on the deceased's final tax return if they can show a decrease in the value of the deceased's unmatured RRSP or RRIF between the date of death and the date of final distribution of the estate.

Canadian resident working in the U.S.

Many clients who reside in Canada, and work in the U.S., are members of a qualifying retirement plan in the U.S. These clients can deduct contributions to the U.S. qualifying retirement plan on their Canadian income tax return. Certain conditions and limits apply.

Conclusion

RRSPs have become so familiar that we sometimes forget the planning opportunities inherent in the plans. We should all take the time to give RRSPs a second look to see if there are opportunities that may have been missed.

Tax & Estate Planning

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