



Registered Retirement Savings Plan Seeing beyond the numbers...

Almost every Canadian is concerned with high personal income tax rates, and fears the erosion of publicly funded pension plans. Registered Retirement Savings Plans (RRSPs) are the solution to both of these fears. RRSPs provide tax deductions, allowing Canadian taxpayers to reduce their personal income tax liability, and allow Canadian to save for their retirement at the same time. This brochure will explain RRSPs, how and when you may contribute to them, what you may invest in and how to manage RRSPs, and when and how to withdraw from your RRSPs.

Although this brochure covers many of the frequently asked questions regarding RRSPs, you should contact your Collins Barrow tax advisor with any RRSP concerns you may have.

What is an RRSP?

An RRSP is a tax shelter, which gives an individual an incentive to save money for his or her retirement. You make contributions to a plan over a number of years. These contributions are invested and earn income. There are two separate benefits to an RRSP:

- You are entitled to a tax deduction for the amount contributed (up to certain limits).
- Income from the assets held in your RRSP accumulate tax-free.

Like most tax shelters, the RRSP only provides a deferral of tax. When you withdraw money from the plan, that money will be subject to tax. It is, however, expected that this amount will be withdrawn when your income (and marginal tax rate) is lower.

RRSP Contribution

How Much Can I Contribute to MY RRSP?

- You can contribute an unlimited amount to your RRSP but there are penalties for contributions in excess of certain limits. The RRSP contribution limit is 18 per cent of the previous year's earned income, less the previous year's pension adjustment (PA) as reported on your T4. The PA is a computation of the benefits you are entitled to as a member of an employer-sponsored pension plan.
- For example, your 2009 RRSP contribution room is 18% of your 2008 earned income to a maximum of \$21,000. This is reduced by your PA for 2008.

What is Earned Income?

- Your RRSP limit for a given year depends on your "earned income" for the previous year. It does not include most types of passive income such as interest, dividends and capital gains. Earned income includes the following:
 - ✓ Employment earnings, net of union dues and employment expenses.
 - ✓ Research grants (net of related expenses).
 - ✓ Net income from self-employment.
 - ✓ Disability pensions under CPP/QPP.
 - ✓ Royalties.
 - ✓ Net rental income.
 - ✓ Alimony and maintenance received.

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- ✓ Supplementary unemployment benefits plan payments (not EI).
- Your earned income is reduced by:
 - ✓ Current year's loss from self-employment,
 - ✓ Current year rental losses, and
 - ✓ Alimony and maintenance payments made.

restore lost RRSP contribution room. If you leave an RPP prior to retirement and receive a termination benefit from the pension plan that is less than the RRSP room that you lost as a result of your participation in that plan, you will receive a PAR equal to the difference. Your PAR will be calculated by your pension plan administrator and added to your RRSP contribution room in the year you leave.

Contribution Limits

Year	Maximum Contribution (\$)	Earned Income Required in Previous Year for Maximum Contribution (\$)
2003	14,500	80,556
2004	15,500	86,111
2005	16,500	91,667
2006	18,000	100,000
2007	19,000	105,556
2008	20,000	111,111
2009	21,000	116,667
2010	22,000	122,222
2011	Indexed	Indexed

Who Calculates My RRSP Limit Each Year?

- Canada Revenue Agency (CRA) will calculate your contribution limit for the upcoming year. This limit will be reported on your Notice of Assessment that you receive from the Agency after you file your income tax return. The Notice of Assessment will include amounts that can be contributed because of under contributions in previous years.

When Does My Contribution Room for a Particular Year Become Available?

- Your contribution room for a particular year arises on January 1 of that year because the amount is based on information from the prior year. For example, your contribution room for 2010 arises on January 1, 2010. Once the contribution is made, you can deduct it in the current year or any future year. As discussed previously, an exception to this general rule does apply for PARs, which are added to contribution room during the year, as they arise.
- You often will not know your RRSP limit until a few months into the new year. As previously mentioned your RRSP limit is based on your PA and earned income for the previous calendar year. Your PA will only be available when you receive your T4, normally in late February. As well, most people do not calculate their earned income for the year until they prepare their income tax return, which is due April 30 (June 15, if you have business income). If you rely on CRA to advise you of your RRSP limit, you will have to wait until your tax return for the

What is a 'Pension Adjustment' (PA)?

- In terms of the RRSP contribution room each year, the PA puts all individuals on the same page. It represents the value of tax-assisted or sheltered benefits accruing to those taxpayers in a given year who are members of employer-sponsored Registered Pension Plans (RPPs) or Deferred Profit Sharing Plans (DPSPs). PA's reduce RRSP contribution limits since the individual is earning pension benefits through their employers' plans. If you do not have an RPP or DPSP, you can ignore PAs.

What is a 'Pension Adjustment Reversal' (PAR)?

- The PAR is for individuals who leave RPPs or DPSPs before retirement. Its objective is to

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year has been assessed. This could take several weeks or months after you file.

year (i.e. by March 1 in most years and by February 29 in leap years).

When Should I Make My RRSP Contributions?

- RRSP contributions can be made at any time of the year, although many people put it off until tax time. You should contribute to your RRSP early in the year to take full advantage of tax-deferred compounding of income in your RRSP. For example, if you make your contribution for the year in January instead of at the end of February of the following year, you will benefit from more than an extra year's compounding of income for each contribution, which could make a significant difference in the value of your RRSP when you retire.
- Assume that you contribute \$14,500 to your RRSP annually and that you will earn an 8 per cent return on these funds. If you contribute \$14,500 at the beginning of the year instead of at the end, over a 28 year period, you would have an extra \$110,000 in your RRSP.
- Most individuals find it difficult to come up with a lump sum RRSP contribution all at once. Most RRSP issuers will allow you to pre-arrange monthly contributions. You can also reduce the money you need to make your contributions by getting the benefit of your tax deduction when you make the contribution. If you write to CRA and provide them with evidence of your contributions, such as receipts, they will write you a letter, which you can give your employer authorizing them to reduce the income tax withholdings from your salary. If you contribute to a group RRSP at work, your employer can automatically reduce your income tax withholdings, taking your contributions into account.

When Can My Contributions be deducted?

- In order for contributions to be deductible in any particular taxation year, they must be made within 60 days of the end of that year taxation

	2009 Contribution	2008 Contribution
Based on:	18% of 2008 earned income (max. \$21,000) less 2008 PA	18% of 2007 earned income (max. \$20,000) less 2007 PA
Available:	January 1, 2009	January 1, 2008
Contribution deductible in year if made by:	March 1, 2010	March 1, 2009

Can I Deduct Current Year RRSP Contributions in Future Years?

- You do not have to deduct an RRSP contribution in the year that it is made. Instead you can carry it forward for a deduction in a future period when you have income placing you in a higher tax bracket. By deferring the deduction, you will save more in taxes. Delaying the deduction does, however, have a cost of prepaid taxes as you will not get the benefit of the deduction until the future. Therefore, the time value of money must be considered when making the decision to defer the deduction of your RRSP contributions.

Should I Borrow to Make My RRSP Contribution?

- Whenever possible, you should use cash to make your RRSP contributions because interest on money borrowed to make your contribution is not deductible for tax purposes. Instead, you should borrow to make other investments.
- Since income earned on an RRSP accumulates on a tax-deferred basis, it may make sense to borrow to contribute to your RRSP. If you are able to pay off the loan quickly, especially if you

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are getting a tax refund, the non-deductible interest can be minimized.

- For example, if we assume that you want to make a \$10,000 RRSP contribution by the deadline of March 1 and a top marginal rate of 50%, you will receive a tax refund of approximately \$5,000. If you borrow the \$10,000 to make the contribution, you will be able to pay back half of the loan when you get your refund.

Can I Contribute to My Spouse's RRSP?

- Taxpayers can contribute to their own RRSP, a spouse or common-law partner's RRSP, or both provided they do not exceed their own maximum deductible amount. The taxpayer claims the contribution as a deduction on his/her own tax return. Spousal contributions do not affect the recipient spouse's contribution limits for their own RRSP. For 2001 and subsequent taxation years, a spouse includes same-sex partners.

Is it Better to Contribute to My Spouse's RRSP?

- The main benefit of a spousal RRSP is that it will allow income splitting in the future, at retirement, since withdrawals will usually be taxable in the hands of your spouse.
- When deciding whether to contribute to either your RRSP or to a spousal RRSP, you should attempt to estimate both you and your spouse's income in retirement. Your goal should be to equalize retirement income and reduce your future tax liability for you and your spouse.

What Happens If My Spouse Makes an RRSP Withdrawal?

- Contributions to a spousal RRSP, if withdrawn, are attributed to you as taxable income to the extent you made any contributions in the year of withdrawal or in the two previous calendar years.
- This rule does not apply to all RRSPs held by your spouse. The attribution of RRSP

withdrawals to you will not apply if you contribute to a spousal plan and your spouse withdraws funds from an RRSP that they contributed to (i.e. not a spousal RRSP). For this reason, it is usually a good idea to set up a new plan for spousal contributions.

What Happens If I Over-Contribute to My RRSP?

- If you contribute more than your contribution limit, a penalty of one per cent per month applies to over-contributions in excess of \$2,000. This penalty tax is expensive to ensure that it is not worthwhile to make over-contributions above this limit.
- Should I make a \$2,000 over-contribution to my RRSP? You can make an extra one-time \$2,000 over-contribution to your RRSP without being subject to the 1% per month penalty tax on over-contributions. This will allow you to shelter the income on the \$2,000 from tax.
- The \$2,000 cushion is intended as a protection from unintentional over-contributions. Therefore, if you use up the cushion, you have absolutely no margin for error left. This is usually only a concern for members of pension plans, but could also cause problems for other individuals.
- If you decide to take the \$2,000 out of your RRSP, the withdrawal will be taxable without you ever having received the benefit of a tax deduction for the contribution. Although it is possible to remove unintentional over-contributions from an RRSP without tax (an offsetting deduction is provided), this remedy is not available where the over-contribution was made deliberately.

How Long Can I Continue to Contribute?

- Contributions to a personal RRSP may be made until the end of the calendar year in which the taxpayer turns 71. In this year, your RRSP matures and the funds in your plan must be removed. The options available are discussed under "Making withdrawals from your RRSP."

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- You may, however, continue to contribute to a spousal RRSP for your spouse up to and including the year in which they turn 71. This assumes that you have unused RRSP contribution room, or will continue to have qualifying “earned income”.

Can I Transfer Retiring Allowances or Pension Income to My RRSP?

- A retiring allowance, which is an amount payable by your employer to you in recognition of long service or in respect of loss of employment, can be transferred to an RRSP. The permitted RRSP contribution (which is over and above normal contributions) will be \$2,000 per year of service with the employer before 1996, plus another \$1,500 per year of service before 1989 for which there was no pension or DPSP vesting. This benefit is being gradually phased out by denying recognition of years of service after 1995 in the contribution formula. This transfer can be made directly by your employer to your RRSP, eliminating the requirement that tax be withheld at source. You can also transfer amounts you actually received during the year. Any eligible amount must be contributed to your RRSP in the year or within 60 days of the end of the year.
- In addition to this special rollover, if you have unused RRSP contribution room you may want your employer to contribute more of your retiring allowance to your RRSP. Provided that the employer contribution to your RRSP does not exceed your deduction limit, you no longer have to get a waiver to reduce tax on these amounts.

Investing and Managing your RRSP

What Tax Considerations Should Affect My RRSP Investment Strategy?

- As a rule, you will want to choose RRSP investments that maximize your return and stay within your risk tolerance. While equities hold

out the promise of higher returns, they are more volatile than bonds or GICs. Most people prefer to hold a larger percentage of equities in their RRSP portfolio when they are young and are willing to take more risks. They gradually convert to more stable, income producing investments as they approach retirement.

- If you have investments inside and outside your RRSP, tax can play a part in your investment decisions. Keep in mind that income earned and capital gains realized in your RRSP are not taxed until they are withdrawn from your plan. Therefore, from a tax perspective, there is a bias to hold income-producing investments such as GICs inside your RRSP as the interest income will be fully taxed if they are held outside of your RRSP. Likewise, it makes sense to hold investments that produce capital gains outside of your RRSP, as tax only has to be paid on ½ of the gain.
- Your investment decisions can be broken down even further from a tax point of view. Capital gains are only taxed when they are realized (when you sell your investment). If you invest in stocks that you expect to sell in the short-term outside your RRSP, capital gains will be realized that will be taxable, reducing the funds you have to invest. On the other hand, if you invest stocks that you expect to hold for several years, any capital gains that accrue will not be subject to tax until you sell. Therefore, from a tax perspective, it makes sense to hold stocks that you expect to hold over the short-term in your RRSP, where the tax on the capital gains will be deferred, and to hold stocks that are long-term holds outside of your RRSP.
- Remember that tax advantages can sometimes conflict with other RRSP investment objectives. Although it makes sense to invest in stocks that you expect to sell in the short-term in your RRSP, these investments usually are more risky and conflict with your objective to have stable investments in your RRSP. As well, if you incur losses on investments held in your RRSP, the losses are not tax deductible and they will reduce the size of your RRSP that will be available to you in your retirement.

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Is There a Maximum Amount That I Can Invest in Foreign Property?

- Foreign property generally includes foreign currency, shares and debt obligations of companies listed on most foreign stock exchanges, including mutual funds that invest in these assets, and debt obligations of certain foreign governments.
- The 30% foreign property limit was cancelled January 1, 2005 to allow greater opportunity for diversification.

Can I Withdraw Funds From My RRSP to Purchase a Home?

- If you are a first-time home buyer, it is possible to withdraw up to \$20,000 from your RRSP (The budget of January 27, 2009 increases this to \$25,000) when you buy a qualifying home. Your spouse can also withdraw up to \$20,000 (\$25,000 January 27, 2009) from his or her RRSP. If the amount withdrawn is repaid over 15 years, there won't be an income inclusion for the withdrawal. Contact your Collins Barrow advisor for more information on The Home Buyers' plan.

Withdrawing From Your RRSP

When Can I Withdraw Money From My RRSP?

- Normally, you can withdraw money from your RRSP at any time. There are no tax rules that stop you from withdrawing. The only exception to this is if the funds in the RRSP were originally transferred in from a pension plan. In particular instances, these funds must be transferred to a locked-in RRSP, which can only be accessed as allowed under provincial pension legislation.
- You may have difficulty withdrawing funds from your RRSP if it has invested in securities, such as non-redeemable GICs, which cannot be liquidated. There may also be a cancellation penalty for early redemption.

- If you withdraw an amount from your RRSP, the full amount of the withdrawal is taxable, whether it represents money you contributed or income earned on your RRSP.
- Typically, it is not advisable to withdraw funds from your RRSP, unless you have an emergency. The purpose of your RRSP is to save for your retirement. As well, once funds are withdrawn, you will only be able to re-contribute them as part of your normal RRSP contribution room.

When Should I Start Withdrawing Money From My RRSP?

- When you should start to withdraw depends on your personal situation. In order to take full advantage of the tax deferrals available with an RRSP, you should wait until the end of the year in which you turn 71. At that point, you should either purchase an annuity or transfer your RRSP assets to a Registered Retirement Income Fund (RRIF), depending on which best suits your needs.
- Nevertheless, you may require retirement income from your RRSP prior to age 72. You are able to withdraw funds when you do need the money, however, the amount will be taxable. You can also purchase an annuity or transfer your RRSP assets to an RRIF at any time prior to the end of the year in which you turn 71.
- As well, it may be beneficial to purchase an annuity with some of your RRSP funds when you turn 65, if you do not have other income that will qualify for the pension income tax credit of \$2,000 each year. Income from an annuity purchased with your RRSP is considered to be pension income for purposes of this credit. At a minimum, \$2,000/year should be withdrawn to optimize this credit if no other pension income is being received.

What is the Deadline for Collapsing My RRSP?

- You cannot have an RRSP past December 31 of the calendar year in which you turn 71. Prior to

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that date, you must either collapse your RRSP, or pay tax on the fair market value of the plan's assets at that time, or purchase an annuity or transfer your RRSP assets to an RRIF. If you purchase an annuity or transfer the assets to an RRIF, no tax is paid on the conversion.

What Are My Options When Withdrawing Money From My RRSP?

- There are essentially three ways you can take money out of your RRSP. First, you can collapse all or part of your RRSP. Any amounts withdrawn will be fully taxable in the year of withdrawal. Your RRSP issuer will withhold tax on your withdrawal.
- You can also purchase an annuity or an RRIF with your RRSP. Normally you would do this when you want to receive retirement income from your RRSP. Withdrawals from an annuity or an RRIF would be taxable only when received by you.

Annuities

- An annuity is a right to receive periodic payments of income, either for life or a fixed number of years. Various types of annuity products exist, such as annuities which will continue to pay income until the later of your death or the death of your spouse. The size of your periodic payment will depend on the length of the annuity term; the shorter the term of your annuity, the larger the payment.
- The issuer, usually a life insurance company, will guarantee to pay a fixed amount, providing you with a steady stream of income in your retirement. This income will be fully taxable when you receive it as pension income.
- The advantage of an annuity will usually be the assurance that income will continue to be paid even if you live well past the age at which you might expect a RRIF to run down. For this, you give up, in effect, control over your investments. As well, you may give up the option to take out special lump-sum amounts if you need them. Also, your purchasing power will be at risk for

inflation, unless the annuity has inflation adjustments.

RRIFs

- A RRIF is essentially a continuation of an RRSP. The difference is that you may not make any new tax-deductible contributions to a RRIF based on your RRSP contribution limits, and that you must receive a specified amount out of the RRIF in each year. Your RRIF can hold the same investments as your RRSP; you can have a self-directed RRIF in the same manner as your self-directed RRSP.
- A minimum percentage must be withdrawn each year, depending on your age. The percentage is applied to the fair market value of plan assets as of January 1 of each year, to determine the dollar amount of the mandatory withdrawal for that year. You can always withdraw more than the minimum if you wish.
- The primary advantage of an RRIF over an annuity is that you maintain control of your investments. However, with that, comes the risk that your investments may not perform to your expectations.

Conclusion

- RRSP provide beneficial tax deductions, reduces personal income taxes payable, and may provide you with control over your own future retirement income stream. Maximizing contributions to your RRSP is almost always beneficial.
- Please contact your Collins Barrow Advisor if you have any questions about your RRSP.

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We are a well rounded **tax, accounting and business advisory firm**. Our extensive experience spans various industry sectors including manufacturing, retail, construction, service, not-for-profit, technology, petroleum, health care, education, and transportation. That means we can quickly and efficiently apply our cross-industry experience – and add significant value to the work we do for you.

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