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Since 1968

2007 - 2008 RRSP OVERVIEW, STRATEGIES AND TIPS

Deadline for 2007 contributions is midnight Friday, February 29, 2008

Canadians in 1957 were greeted by the announcement of two big measures in the federal budget, one much celebrated and one rather ignored. These two announcements were the removal of a 10% tax on candy, pop and chewing gum, and the all but ignored introduction of a “registered retirement annuity”, now known as an RRSP.

Although introduced by the St Laurent government as almost an afterthought, today the RRSP has grown to be one of the most popular savings strategies amongst Canadians with contributions totaling over \$32.4 billion in 2006 alone.

However, despite its popularity in the media and amongst financial advisors, Canadians continue to underutilize many of the advantages of contributing to their RRSP. While \$32.4 billion in contributions is an impressive figure, it accounts for only 7% of the total RRSP contribution room available to Canadians.

Recognizing this disparity and the need to increase the use of RRSPs, the 2007 federal budget expanded the list of RRSP-eligible securities to include foreign-issued Canadian dollar denominated bonds and virtually any security listed on a designated exchange.

The 2007 budget also extended the age at which an RRSP must be converted to a RRIF or annuity from age 69 to 71.

This move was predominantly meant to address the phase-out of mandatory retirement in most provinces in recent years, but, in fact, it represents a reversion to the age limits on RRSP conversion in place in 1996 and years prior.

While finance ministers frequently change the dynamics of the RRSP, it is our role to continually keep on top of these changes to ensure our clients maximize the savings and retirement strategies available to them. We suggest that you take the time to read this overview to see if any of the points or strategies apply to you or your family.

E.E.S. Financial Services Ltd.
Financial Planning with a Difference



Contribution Limits

Year	RRSP Limit	Defined Contribution RPP Limit	Deferred Profit Sharing Plans
2007	\$19,000	\$20,000	\$10,000
2008	\$20,000	\$21,000	\$10,500
2009	\$21,000	\$22,000*	\$11,000*
2010	\$22,000*		

* Indexed to average wage growth

Overview

- **Contribution Limit** - your 2007 RRSP limit equals the lesser of 18% of your 2006 earned income or \$19,000, minus your 2006 pension adjustment (PA) factor (box 52 of your 2006 T4 slip), plus any carry forward of unused contribution room from previous years. This carry forward amount can be confirmed on your 2006 Notice of Assessment. *(We recommend you review your RRSP limit with your E.E.S. consultant particularly if you are carrying forward undeducted RRSP contributions. CRA has a rather confusing method of reporting this amount.)*
- **Maximize RRSP contributions** - whenever cash flow permits. Note you can carry forward unused contribution room indefinitely.
- **Delaying Deduction** – if you have RRSP contribution room available, but don't want to use the deduction on your 2007 tax return, consider making your contribution now but

deducting it in the future when your tax bracket/rate is higher.

- **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. If you have previously made an over-contribution, you must reduce it to the \$2,000 level before making any new contributions to your plan(s).
- **Foreign Content** - retroactive to January 1, 2005, the foreign property limit for registered plans was eliminated in the 2005 federal budget. Previously, investors were limited to 30% foreign content in their registered accounts.
- **Home Buyers and Life Long Learning Plans** -if you withdrew funds from your RRSP under the Home Buyer's Plan (HBP) before December 31, 2005, or the Lifelong Learning Plan (LLP) before December 31, 2002, you must make a repayment by **Friday, February 29, 2008**. 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 included as taxable income for 2007. An actual repayment must be made via a contribution to an RRSP account; applying undeducted contributions from previous years is not permitted.

- **Withdrawing** - if you plan to withdraw funds from your RRSP under the HBP during 2008, the home must be purchased by October 1, 2009. Repayments begin two years after the withdrawal i.e. for a withdrawal in 2008; you must repay 1/15th of the original amount during 2010 or the first 60 days of 2011.
- **Pension Adjustment Reversal** - if you left an employer-sponsored pension plan during 2007, 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 2007 tax return. You can make this contribution to your own RRSP or to a spousal RRSP.

- **Beneficiary** - we recommend that you verify the beneficiary designation on each of your RRSP/RRIF accounts. Some institutions issue a statement at the end of the year so verify this first. However, if this information is not on the statement, check with 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 will allow a simple tax-free 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.



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 freehold 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 loans rates and generally offer a lower rate on RRSP loans.
- **Retiring Allowances** - severance payments may, under some circumstances, be transferred directly to your personal RRSP (not spousal), regardless 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 **Friday, February 29, 2008**; there is no carryforward of this eligible retiring allowance contribution room to future years. Your former employer will report this eligible retiring allowance on form T4A.

- **Withdrawing** - if you need to withdraw funds from your RRSP, try and do so in a year when you have little or no income. Additionally check withholding tax rates before initiating the withdrawal as you may wish to make several smaller withdrawals to minimize withholding tax.
- **Canada Savings Bonds** - if you hold Canada Savings Bonds, these can be transferred to a *Canada RRSP* with the Government of Canada without the requirement of a self-directed plan (and the accompanying fees). You can also purchase new Canada Savings Bonds to be deposited to this no-fee Canada RRSP directly from the government of Canada, your bank, your financial institution or your investment dealer.
- **Source Deductions** - if you make your 2008 contribution in a lump sum now, you can apply to CRA to



authorize your employer to deduct less tax from your pay cheque. 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.

- **Spousal RRSPs** - take full advantage of spousal RRSPs where applicable. You benefit from the current deduction and future withdrawals are included in your 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.
- **Children and RRSPs** - if your child has earned income, he or she can make an RRSP contribution, regardless of 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.

- **Converting** - if you turn 71 in 2008, you must convert your RRSP/LIRA to a RRIF/LIF/LRIF before December 31st, 2008. If you have contribution room available, make your contributions prior to making this conversion. An important point to remember is that the beneficiary designation for your RRSP/LIRA *does not* automatically transfer over to your newly established RRIF/LIF/LRIF. 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 result from not naming a beneficiary can be significant.
- **Utilizing a Younger Spouse's Age** - when you establish your RRIF, you may want to base the mandatory 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 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.
- **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 *they* turn 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.

- **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 2009 of \$21,000, you must have \$116,667 of earned income in 2008.
- **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 this year will create RRSP room for 2008, 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. (*We recommend you review this strategy with your E.E.S. consultant if you think it applies to you*).

Tips

- **Reduce Fees** - if you have multiple RRSP or self directed RRSP accounts, consider consolidating them as the trustee may be charging fees on each account. Annual trustee fees range from as low as \$25 per year to \$250 per year.
- **Asset Allocation** - as studies have shown that asset allocation comprises up to 90% of the variability of a portfolios returns, the asset mix of your RRSP is paramount and should be reviewed each year with your financial advisor.
- **Asset Location** - investment income in Canada is taxed in 4 different manners. As a rule of thumb, investments that pay interest income and/or foreign dividends should be held inside your RRSP to the greatest extent possible while holding investments that generate dividends and potential capital gains outside of your RRSP.
- **Be aware** - of the many scams that promise tax-free withdrawals from your RRSP.
- **Foreign content** - investing outside Canada enables you to tap into the other 97% of world markets, giving you additional opportunities for growth and diversification.



New in 2007

- **Splitting of Pension Income** – 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. Income from an RRSP annuity, a RRIF, a LIF or a DPSP will qualify *only* if the recipient is 65 years of age or older.
- **Age limit for maturing RPPs and RRSPs** - to accommodate older workers who wish to continue working and saving, the budget proposes to extend these age limits to 71 years of age, effective 2007. Minimum RRIF withdrawal rules will

also be waived in 2007 and 2008 for RRIF owners turning 70 or 71 in 2007 or 71 in 2008. Contributions to RRSPs and RPPs will now be permitted, subject to available contribution room, based on these new age limits.

- **RRSP qualified investments** - the list of qualified investments that can be held by RRSPs and other registered plans will be expanded, effective March 19, 2007, to include:
 - any debt obligation that has an investment grade rating and that is part of a minimum \$25 million issuance; and
 - any security (other than a futures contract) listed on a “designated” stock exchange.

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

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