

# HOW THINGS

BY

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for the credit. Even OAS and CPP do not qualify. On the other hand, one type of income that is eligible for pension credit is the regularly scheduled RRIF income. If, after creating a financial plan for your clients, you find they have no other sources of income that would qualify for the pension credit, then there are two strategies that should be the first order of business for your next review meeting.

The first applies to clients who might be planning withdrawals from their RRSP accounts between ages 65 and 71. In many cases, clients may be under the impression that an RRSP should not be matured until as late as possible since an RRSP allows for additional contributions and does not mandate a forced minimum level of withdrawal. Having more flexibility is indeed a good thing, although it might make more sense to mature only part of the RRSP into a RRIF account, and set up withdrawals on a regular basis in order to qualify for the pension credit, and then save roughly \$400 in taxes per year. After seven years (ages 65 to 71 inclusive), this would amount to the aforementioned \$2,800. Although Canadians are not allowed to have RRSP accounts after they turn 72, there is no reason why your clients cannot simultaneously have both an RRSP and a RRIF account at any time up until they turn 71. As a matter of fact, there's no limit to the number of RRSP or RRIF accounts they can own.

The second strategy to leverage the pension credit applies to

clients who don't plan to make withdrawals from their RRSPs between the ages of 65 and 71, and have at least \$14,000 in unused contribution room, which they know they will never use. They can mature part of their RRSPs into RRIF accounts, set up the systematic RRIF withdrawals of \$2,000 per year to qualify for the maximum credit, and then re-contribute the money right back into the RRSP accounts.

The tax owing on the RRIF income is completely offset by the RRSP contribution. The net effect for this two-step transfer is that they are able to claim pension credits and the resulting \$400 annual tax savings in exchange for burning up RRSP contribution room. If they had no intention of ever using that RRSP contribution room, the strategy amounts to free money. I thought this sounded too good to be true, so I called up the CRA. I was transferred to a senior tax officer, who verified the validity of the strategy.

One caveat: If your platform has registered account annual administration fees you will need to subtract the cost for holding one more account from the annual tax savings. Assuming a \$125 + GST fee, this would reduce the savings over the full seven years from \$2,800 to roughly \$1,881.25.

Once your clients figure out where they'd like to go on their free vacation, don't forget to ask them if you could sponsor any of their friends for the trip. My guess is, these will be among the easiest referrals you ever get. **AE BANERJEE**

## MATURE AT 65

RRIF those RRSPs early and let clients enjoy pension credit.

**Question:** What's better than being able to call some of your clients and offering to send them on a seven-night, all-inclusive vacation for two as a retirement gift?

**Answer:** Figuring out who will foot the bill.

While conventional planning assumes many clients should delay maturing their RRSPs into RRIFs until the year they turn 71, there is an approximate \$2,800 incentive to accelerating the process for a portion of their nest eggs, thanks in part to the increase in pension credit from \$1,000 to \$2,000. Depending on which province you're in, \$2,000 of the income that qualifies for pension credit translates into net savings of roughly \$400 in your client's pocket.

The pension credit, however, is only available starting the year a client turns 65. And it is important to note that unless income from an RRSP is in the form of an annuity payment (this would show up on box 16 of a T4RSP slip), withdrawals from the client's RRSP account will not qualify