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2015 - 2016 RRSP OVERVIEW, STRATEGIES AND TIPS

Deadline for 2015 contributions is midnight Monday, February 29th, 2016.

Except for the increase to the contribution limit, there were no major changes over the past year to RRSPs. There was a change however to the RRIF Minimum Withdrawal rules. We suggest that you take the time to review this overview to see if any of the points or strategies apply to you and/or other family members.

New for 2015 Tax Year

RRIF Minimum Withdrawals - The 2015 Federal Budget announced a reduction in the minimum required annual withdrawal rates for holders of RRIF accounts where withdrawals are based on the age of a person 71 years or older. If you have withdrawn a larger amount from your RRIF in 2015 than prescribed by the new minimum amounts, you have the option to repay the excess amount within the first 60 days of 2016 to receive an offsetting deduction on your 2015 tax return. Speak to your E.E.S. consultant to determine whether such a repayment is advisable in your personal circumstances (cash flow, tax planning, etc.). The same rates as previously required will continue to apply for withdrawals based on the age of a person less than 71 years of age.

Contribution Limits

Year	RRSP Limit	Defined Contribution RPP Limit	Deferred Profit Sharing Plans
2015	\$24,930	\$25,370	\$12,685
2016	\$25,370	\$26,010	\$13,005

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General Overview

- **Contribution Limit** - your 2015 RRSP limit equals the lesser of 18% of your 2014 earned income and \$24,930, minus your 2014 pension adjustment (PA) factor (box 52 of your 2014 T4 slip), plus any carry forward of unused contribution room from previous years. This carry forward amount can be confirmed on your 2014 Notice of Assessment. *(We recommend you review your RRSP limit with your E.E.S. consultant, particularly if you are carrying forward un-deducted RRSP contributions. CRA's reporting method is rather confusing.)*
- **Canadian residents working in the U.S.** - under certain conditions and subject to certain limits, a resident of Canada who is working in the U.S. and is a member of a qualifying retirement plan in the U.S. can deduct their contributions to that plan on their Canadian income tax return.
- **Over-Contributing** - the RRSP over-contribution limit remains at \$2,000, with a penalty of 1% per month on any contribution in excess of this limit.
- **Pension Adjustment Reversal** - if you left an employer-sponsored pension plan during 2015, you may be eligible for a Pension Adjustment Reversal (PAR). Also, if your employer wound up a Defined Benefit Pension Plan or converted it to another vehicle, such as a group RRSP, you too may be eligible for a PAR. This PAR restores some of the lost RRSP contribution room resulting from past Pension Adjustment Factors. If you have not received a Form T10 advising you of your additional RRSP contribution room, contact your employer as soon as possible. This additional RRSP room is available for contributions to be deducted on your 2015 tax return. You can make this contribution *to your own RRSP or to a spousal RRSP.*
- **Maximize RRSP contributions whenever** cash flow permits. Note that you can carry forward unused contribution room indefinitely.
- **Delaying the Deduction** – if you have RRSP contribution room available, but don't want to use the deduction on your 2015 tax return, consider making your contribution now but deducting it in the future. This could be beneficial if you expect to have higher income in the future and as a result, will be in a higher marginal tax bracket. *Your E.E.S. consultant can assist with this calculation as the new Federal Government has announced changes to the federal income tax brackets for 2016.*
- **Withdrawing** - if you plan to withdraw funds from your RRSP under the HBP during 2016, the home must be purchased by October 1st, 2017. Repayments begin two years after the withdrawal, i.e. for a withdrawal in 2016; you must repay 1/15th of the original amount during 2018 or the first 60 days of 2019.



- **Home Buyers' and Life Long Learning Plans** - if you withdrew funds from your RRSP under the Home Buyers' Plan (HBP) before December 31, 2013, or the Lifelong Learning Plan (LLP) before December 31, 2010, you must make a repayment by **Monday, February 29th, 2016**. You should have received a statement from CRA advising you of the required amount. *If you do not repay* the required amount (1/15th of the original withdrawal for the HBP or 1/10th of the original amount for the LLP), *that amount will be added to your taxable income for 2015*. An actual repayment must be made by way of a contribution to your own RRSP account (spousal RRSP contributions **cannot** be designated as the repayment). Applying un-deducted contributions from previous years is **not** permitted. Any contributions for repayments under these plans do not affect your regular contribution room.
- **Beneficiaries** - we recommend that you verify the beneficiary designation on each of your RRSP/RRIF accounts. Some institutions indicate this information on the year-end statement, so check there first. However, if this information is not on the statement, contact the institution. Having either your spouse, or a dependent over the age of 18 who qualifies for the disability tax credit, as the designated beneficiary would allow a simple tax-deferred rollover of your RRSP/RRIF upon your death. If a financially dependent child is named as the beneficiary, the amount may be used to purchase an income producing term-certain annuity to mature when the child is 18. **It is important to note** that the beneficiary designation for your RRSP/LIRA **does not** automatically transfer over to your newly established RRIF/LIF. If you want your spouse or someone else to be the beneficiary of your new account, you should ensure that this is specified on your application. The tax consequences and probate fees that can result from not naming a beneficiary can be significant.
- **RRSP/RRIF losses after death** - if there is a decrease in the value of an RRSP or RRIF between the date of death of the account holder and the date of the final distribution to the beneficiary or the estate, the decrease can be deducted on the deceased's final return.
- **Unlocking Life Income Funds** - individuals who are at least 55 years of age with *federally regulated* locked-in RRSPs and LIFs worth less than \$27,450 can wind up their accounts and take the cash (fully taxable) or transfer the funds to a regular RRSP or RRIF where there are no maximum withdrawal limits. Under a 'financial hardship' option, any LIF holder, regardless of age, facing a job upset or medical/disability-related expenses can unlock up to \$27,450. Individuals who are at least 55 years of age can unlock up to 50% of their LIF holdings and either cash them out (fully taxable) or transfer the funds into a regular RRSP or RRIF.

Many provinces have similar provisions but the regulations differ for each province.



Planning Strategies

- **In-Kind Contributions** - if you don't have the cash on hand to make your RRSP contribution, consider transferring other investments into your self-directed plan. The current market value of the investment will count as your contribution. This transfer may trigger a capital gain or loss. While the gain will be taxable to you, you will **not** benefit from the capital loss. In this case, you may want to consider realizing the loss by selling the investment, then transferring the cash into your RRSP. If you wish to hold that same security within your RRSP, wait at least 31 days before repurchasing it; otherwise, your capital loss will be disallowed on your personal tax return.
- **Tax Planning** - instead of borrowing money for your RRSP contribution, transfer assets as described above, and then borrow to repurchase the same investments in your non-registered account. By doing so, the interest on your loan will be tax deductible, whereas interest on an RRSP loan is not tax deductible. It bears pointing out that banks have this in mind when setting loan rates, and generally offer a lower rate on RRSP loans.
- **Retiring Allowances** - severance payments may, under some circumstances, be transferred directly to your personal (not spousal) RRSP, without using any of your RRSP contribution room. If you had service prior to 1996, the eligible retiring allowance rollover is \$2,000 per year, as well as an additional \$1,500 per year prior to 1989 in which you were not a member of a company pension plan. The contribution must be made by **Monday, February 29th, 2016**; there is **no carry forward** of this eligible retiring allowance contribution room to future years. Therefore, if you do not take advantage of this rollover, you will lose it. Your former employer will report this eligible retiring allowance on form T4 or T4A.
- **Source Deductions** - if you make your 2016 contribution in a lump sum now, you can apply to CRA to authorize your employer to deduct less tax from your pay cheque for the balance of 2016. Rather than receiving the tax benefits next April, you will have increased cash flow during the year. Essentially, you receive your refund in advance through decreased source deductions. Your E.E.S. consultant can prepare the appropriate form.
- **Owner managers** with control over their income may want to ensure that they have enough employment income to maximize their RRSP contributions. In order to reach the maximum contribution level for 2017 of \$26,010, you must have \$144,500 of earned income in 2016.



- **Children and RRSPs** - if your child has earned income, he or she can make an RRSP contribution, regardless of his or her age. In most cases, it will not be worthwhile to deduct the contribution until future years when his or her income is more substantial. However, your child will still enjoy the benefits of deferring taxes on income earned inside the RRSP and achieving growth in the account. Discuss the benefits of this with your E.E.S. consultant as well as TFSAs (Tax Free Savings Accounts) for your children over the age of 18.

- **Spousal RRSPs** - take advantage of spousal RRSPs where appropriate. The higher-income spouse benefits from the current deduction and future withdrawals are included in the lower-income spouse's income, thereby providing income splitting during retirement. Contributions to a plan for a common-law or same-sex spouse are also permitted. However, you should be aware of the 3-year attribution rules. If you make a spousal RRSP contribution this year and your spouse makes a withdrawal from a spousal plan this year, next year, or the following year, the withdrawal will be included in your income. Your E.E.S. consultant can discuss this strategy with you.

- **Converting** - if you turn 71 in 2016, you must convert your RRSP/LIRA to a RRIF/LIF before December 31st, 2016. If you have contribution room available, make your contribution prior to making this conversion, as ***the 60-day rule does not apply in this situation***. If converting a LIRA to a LIF, you might also consider whether the applicable pension legislation allows the unlocking of a portion of the funds. This unlocking might either be in the form of a (taxable) cash payment or a transfer to an unlocked RRSP/RRIF.

- **Utilizing a Younger Spouse's Age** - when you establish your RRIF/LIF, you may base the mandatory annual minimum withdrawal on the age of your spouse, if he or she is younger than you. This will enable you to withdraw less from the RRIF/LIF if you do not need the funds, thereby allowing you to defer the taxes on the funds even longer. Of course, if you should need to do so, you are able to withdraw more than the minimum amount at any time from a RRIF (there is less flexibility with a LIF/LRIF).

- **Contributing after 71** - if you have a spouse who is younger than you, you may be able to contribute to his/her RRSP until the end of the year in which he/she turns 71, based on *your* RRSP limit. You may have RRSP room carried forward from previous years or new room that became available because of earned income you had during the previous year. Your spouse will be able to draw on the tax-deferred income in retirement, but you will get the deduction on your tax return now.



- **Pension Income Splitting** - applies to income eligible for the pension income credit. Generally, this is income in the form of a pension from a registered pension plan (RPP) regardless of the recipient's age. Annuity payments resulting from an RRSP/DPSP, or withdrawals from a RRIF/LIF will qualify only if the recipient is 65 years of age or older. The optimal amount to split between the spouses (up to 50%) will be calculated by your E.E.S. consultant when preparing your income tax returns.
- **Creating RRSP room with Stock Options** - it should be noted that a stock option exercise results in 'earned income' for RRSP purposes. Stock options exercised in 2016 will create RRSP room for 2017 subject to RRSP limit maximums. Likewise, if you own shares that have a 'deferred stock option benefit' from previous years, selling these shares will also result in 'earned income' for RRSP purposes. This creates an opportunity to sell shares with a deferred benefit in order to create RRSP room if you don't have enough other sources of 'earned income'.

Tips

- **Reduce Fees** - if you have multiple RRSP or self-directed RRSP accounts, consider consolidating them as the trustee(s) may be charging fees on each account. Annual trustee fees range from as low as \$25 (plus HST) to \$250 (plus HST) and these fees are not tax deductible.
- **Asset Allocation** - as studies have shown that asset allocation comprises up to 90% of the variability of a portfolio's return, the asset mix of your RRSP is of paramount importance, and should be reviewed each year with your E.E.S. Consultant.
- **Asset Location** – different types of investment income are taxed in different ways in Canada. As a general rule of thumb, investments that pay interest income and/or foreign dividends should be held inside your RRSP to the greatest extent possible, while investments that generate Canadian dividends and potential capital gains should be held outside of your RRSP because of their preferential tax treatment.
- **Foreign Content** - investing outside Canada enables you to tap into the other 97% of the world economy. There are no longer any restrictions on the amount of foreign investments you can hold in RRSPs.



- **RRSP vs TFSA** – deciding whether to contribute to an RRSP or a TFSA depends on the specifics of your personal financial situation. Discuss the alternatives with your E.E.S. consultant.

Please contact your E.E.S. Consultant for further details concerning any of these topics.