Registered Retirement Income Funds

The Income Tax Act states that a Registered Retirement Savings Plan (RRSP) matures by December 31 of the year in which the planholder (annuitant) reaches age 69.

At the time an RRSP matures, planholders must choose what they want to do with the retirement savings they've been deferring from taxes. Three options – or a combination of them – are possible:

- Cashing in the RRSP
- Purchasing an annuity
- Converting the RRSP to a Registered Retirement Income Fund (RRIF)

Here's a look at the options.

Cashing in the RRSP

When an RRSP is cashed in, the entire fair market value of the plan will be included in the planholder's income for the year of withdrawal – and taxed at his or her marginal income tax rate. This could entail a tax bite exceeding 45 per cent for many Canadians. So withdrawing all RRSP savings is probably not the best way to start retirement.

Purchasing an annuity

Annuities pay a predetermined amount of annual income over a specified number of years. The amount paid will be based primarily on interest rates prevailing at the time the annuity is purchased. Unlike cashing in an RRSP, when an annuity is purchased, the value of the RRSP is not included in income all at once. Rather, the amount received annually will be taxed as income each year.

Converting to a RRIF

RRIF payouts are essentially the opposite of annual RRSP-deductible contributions. There are maximum annual amounts that may be contributed to an RRSP, and there are minimum RRIF withdrawals each year. The amount withdrawn from a RRIF will be taxable each year.

And, as in an RRSP, growth within a RRIF is tax deferred, and annuitants may continue to manage their own investments if a self-directed plan is used.

General RRIF rules

A RRIF can be opened at any age, but new contributions can never be made to a RRIF. The most common way money gets into a RRIF is through a rollover from an RRSP. When an RRSP is rolled into a RRIF, no taxes are payable on the transferred funds. Just like in an RRSP, tax is only payable on amounts actually withdrawn from a RRIF, allowing the remaining assets to continue to grow on a tax-deferred basis.

Many planholders find the tax rate on RRIF withdrawals much lower than the tax rate they faced on employment income because their income in retirement is not as high. This is one of the benefits of the whole RRSP / RRIF system: RRSP contributions are often made and deducted from income that's taxed at high marginal rates, while RRIF withdrawals are often included in income and taxed at much lower rates.

Minimum annual withdrawals

Once a RRIF is established, the annuitant is required under the Income Tax Act to withdraw a minimum amount each year. That amount is based on the age of the annuitant (or the annuitant's spouse or common-law partner – see "Calculation using spouse or common-law partner's age" below) as outlined in the accompanying "Minimum payment schedule." The minimum annual withdrawals are calculated by multiplying the fair market value of the RRIF at the beginning of the year by the corresponding age factor in the table.

In the year a RRIF is established, no minimum withdrawal is required. In each subsequent year, only the minimum withdrawal amount is required. To maximize tax-deferred growth (beyond electing not to receive a first-year payment), some annuitants subsequently choose to withdraw only their minimum amount and to have it withdrawn at the end of each year.

Example One

John converted his RRSP to a RRIF in September 2001 when he turned 69. His minimum withdrawal for 2001 is zero. Assuming that the value of the RRIF at the beginning of 2002 was $200,000, John must withdraw $9,524 (1/(90 – 69) x $200,000) in 2002.

Calculation using spouse or common-law partner's age

When setting up a RRIF, an annuitant can base the annual minimum withdrawal calculations on either his or her own age, or on the age of his or her spouse or common-law partner. To maximize the amount that can continue to grow tax deferred in the RRIF, many annuitants choose to base the calculations on the younger spouse's or common-law partner's age as the minimum payment factors increase with age. The election to use a spouse's or common-law partner's age must be made before the first RRIF withdrawal.

Attribution on spousal or common-law partner RRIFs

The RRIF rules outlined above also apply to spousal or common-law partner RRSPs, which must be terminated by the end of the year the annuitant spouse or common-law partner reaches age 69. If the funds in the spousal or common-law partner RRSP are used to buy a RRIF, the normal RRSP spousal or common-law partner attribution rule will not apply on the minimum amounts received from the RRIF.

However, if spousal or common-law partner RRSP contributions have been made in the current or previous two years before the conversion to a RRIF, then the attribution rules will apply to any amounts in excess of the minimum amounts. This causes these withdrawals to be taxed in the contributing spouse's or common-law partner's hands. The *Income Splitting* Tax & Estate Info Pages explain this in more detail.

Minimum payment schedule

Age	General	Qualifying RRIFs*
71**	0.0738	0.0526
72	0.0748	0.0556
73	0.0759	0.0588
74	0.0771	0.0625
75	0.0785	0.0667
76	0.0799	0.0714
77	0.0815	0.0769
78	0.0833	0.0833
79	0.0853	0.0853
80	0.0875	0.0875
81	0.0899	0.0899
82	0.0927	0.0927
83	0.0958	0.0958
84	0.0993	0.0993
85	0.1033	0.1033
86	0.1079	0.1079
87	0.1133	0.1133
88	0.1196	0.1196
89	0.1271	0.1271
90	0.1362	0.1362
91	0.1473	0.1473
92	0.1612	0.1612
93	0.1792	0.1792
94 or older	0.2000	0.2000

* A qualifying RRIF is generally a Registered Retirement Income Fund entered into before 1993

** For ages below 71, the formula is 1/(90 - age)

Taxes on RRIF withdrawals

Though all RRIF withdrawals are fully taxable, only amounts withdrawn from a RRIF in excess of each year's minimum amount are subject to withholding taxes at source. The withholding taxes are the same as for RRSP withdrawals:

Amount of RRIF withdrawal in excess of minimum amount	All provinces except Quebec	Quebec
Up to $5,000	10%	21%
$5,001 to $15,000	20%	30%
Over $15,000	30%	35%

The table above represents only the withholding tax on the excess RRIF withdrawals. This withholding tax is essentially an estimated prepayment of the taxes that may actually be owing. All RRIF withdrawals must be reported on the annuitant's income tax return for the year of withdrawal, and tax will be payable at the annuitant's marginal rate on these withdrawals. The annuitant will then claim the amounts withheld, if any, as a credit against the taxes owing.

Note: Because there's no required minimum withdrawal in a RRIF's first year, withholding taxes will be applied to all withdrawals during the first year. In subsequent years, only withdrawals in excess of the minimum amount will be subject to withholding taxes at source.

Systematic withdrawal plans

Systematic withdrawal plans (SWPs) are often used in conjunction with RRIFs. SWPs enable mutual fund investors to automatically receive payments from their RRIF accounts on the dates they desire. Investors can choose to receive only the minimum amount for each year so that no withholding taxes will be applied. SWP payments can be sent to planholders by cheque or as a direct deposit to a bank account.

Installment tax payments

Depending on the RRIF annuitant's overall tax situation, the Canada Customs and Revenue Agency or CCRA (formerly Revenue Canada) may require quarterly income tax installments. This circumstance is generally triggered if the difference between an annuitant's income tax payable and amounts withheld at source exceeds $2,000 in the current year and either of the two preceding years. A RRIF annuitant who withdraws only the minimum amount without any withholding tax may be required to remit income tax quarterly. The CCRA will send out Installment Notices that set out the amounts due quarterly, if installments are required.

Pension credit

Recipients who are age 65 or older are entitled to a pension credit on up to $1,000 of pension income. RRIF payments are taxed as pension income. Recipients who are under 65 may also be entitled to the pension credit, provided certain criteria are met. For more information, consult your tax advisor.

Death of a RRIF annuitant

When a RRIF is established, careful consideration should be given to naming a beneficiary of the plan's assets. The annuitant may also wish to name a successor annuitant.

A beneficiary is a person who, on the annuitant's death, will receive the assets in the RRIF. A successor annuitant is a spouse or common-law partner who, if named on the account, will continue to receive the annual minimum payments from the RRIF following the annuitant's death.

On the annuitant's death, if the surviving spouse or common-law partner is the beneficiary of the RRIF, the RRIF assets may be transferred on a tax-deferred basis to the spouse's or common-law partner's RRIF. If the surviving spouse or common-law partner is age 69 or under, the RRIF assets may also be transferred to an RRSP.

If a child or grandchild was financially dependent on the deceased annuitant and was the beneficiary of a RRIF, the funds in the RRIF may be used to purchase an annuity that must end by the time the child or grandchild reaches the age of 18. However, if a financially dependent child or grandchild of any age was also dependent on the deceased annuitant by reason of mental or physical infirmity, the child or grandchild may transfer the value of the deceased annuitant's RRIF into his or her own RRIF or RRSP.

Note: It is assumed, unless proven otherwise, that a child is not financially dependent on the deceased annuitant if his or her income for the year before the annuitant's death was greater than the basic personal amount (approximately $7,400).

If anyone else is named as the RRIF beneficiary, the entire value of the RRIF will be included in income and taxed in the deceased's terminal return. (See the *Death and Taxes* Tax & Estate Info Pages for a more detailed discussion of RRIFs and death, along with numerical examples.)

The last word

As is usual in tax matters, the rules covering RRIFs are complex and specific cases need to be addressed individually. Professional legal and tax advice should be sought when necessary.

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