

# RRSPs



Originally Published April 2004 – updated Dec 2008



## Tax-free Rollovers to RRSPs

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Did you know, paying tax on certain types of income may be deferred by transferring qualifying income to an RRSP? The following are examples of situations whereby amounts can be transferred to an RRSP without tax consequences.

**Transfers between RRSP's:** RRSP's can be transferred to your other RRSP's without attracting tax. The funds must be sent directly to the new trustee and not to you otherwise it has to be included in your income for the year. You may wish to transfer your RRSP holdings to another trustee in order to change the type of investments in your portfolio, financial institutions, or simply consolidate your accounts. To ensure that the transfer is made directly from one issuer to another, a Canada Revenue Agency form T2033 "Direct transfer of RRSP" must be completed and sent to the relinquishing institution.

**Retiring allowance rollovers;** Many individuals are entitled to receive a retiring allowance when leaving their current job. A retiring allowance, sometimes called severance pay, is a payment made to an employee in recognition of long service. These payments may result from a job termination or retirement to compensate the employee for the loss of a job. The advantage of having a payment classified as a retiring allowance is that it may be eligible to be transferred to your RRSP without affecting your

RRSP deduction limit and without immediate taxation.

**Transfer as a result of marriage breakdown;** Taxpayers can also have a direct transfer made from their RRSP to another RRSP or to a RRIF owned by the spouse or former spouse. This transfer can take place if: a) the transfer is made following a written separation agreement, or pursuant to a court order; b) the RRSP is being divided to settle the rights of the taxpayer and former spouse as a result of the breakdown of the marriage, and c) the taxpayer and the spouse are living separate and apart.

**RRSP treatment on death;** If an RRSP plan holder dies, the RRSP's can be transferred on a tax-deferred basis. There are three ways to transfer RRSP assets to another registered plan or annuity on death: 1) The fair market value of the deceased's RRSP proceeds can flow directly to the RRSP of the surviving spouse named as beneficiary of the proceeds or through the estate as a bequest under the will, or as part of the spouse's share of the estate. 2) The government now allows RRSP proceeds to be left to *financially dependent* children and/or grandchildren to be taxed in their hands, presumable at a lower tax rate. Recipients may also buy term annuities for a period that does not extend past their 18<sup>th</sup> birthday. 3) A deceased taxpayer's RRSP assets can be left to a *permanently disable* child or grandchild. In this case, there is no 18 year term limitation on the annuity, or the recipient can elect a full tax-deferred transfer into their own RRSP.



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