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Registered Retirement Income Funds

It is required by the Income Tax Act that a Registered Retirement Savings Plan (RRSP) must be closed by the end of the year in which the planholder (annuitant) reaches age 71. At that time, **the annuitant must decide what to do with their retirement savings.** They have three options - cash in the RRSP, buy an annuity, or convert to a Registered Retirement Income Fund (RRIF).

While an RRSP is intended to accept deposits, a RRIF is intended to provide the annuitant with a regular, systematic income. The income received from a RRIF is fully taxable. Like an RRSP, the **growth is still tax-deferred.**

A RRIF can actually be started at any age, but new contributions cannot be made directly into a RRIF. Money gets into a RRIF through a rollover from an RRSP, and no taxes are payable on these rolled over funds.

Once a RRIF is started, a minimum amount must be withdrawn each year by the annuitant. **No minimum withdrawal is required in the year the RRIF is established.** For example, Ed will turn age 71 in 2019 and converts his RRSP to a RRIF, but his income doesn't actually have to start until 2020. The minimum income that Ed needs to receive from his RRIF in 2020 is calculated by multiplying his account value on December 31, 2019 by an age factor stipulated by the Income Tax Act.

The annuitant has the option of basing the minimum annual withdrawal amount on the age of their spouse. For example, John turns age 71 in 2010, but his wife Donna is only 65. By using Donna's age to determine the RRIF minimum, they would be required to withdraw a lesser amount than if they used John's age. This is an opportunity to postpone taxes longer on the RRIF balance.

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Although RRIF withdrawals are fully taxable, only amounts in excess of the yearly minimum are subject to withholding taxes. But, any withdrawals made in the year the RRIF is started are subject to full withholding at source. Rose elected to have 25% of her RRIF income remitted to Canada Revenue Agency (CRA) on her behalf so she wouldn't be surprised by a tax bill in the spring.

While the basic RRIF rules apply to spousal plans as well, income from a spousal RRIF may be taxed in the contributor's hands in certain situations. For example, Doug had made contributions to Sally's RRSP up until she started taking a RRIF income. Because deposits were made to Sally's RRSP in the current and previous two years, withdrawals in excess of the RRIF minimum will have to be included on Doug's tax return. She chose to take the RRIF minimum for now.

Need help with your retirement income plans?

Contact our office! **[1]**

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