

Significant new RRIF implications

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In its Fall 2008 *Economic and Fiscal Statement*, the Federal Government announced a number of plans intended to stabilize the Canadian economy in the face of global financial uncertainty...

RRIF Proposed New Feature

One measure that was announced, provides for a temporary reduction in the minimum withdrawal amount for *Registered Retirement Income Fund (RRIF)* holders.

This tax-deferred retirement plan allows individuals to generate tax-deferred income from their savings. The proposal lowers the minimum withdrawal amount by 25 per cent, offering some relief to seniors. The proposal only applies to 2008.

The proposed rule allows RRIF holders, who withdrew more than their 2008 reduced amount, to recontribute to their RRIF up until March 1, 2009. If the proposal is not enacted by January 30, 2009, then the March 1, 2009 deadline will be extended until 30 days after the proposal finally becomes law.

In essence, the maximum amount that may be recontributed is the difference between the minimum amount for 2008 and the reduced minimum amount. 2008 RRIF withdrawals that are recontributed by the deadline, can be deducted in computing the contributor's 2008 personal tax.

For example

Under the proposed rule, assuming a person's 2008 RRIF minimum withdrawal amount would ordinarily have been \$5,000, the person's 2008 minimum withdrawal amount drops to \$3,750.

If the same individual withdrew the full amount of \$5,000 in 2008, he has until March 1, 2009 (possibly even later depending on when the law is enacted) to recontribute \$1,250 to his RRIF.

If the person recontributes the \$1,250 by the deadline, he would report \$5,000 of the RRIF income on his 2008 tax return; but would also be entitled to a deduction of \$1,250 for the amount recontributed.

Transfers

In late 2008, the government made requests to all federally regulated financial institutions, that attempts be made, to ensure that clients are made aware they can use in-kind assets transfers to meet minimum RRIF withdrawal requirements.

In the past, obstacles such as extra costs levied by financial institutions, coupled with a lack of promotion of the in-kind asset transfers by those same institutions, may have stood in the way of such transfers.

An in-kind asset transfer allows a client to transfer securities out of his RRIF and into a regular (non-registered) investment account. This alternative ensures that the individual will not have to sell assets in order for cash to be withdrawn.

The use of in-kind asset transfers significantly reduces the associated risks of having to sell assets in order to meet the withdrawal requirements. Such transactions are still taxable; however the securities are left intact; thus eliminating the requirement to pay fees for the sale transactions and allowing the person to realize future appreciation on the security. This appreciation might have otherwise been lost due to the forced sale.

For information on how you can take advantage of these new tax-saving measures, please contact the writer.

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