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2008 - 2009 RRSP OVERVIEW, STRATEGIES AND TIPS

Deadline for 2008 contributions is midnight Monday, March 2nd, 2009.

There were only a few changes in this area over the past year. However, we do suggest that you take the time to review this overview to see if any of the points or strategies apply to you or other family members.

Changes

➤ **Reduction of RRIF Minimum Withdrawal by 25%:**

In November 2008, the Minister of Finance proposed changes to the calculation of the 2008 required minimum withdrawal for registered retirement income funds (RRIFs). The proposal was to reduce the minimum withdrawal by 25% of the required amount. However, the government was then prorogued and taxpayers were left hanging. The January 27th, 2009 federal budget confirmed they would be proceeding with the proposal. To that end, if the full minimum amount was withdrawn, the 25% can be re-contributed. The deadline for the re-contribution is **Monday, March 2nd, 2009.**

➤ **Unlocking Federal Life Income Funds:**

New rules, introduced in 2008, allow individuals who have funds in federal locked-in RRSPs and life income funds (LIFs), greater access to their money beyond current maximum withdrawal limits.

Individuals who are at least 55 years of age with locked-in RRSPs and LIFs worth less than \$22,450 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 \$22,450. 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.

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Changes - continued

- **Creditor Protection for RRSPs and RRIFs:**
RRSPs and RRIFs are now formally exempt from the claims of creditors upon bankruptcy except for contributions made in the 12 months prior to the bankruptcy.

Contribution Limits

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

* Indexed to average wage growth thereafter.

Overview

- **Contribution Limit** - your 2008 RRSP limit equals the lesser of 18% of your 2007 earned income or \$20,000, minus your 2007 pension adjustment (PA) factor (box 52 of your 2007 T4 slip), plus any carry forward of unused contribution room from previous years. This carry forward amount can be confirmed on your 2007 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's reporting method is rather confusing.)*
- **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 2008 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, be in a higher marginal tax bracket. Your E.E.S. consultant can assist with this calculation.



Overview - continued

- **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).
- **Home Buyers' and Life Long Learning Plans** - if you withdrew funds from your RRSP under the Home Buyers' Plan (HBP) before December 31, 2006, or the Lifelong Learning Plan (LLP) before December 31, 2003, you must make a repayment by **Monday, March 2nd, 2009**. 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 2008. 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 undeducted contributions from previous years is not permitted.
- **Withdrawing** - if you plan to withdraw funds from your RRSP under the HBP during 2009, the home must be purchased by October 1, 2010. Repayments begin two years after the withdrawal i.e. for a withdrawal in 2009; you must repay 1/15th of the original amount during 2011 or the first 60 days of 2012.
- **Pension Adjustment Reversal** - if you left an employer-sponsored pension plan during 2008, 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 2008 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 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.



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), 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, March 2nd, 2009**; 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 to do so in a year in which you have little or no income. Also, check withholding tax rates before initiating the withdrawal as you may wish to make several smaller withdrawals to minimize withholding tax. Beware of transaction fees charged on a per withdrawal basis.
- **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.



Planning Strategies - continued

- **Source Deductions** - if you make your 2009 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 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.
- **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, and achieve growth in the account.
- **Converting** - if you turn 71 in 2009, you must convert your RRSP/LIRA to a RRIF/LIF/LRIF before December 31st, 2009. If you have contribution room available, make your contributions prior to making this conversion, as the 60-day rule does not apply in this situation. 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 can result from not naming a beneficiary can be significant.
- **Utilizing a Younger Spouse's Age** - when you establish your RRIF, you may 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 from a RRIF (there is less flexibility with a LIF/LRIF).



Planning Strategies - continued

- **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, or withdrawals from an RRSP, RRIF, LIF, LRIF or a DPSP will qualify only if the recipient is 65 years of age or older. The optimal amount to split between the spouses (up to 50%) can be calculated by your E.E.S. consultant.
- **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 2010 of \$22,000, you must have \$122,222 of earned income in 2009.
- **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 2009 will create RRSP room for 2010, 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(s) 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 return, the asset mix of your RRSP is paramount and should be reviewed each year with your E.E.S. Consultant.



Tips - continued

- **Asset Location** – different types of investment income are taxed in different ways in Canada. 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 investments that generate dividends and potential capital gains should be held outside of your RRSP.
- **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.

Proposed for 2009

- **Home Buyers' Plan** – the budget proposal is to increase the withdrawal limit to \$25,000 from the current \$20,000. Under the proposal, the repayment period will remain at 15 years.
- **RRSP/RRIF losses after death** – under the budget proposal, post death decreases in the value will be eligible to be carried back and deducted on the deceased's final tax return.

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

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