TD Wealth

Wealth Insights

TD Wealth Private Investment Advice

Monthly Perspectives From The Daley Group Wealth Management

Plan Ahead for Your RIF: How Will You Withdraw Funds?

Over the years, many of us contribute to an RSP to achieve tax deductions and tax-deferred growth to plan for retirement. At the age of 71, when the RSP must be collapsed, funds are often converted to an RIF, with minimum withdrawals required in the following year (as prescribed by the government, based on age[1]). RIF withdrawals are then treated as taxable income.

Some forethought should go into your RIF withdrawal strategy. Why? In some cases, withdrawing more than the minimum RIF amount, either regularly or intermittently, can improve an overall lifetime tax bill. On the other hand, it may be more beneficial to keep funds in the RIF for as long as possible to benefit from tax-sheltered growth.

As you plan ahead for your RIF withdrawals, here are some potential considerations, depending upon your situation:

1. A younger spouse's age can determine withdrawals. If your goal is to continue growing tax-sheltered funds and you have a younger spouse, you can use the younger spouse's age to determine the minimum withdrawal rate for your own RIF. This may be one way to preserve income-tested benefits such as Old Age Security. Keep in mind that you will need to notify us (or the financial institution where the RIF is held) before you make your first RIF withdrawal. As well, changes cannot be made once the spouse's age has been chosen. Note that this situation doesn't require a spousal RIF or a spouse to be named as beneficiary.

2. Withdrawals can be accelerated to optimize a lifetime tax bill. If your RIF minimum withdrawal amount and other income put you in a lower tax-bracket, it may make sense to withdraw more than the minimum amount. In the absence of a spouse (which would permit a tax-free rollover of the RIF), if significant RIF funds remain at death (and depending on your estate value), the estate may be subject to the highest marginal tax rate. (Even with a tax-free rollover, a spouse over age 71 would be required to withdraw prescribed amounts from your RIF, which could put them in a higher marginal tax rate). Keep in mind that a withholding tax will apply on RIF withdrawals in excess of the required minimum amount.

3. RIF income can be used for income-splitting purposes. If you have a spouse who is in a lower tax bracket, RIF income may be used for income-splitting purposes. Forward planning may be advantageous, as transferring a portion of an RSP to RIF can occur as soon as the year in which you turn 65 years old, to take advantage of pension-income splitting and the pension tax credit.

4. RIF withdrawals can fund a TFSA. If you have excess funds not immediately needed from RIF withdrawals, consider contributing them to your TFSA.[2] This may be an excellent way to continue benefitting from tax-preferred growth: TFSA growth will be tax free. Please contact us to discuss an "in-kind" transfer. While the value of the investments transferred from the RIF will be considered taxable income, an in-kind transfer to a TFSA can ensure continuity of holdings.

Start Early

RIF withdrawal considerations should be part of a larger retirement withdrawal strategy. This shouldn't be left until last minute. In some cases, planning for the conversion from an RSP to RIF can start early. Strategically timing registered withdrawals may also be important. Every situation is different, so please call for assistance.

1. canada.ca/en/revenue-agency/services/tax/businesses/topics/completing-slips-summaries/t4rsp-t4rif-information-returns/payments/chart-prescribed-factors.html; 2. Subject to available contribution room.

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