

Registered Retirement Income Funds

Converting your RRSP



A plan holder may contribute to and hold a Registered Retirement Savings Plan (RRSP) until December 31st of the year he or she turns 71. At that time, the RRSP plan holder is required to either convert the RRSP to a Registered Retirement Income Fund (RRIF), purchase an annuity or withdraw the funds in cash which is then included in taxable income of the plan holder in the year of withdrawal. The most common option is to convert the funds into a RRIF as it provides the greatest amount of flexibility. Eligible investments within a RRIF are treated the same as they would if held in an RRSP, including continuing to grow tax-deferred until they are withdrawn.

There are no maximum limits placed on RRIF withdrawals, however, under the *Income Tax Act* (Canada), annual minimum withdrawals are required in the calendar year after the RRIF is established. Plan holders may elect to receive their RRIF payments monthly, quarterly or annually. Where the income is not required, some RRIF plan holders may choose to only make the minimum withdrawal in order to take advantage of continued tax deferral.

RRIF minimum withdrawal rates

In the first year that the RRIF is established, there is no minimum withdrawal required. The minimum amount you must withdraw is determined by prescribed RRIF minimum factors. This amount is calculated each year on January 1st by multiplying the market value of the RRIF by the prescribed withdrawal rate. The following chart illustrates the minimum RRIF rates for age 71 and afterward:

Table of RRIF withdrawal rate		
	All RRIFs 2015+	Pre-1993 RRIFs prior to 2015
Age prior Dec 31	RRIF factor	RRIF factor
71	5.28%	5.26%
72	5.4%	5.56%
73	5.53%	5.88%
74	5.67%	6.25%
75	5.82%	6.67%
76	5.98%	7.14%
77	6.17%	7.69%
78	6.36%	8.33%
79	6.58%	8.53%
80	6.82%	8.75%
81	7.08%	8.99%
82	7.38%	9.27%
83	7.71%	9.58%
84	8.08%	9.93%
85	8.51%	10.33%
86	8.99%	10.79%
87	9.55%	11.33%
88	10.21%	11.96%
89	10.99%	12.71%
90	11.92%	13.62%
91	13.06%	14.73%
92	14.49%	16.12%
93	16.34%	17.92%
94	18.79%	20.00%
95+	20.00%	20.00%

Where a plan holder converts their RRSP to a RRIF prior to the year when they turn 71 years of age, the *Income Tax Act* (Canada) provides a prescribed formula to determine the annual minimum withdrawal required by the plan holder. There is no required minimum in the year the RRIF was established.

The formula to calculate the minimum withdrawals: $[1/ (90 - \text{age on January 1}^{\text{st}})] \times \text{the account value}$.

Example:

Leia converted her RRSP to a RRIF in August 2018 when she turned 71. She had no minimum withdrawal for 2018. Based on the \$200,000 market value of her RRIF on January 1, 2019, Leia must withdraw \$10,560 in 2019 ($\$200,000 \times 5.28\% = \$10,560$).

If Leia decided to start withdrawing from her RRIF at age 65, her minimum withdrawal for that year would be \$8,000 $[1/ (90-65) \times \$200,000]$.

Note: A RRIF annuitant who is married or in a common-law partnership may choose to base the minimum withdrawal on the age of his or her spouse or common-law partner. The election to do this must be made before the first withdrawal.

The tax treatment of a RRIF

The amounts withdrawn from a RRIF are taxable income. You will receive a T4RIF – Statement of Income from a RRIF each year and the income is reported on your tax return.

Meanwhile, a withholding tax is imposed on withdrawals that exceed the minimum required amount. The withholding tax is taken at source and remitted to the Canada Revenue Agency (CRA). It is important to note that this is the amount that is withheld at source, and the actual amount of tax owing will be determined once you file your tax return and all sources of income are reported. This chart reflects the withholding tax rates:

Amount	All provinces except Quebec	Quebec
Up to \$5,000	10%	20%
\$5000.01 to 15,000	20%	25%
Over \$15,000	30%	30%

It's important to note how withholding tax is applied. For example, Naeem lives in Halifax. He withdraws \$2,000 per month from his RRIF, resulting in an annual withdrawal amount of \$24,000. His required RRIF minimum for the year is \$18,000. Withholding tax is only applied to the amount in excess of the minimum. For Naeem, he is withdrawing \$6,000 (\$24,000 - \$18,000) in excess of the minimum, and the 20% withholding tax will be applied to this amount. When Naeem receives his monthly payment, \$1,500 is not subject to withholding tax, and the remaining \$500 is subject to a 20% withholding tax of \$100 (\$500 x 20%).

Additionally, at age 65 you may split up to 50% of your RRIF income with your spouse or common law partner as a potential tax minimization strategy.

The federal *Pension Credit* provides some relief for retirees at age 65 where you can claim a 15% credit on up to \$2,000 of eligible pension income, which a RRIF withdrawal would qualify for. (You may also receive a similar provincial credit if you are in the lowest tax bracket.) Additionally, at age 65 you may split up to 50% of your RRIF income with your spouse or common law partner as a potential tax minimization strategy.

Leaving Canada

Should you decide to spend your retirement years outside of Canada and sever residential ties with Canada, you may be considered a non-resident for tax purposes. If so, you will likely be deemed to have disposed of and reacquired all of your property under the departure tax rules. However, property held within a RRIF is exempt from these rules.

The withholding tax is dependent on your country of residence and whether or not there is a tax treaty between the two countries. This withholding tax is applied as a credit to your tax payable, if any, in your country of residence. Some countries may not apply any tax to foreign pension income if they are a tax-free jurisdiction. For non-residents, a lump sum withdrawal is typically subject to a 25% tax withholding rate, however, periodic payments, such as

regular RRIF withdrawals may be eligible for a reduced withholding rate under a tax treaty between your country of residence and Canada. For residents of the U.S., the Canada-U.S. Tax Convention reduces Canadian withholding on periodic pension payments to 15% and regular RRIF withdrawals may qualify as periodic pension payments subject to certain limitations.

Minimize taxes on excess RRIF funds using a TFSA

You may find that the required minimum withdrawal on your RRIF is more income than you need to fund your living expenses. A potential solution for these excess funds may be to take advantage of the tax-free growth offered by a Tax-Free Savings Account (TFSA) if you have TFSA contribution room. TFSA contributions are not tax-deductible, however, the investments within a TFSA grow on a tax-free basis and may be withdrawn without any tax implications or impact to your OAS.

When a RRIF plan holder passes away

Generally, upon your passing, the fair market value of your RRIF is reported as income on the deceased's tax return in the year of death.

You may elect to name your spouse or common-law partner as a successor annuitant for your RRIF (except in Quebec). The RRIF would be transferred by changing the ownership to the spouse's name or the spouse could transfer the investments in-kind to their own RRSP or RRIF. Going forward, the RRIF payments would be based on the original terms and taxed in the hands of the spouse. This strategy can help to alleviate some of the administrative burden at death by minimizing the amount of tax reporting slips.

You may also elect to name your spouse or common-law partner as your RRIF beneficiary (this is not permitted on plan documents in Quebec, but it is permitted in a Quebec resident's Will). This strategy requires some additional administration, as the designated benefit the surviving spouse would receive from your RRIF is taxable in their hands, however, there would be an offsetting tax deduction available.

If you name a financially dependent child or grandchild as your beneficiary, the proceeds of the RRIF may be used to buy a term-certain annuity that terminates once the beneficiary reaches age 18. If you name a financially dependent child or grandchild of any age who is infirm, the designated benefit may be transferred on a tax-deferred basis to a registered plan owned by the child or grandchild, such as an RRSP, Registered Disability Savings Plan or RRIF.

Considerations

Work with your TD advisor to determine how to best meet your retirement income needs, and consider your beneficiaries and the optimal strategies to employ in order to maximize the value of the funds available upon your passing.



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