

# Registered retirement income funds (RRIFs)

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The *Income Tax Act* (Canada) (the “Act”) requires that a registered retirement savings plan (RRSP) matures by December 31 of the year in which the planholder (annuitant) reaches age 71.

At the time an RRSP matures, annuitants 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 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 annuitant’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% for many Canadians. So, withdrawing all RRSP funds is probably not the best way to start retirement.

### **Purchasing an annuity**

Annuities pay a predetermined amount of annual income over a specified period. 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 The amount withdrawn from a RRIF will be taxable each year.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 with 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.

## RRIF minimum factors

Age <sup>1</sup>	Pre-2015		2015 onward <sup>3</sup>
	General (%)	Qualifying RRIFs <sup>2</sup> (%)	New RRIF Minimum (%)
60	3.33	3.33	3.33
61	3.45	3.45	3.45
62	3.57	3.57	3.57
63	3.70	3.70	3.70
64	3.85	3.85	3.85
65	4.00	4.00	4.00
66	4.17	4.17	4.17
67	4.35	4.35	4.35
68	4.55	4.55	4.55
69	4.76	4.76	4.76
70 <sup>4</sup>	5.00	5.00	5.00
71	7.38	5.26	5.28 (5.26) <sup>5</sup>
72	7.48	5.56	5.40
73	7.59	5.88	5.53
74	7.71	6.25	5.67
75	7.85	6.67	5.82
76	7.99	7.14	5.98
77	8.15	7.69	6.17
78	8.33	8.33	6.36
79	8.53	8.53	6.58
80	8.75	8.75	6.82
81	8.99	8.99	7.08
82	9.27	9.27	7.38
83	9.58	9.58	7.71
84	9.93	9.93	8.08
85	10.33	10.33	8.51
86	10.79	10.79	8.99
87	11.33	11.33	9.55
88	11.96	11.96	10.21
89	12.71	12.71	10.99
90	13.62	13.62	11.92
91	14.73	14.73	13.06
92	16.12	16.12	14.49
93	17.92	17.92	16.34
94	20.00	20.00	18.79
95 or older	20.00	20.00	20.00

<sup>1</sup> Age as of December 31 of previous year.

<sup>2</sup> A qualifying RRIF is generally a RRIF entered into before 1993.

<sup>3</sup> Applicable to non-qualifying and qualifying RRIFs.

<sup>4</sup> For ages below 71, the formula is  $1 \div (90 - \text{age})$ .

<sup>5</sup> The minimum factor for qualifying RRIFs is shown in parentheses as the prescribed factor for age 71 is determined by the formula for ages below 71.

## 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 this is done, no taxes are payable on the transferred funds. As with an RRSP, tax is generally payable only on amounts actually withdrawn from a RRIF, allowing the remaining assets to continue to grow on a tax-deferred basis.

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

The RRIF assets can be transferred to an RRSP provided the annuitant is age 71 or younger. The RRIF minimum, if applicable, will still be paid out for that year.

### RRIF minimum factors

Once a RRIF is established, the annuitant is required under the 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 as outlined in the sidebar at left titled "RRIF minimum factors." 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 at the end of each year.

#### Example 1

John converted his RRSP to a RRIF in May 2016 when he turned 71. His minimum withdrawal for 2016 is zero. Assuming that the value of the RRIF at the beginning of 2017 is \$200,000, John must withdraw \$10,560 ( $0.0528 \times \$200,000$ ) in 2017.

#### Calculation using spouse's 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.

#### Example 2

John converted his RRSP to a RRIF in May 2016 when he turned 71. John's spouse is only 61 years of age at the end of 2016, so John elects to base the minimum payment calculation on his spouse's age. Assuming that the value of the RRIF at the beginning of 2017 is \$200,000, John must only withdraw \$6,900 ( $0.0345 \times \$200,000$ ) in 2017.

## 2015 Federal Budget

The 2015 Federal Budget made an adjustment to the RRIF minimum withdrawal factors that apply in respect of ages 71 to 94. The updated factors are based on

assumptions that should be more consistent with expected inflation and long-term historical real rates of return on an investment portfolio. With the reduction of the withdrawal factors, annuitants are now able to preserve more of their savings in the RRIF in order to provide greater retirement income at older ages. There was no change to the minimum withdrawal factors that apply in respect of ages 70 and under. The updated RRIF factors apply for the 2015 and subsequent taxation years.

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### Attribution on spousal or common-law partner RRIFs

A RRIF will be a spousal or common-law partner plan if it receives funds from a spousal or common-law partner RRSP. Amounts withdrawn from a spousal RRIF will be attributed to the contributing spouse, up to the amount that was contributed to any spousal RRSP in the year of withdrawal or the previous two calendar years. The minimum withdrawal is not subject to attribution.

For more information, please refer to our *Tax & Estate InfoPage* titled "Income-splitting opportunities and the income attribution rules that may prevent them."

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### Taxes on RRIF withdrawals

Although 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 tax rates are the same as for RRSP withdrawals:

Amount	All provinces except Quebec	Quebec
Up to \$5,000	10%	21%
\$5,000.01 to \$15,000	20%	26%
Over \$15,000	30%	31%

The table 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. 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.

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### Systematic withdrawal plans (SWPs)

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 annuitants by cheque or as a direct deposit to a bank account.

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### Instalment tax payments

Depending on the overall tax situation of the RRIF annuitant, the Canada Revenue Agency (CRA) may require quarterly income tax instalments. This circumstance is generally triggered if the difference between an annuitant's income tax payable and amounts withheld at source exceeds \$3,000 (or \$1,800 for taxpayers who reside in Quebec) 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 CRA will send out Instalment Notices that set out the amounts due quarterly, if instalments are required.

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Invesco currently does not accept beneficiary designations on RRSPs/RRIFs if the annuitant is a resident of Quebec.

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## **Pension income splitting/pension credit**

Since 2007, RRIF annuitants aged 65 or older have been entitled to split up to 50% of their RRIF income with a spouse or common-law partner. Additionally, annuitants may take advantage of the federal pension tax credit of 15% on up to \$2,000 of eligible pension income, plus a corresponding provincial tax credit. Individuals who are under 65 may also be entitled to the pension credit on RRIF income if the amount is received as a result of the death of his or her spouse or common-law partner.

For more information, please refer to our *Tax & Estate InfoPage* titled "Pension income splitting."

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## **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.

With a successor annuitant designation, the deceased RRIF annuitant would be responsible for reporting RRIF withdrawals received while alive. The successor RRIF annuitant would be responsible for reporting any new RRIF withdrawals received after the date of death.

For non-successor annuitant situations, the fair market value of a RRIF is normally included in the deceased's income in the year of death. If the value changes between death and final distribution, a decrease may be carried back to offset year-of-death income inclusion, and an increase is generally included in the income of beneficiaries.

However, 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 71 or under, the RRIF assets may alternatively 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.

Financial dependence is determined by looking at the child's or grandchild's income in the year prior to the year of the annuitant's death. For a death in 2016, the child's or grandchild's income cannot exceed the 2015 basic personal amount of \$11,327. If the child or grandchild is infirm, the maximum 2015 income is \$19,226, which is the sum of the 2015 basic personal amount and the 2015 disability amount.

For a more detailed discussion of RRIFs and death, along with numerical examples, please refer to our *Tax & Estate InfoPage* titled "Death and taxes."

## **Rollovers to registered disability savings plans (RDSPs)**

If a RRIF annuitant dies after March 3, 2010, a transfer of the eligible amount of the designated benefit to an RDSP of a financially dependent infirm child or grandchild is possible provided the RDSP beneficiary meets the requirements for RDSP contributions. The RDSP beneficiary must be financially dependent on the deceased RRIF annuitant by reason of mental or physical infirmity. Where the transfer takes place, it will reduce the amount of RDSP contribution room available. Additionally, any withdrawals relating to a rollover of RDSP proceeds will be taxable when withdrawn from the RDSP, since the amounts have yet to be subject to tax. Finally, transferred amounts will not attract the Canadian Disability Savings Grant.

For more information, please refer to our *Tax & Estate InfoPage* titled "Registered Disability Savings Plans (RDSPs)."

## Lifelong Learning Plan (LLP) and Home Buyers' Plan (HBP)

Where LLP and HBP balances are left outstanding upon the death of a RRIF annuitant, these balances (less any RRSP contributions made prior to death designated as LLP/HBP repayments) are to be included as income on the deceased's terminal return. Alternatively, the surviving Canadian resident spouse or common-law partner of the deceased annuitant may jointly elect, with the legal representative, to undertake the LLP/HBP repayments on behalf of the deceased. The election is made via a signed letter that is to be included with the deceased's terminal return. In these instances, the spouse or common-law partner of the deceased annuitant is deemed to have participated in the LLP/HBP program and would be responsible for repaying the deceased's outstanding balance. Repayments would be facilitated through the spouse's or common-law partner's own individual RRSP.

For a more detailed discussion on how death affects the deceased annuitants' LLP and HBP balances, please refer to our *Tax & Estate InfoPages* titled "Lifelong Learning Plan and Home Buyers' Plan."

## Non-resident tax treaty rates at a glance

Country/ region	Lump sum from RRSP/ RRIF	PPP from RRIF
Australia	15%	15%
China	25%	25%
France	25%	25%
Germany	25%	15%
Hong Kong	25%	25%
Japan	25%	25%
United Kingdom	25%	Nil
United States	25%	15%

If there is no lower applicable treaty rate, the default 25% rate applies.

## Non-residents

Upon emigrating from Canada and becoming a non-resident, there is a deemed disposition and reacquisition at the fair market value of most capital properties the individual owns. The rule is often referred to as the Canadian "departure tax" rules and may result in a large tax liability. Certain properties are exempted from the departure tax, including property held within an RRSP and RRIF plan. Future withdrawals from a RRIF will be subject to a Canadian non-resident withholding tax levied at a rate of 25% as per the Act. The withholding tax is taken at source and remitted to the CRA on behalf of the non-resident annuitant. A treaty with Canada and the foreign jurisdiction in which the non-resident resides may reduce the withholding tax rate. For RRIF plans specifically, the treaty may allow for "Periodic Pension Payments" (PPPs) and non-PPPs, or lump-sum payments. RRIF payments that fall within the defined PPP thresholds may be subject to a reduced Canadian non-resident withholding tax rate depending on the terms of the treaty. A PPP may not exceed the greater of twice the otherwise calculated RRIF minimum amount for the year and 10% of the fair market value of the RRIF at the beginning of the year. Lump-sum payments from a RRIF (essentially anything that is above the PPP thresholds) are generally subject to the higher Canadian non-resident withholding tax rate as per the Act.

The CRA requires non-residents to submit a duly completed and valid declaration to the financial institution in order to have any reduced treaty rates applied. CRA Form NR301, *Declaration of eligibility for benefits (reduced tax) under a tax treaty for a non-resident person*, is the declaration that is generally requested. If the form is not submitted and taxes are withheld at the general non-resident withholding rate of 25%, it may be possible for the non-resident individual to recoup the excess Canadian non-resident withholding tax by filing CRA Form NR7-R, *Application for Refund of Part XIII Tax Withheld*.

## 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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