

# TAX FLASH

## Tax Flash – Additional Changes to RRSP and RRIF Penalties

*Judy Moore, CA, is a Partner in the Toronto office of Collins Barrow.*

Subsequent to the press deadline for the *Fall 2011 Tax Alert*, the Minister of Finance announced amendments to the August 16, 2011 draft legislation pertaining to “prohibited investments” held in a registered retirement savings plan (RRSP) or registered retirement income fund (RRIF).

As described in the *Tax Alert*, income and capital gains realized in respect of prohibited investments held by one of these plans are to be taxed in the annuitant’s hands at a rate of 100% of the advantage. As initially announced, the transitional rules reduced this tax to 42.9% until the end of 2016.

The new legislation extends the transitional rules to the end of 2021. Moreover, rather than charging the flat 42.9% tax, the individual will instead include the amount of the advantage in income and pay tax on it at his or her marginal tax rate.

Consistent with the transition period extension, the new legislation extends until the end of 2021 the period during which an RRSP or RRIF can remove prohibited investments from the plan via a “swap.” After that time they may be taxed as an advantage.

Furthermore, the original rules applied only to prohibited investments acquired after March 22, 2011. The new legislation extends the application of the penalties and tax to investments that become prohibited after March 22, 2011. This might occur, for example, where an individual’s interest in a particular company increases so that he or she owns 10% or more of its shares, or shares of a related company. §

Collins Barrow periodically publishes a *Tax Flash* for its clients and associates. It is designed to highlight and summarize the continually changing tax and business scene across Canada. While *Tax Flash* suggests general planning ideas, we recommend professional advice always be sought before taking specific planning steps.

[www.collinsbarrow.com](http://www.collinsbarrow.com)  
[info@collinsbarrow.com](mailto:info@collinsbarrow.com)