

WHAT IS AN RRSP?

A Retirement Savings Plan (RSP) is an investment account designed primarily for saving toward your retirement years. As a Canadian government regulated program, RRSPs have special tax benefits. Your annual RRSP contribution can greatly reduce the amount of income tax you pay in that year and the money you put away can have years of tax-deferred growth potential. You only pay tax on the amounts you withdraw. RRSPs are available through chartered banks, trust companies and other selected financial institutions.

What makes an RRSP special is that your contributions to it are tax deductible and your portfolio grows tax sheltered. Individuals with RRSP contribution room in Canada may contribute to an RRSP up to the end of the year in which the plan holder reaches age 71.

WHO SHOULD HAVE AN RRSP?

Every individual who works, files a Canadian income tax return, and looks forward to secure retirement should consider having an RRSP.

Here's why:

- People who earn income through their employment or self-employment, can reduce their annual tax bill while saving for their future through an RRSP.
- For people who have a company pension plan, RRSPs add extra comfort that their retirement needs are met; for those that don't have company pension plans, RRSPs may be the foundation for funding their retirement.
- Married couples where one spouse earns more income than the other can reduce their combined tax burden through a spousal RRSP. At retirement, an income-splitting strategy can be applied to reduce overall tax when the funds are withdrawn.
- If you are planning on purchasing your first home or are interested in continuing your education, you can contribute

to your RRSP, and then use these funds as a source of financing.

If you anticipate fluctuations in your income because of maternity leave, career change or employment interruptions, the funds in an RRSP are always available to you.

What are the benefits of RRSPs?

While designed specifically as a retirement vehicle, an RRSP has benefits throughout your lifetime.

- By contributing to an RRSP throughout your working career, you'll realize immediate tax benefits at a time when your income is generally highest. The total amount of your annual contribution can be deducted from your gross income at tax time, reducing the amount you pay in income tax that year.
- The income earned in your RRSP is not taxed until it is withdrawn. While your investments sit in your RRSP, their growth is tax sheltered and so the total value may grow more quickly.
- By the time you begin to withdraw the funds at retirement, you will probably be in a lower tax bracket than during your earning years. Funds withdrawn at that time will benefit from this lower tax rate.
- Special features of RRSPs allow you to do further tax planning or use your RRSP to fund specific life events.

It's important to understand the details regarding RRSPs. The rules governing all RRSPs are set out in the Federal Income Tax Act and are administered by [Canada Revenue Agency](#). Below we have summarized the key aspects you should know.

Annual Contributions

You may contribute to your RRSP until December 31 of the year in which you reach age 71. The following limits and deadlines apply annually.

Maximum annual RRSP contribution limits

Year	Contribution limit
2007	\$19,000
2008	\$20,000
2009	\$21,000
2010	\$22,000

Your allowable RRSP contribution for the current year is the lower of:

- 18% of your earned income from the previous year, or
- The maximum annual contribution limit for the taxation year, or
- The remaining limit after any company sponsored pension plan contributions.

Earned income includes salary or wages, alimony received, and rental income, among other income sources, but does not include items such as investment income.

You'll find the exact amount you can contribute to your RRSP for the current year on the Notice of Assessment you receive from Canada Revenue Agency after they process your previous year's tax return.

Company Pension Plan or Deferred Profit Sharing Plan - As a member of a company-sponsored registered pension plan or deferred profit sharing plan, the amount that you can contribute to

your RRSP must be reduced by the total value of the pension credits you earned for the year.

This amount is referred to as a pension adjustment (PA) and it is reported on the T4 slip (Statement of Remuneration Paid) that you receive from your employer.

Annual Contribution Deadline - To be eligible for an RRSP deduction in a specific taxation year, you can make contributions anytime during the year, or up to 60 days into the following year.

Carry-forwards

If you can't make your maximum contribution one year, you can make up that portion of the contribution in later years by carrying it forward. The amount of your unused contribution limit is shown on your federal Notice of Assessment.

You may also choose to delay claiming your current year's RRSP tax deduction. To take the deduction in a later year, you must make sure that your allowable deduction limit has not been reached.

Over-Contributing to your Plan

If you make an RRSP contribution beyond your maximum allowable amount for a year it is considered an over-contribution. There is a lifetime allowance of \$2,000 for over-contributions. These contributions must be used before any new contributions are applied.

Transfers between RRSPs

You may open as many RRSPs as you wish. You are free to transfer your RRSPs between financial institutions at any time without being subject to tax. You can also move some or all of your money between eligible investments within your RRSP.

Withholding Taxes

Funds withdrawn from an RRSP will be charged withholding taxes. This amount must be held back by the plan administrator and remitted to the government on your behalf.

Effective January 1, 2005, the following withholding tax rates apply:

Amount of RRSP Withdrawal	All Provinces Except Quebec	Quebec
Up to and including \$5,000	10%	21%
\$5,001 to \$15,000	20%	26%
More than \$15,000	30%	31%

You will receive a T4 RRSP receipt for any funds withdrawn during the year showing the amount to be included in your taxable income and the credit for the withholding tax.

Separation or Divorce

During separation or divorce, either you or your spouse can transfer existing RRSPs to the other, without being subject to tax, provided that:

- You are living apart when property and assets are settled; and
- You have a written separation agreement or a court order.

Death of a Plan Holder

In the event of death, the proceeds of your RRSP are distributed to whoever was named as your beneficiary or to your estate, if no beneficiary has been designated. This designation can be specified in either your RRSP or in your will. Quebec residents must make the designation by will or marriage contract for most plans.

The proceeds of the RRSP will remain tax-sheltered if one of these situations applies:

- Your surviving spouse is the beneficiary, and the proceeds are transferred into an RRSP or a Registered Retirement Income Fund (RRIF) in his/her name;
- You have no surviving spouse, but you have children or grandchildren who are minors named as your beneficiaries. They are dependent on your estate for financial support and will have the proceeds transferred to a term annuity registered in their names; or
- Children or grandchildren, regardless of age, who are financially dependent because of physical or mental infirmity. The RRSP proceeds will be transferred to an RRSP or RRIF registered in their names, or used to purchase an annuity.

In all other situations, the balance of the RRSP at the date of death is included as income on the plan holder's final tax return.

You should consider an RSP if:

- You want to supplement your retirement income so that you can maintain your lifestyle after you retire
- You want to reduce your income tax this year
- You want to earn tax-deferred investment income on your savings
- You anticipate fluctuations in your income because of maternity leave, a return to school or a career change
(Making withdrawals from an RSP in years when you have little or no earned income can help equalize your income and you could pay less income tax overall)

The Home Buyer's Plan

This plan allows you to borrow funds from your RRSP to purchase your first home. Here are some of the key facts:

- You and your spouse can each borrow up to \$20,000.
- The funds must have been on deposit at least 90 days before you withdrew them.
- At least 1/15 of the funds must be repaid each year, beginning two years after the funds were withdrawn.
- A signed agreement to buy or build a qualifying home is required.
- You can only participate in the program once.

For details see [Canada Revenue Agency](#).

The Lifelong Learning Plan

This plan allows you to pay for training or education with RRSP funds. Here are some of the key facts:

- You can withdraw up to \$10,000 per calendar year to finance full-time training or post-secondary education.
- The student can be you or your spouse, but not your children.
- If the student meets disability requirements, then the training/education can be on a part-time basis.
- The total amount that can be withdrawn is \$20,000 with withdrawals over a maximum of four consecutive years.
- Amounts that are withdrawn are not subject to taxes on withdrawal.
- At least 10% of the amount borrowed must be repaid each year, over a maximum period of 10 years.

For details see [Canada Revenue Agency](#).

Emergencies

Your RRSP holdings can be used to cover an emergency situation. However, there is a tax consequence to doing so and an impact on your retirement plan. Any withdrawal is considered taxable income for the year and a withholding tax will be charged upfront when you withdraw the funds.