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Registered Plans under the Income Tax Act

The following is a summary of the main Registered Plans under the Income Tax Act (Canada) (ITA).

Registered Retirement Savings Plan (RRSP):

A RRSP is a retirement savings plan that an individual sets up, to which he, his spouse or common-law partner contribute. Any income earned in the RRSP (interest, dividends, capital gains or losses) is usually exempt from tax as long as the funds remain in the plan; tax is generally payable when payments are received from the plan (taxed as ordinary income). A RRSP can be used to finance a home, for education or simply for tax deferral until retirement. Contributions to an RRSP are deductible for any given year if they are contributed in the year or within 60 days after the year-end. Contributions are limited to $22,970 in 2012; 18% of your previous year's "earned income"; any "pension adjustment"; and in some situations by a past service pension adjustment (PSPA). On death, the individual is normally taxed on the entire amount of the RRSP, unless rolled over to his spouse or minor or dependent child.

Self-directed RRSP:

A self-directed RRSP provides hands-on control over RRSP investments. It is set up through a financial services institution and is typically subject to annual fees. Investment restrictions are applicable. A transfer of investments to an RRSP can trigger a capital gain (a capital loss is not available). Tax implications are the same as an RRSP.

Registered Retirement Income Fund (RRIF):

Upon the age of 71, individual RRSPs must be transferred to a RRIF. A RRIF allows an individual to receive an annual minimum income until the earlier of his death or the exhaustion of the RRIF. It can be set up at any time. Property is typically transferred from an RRSP, a Registered Pension Plan (RPP), or another RRIF. Income growth is tax-free, but no new tax-deductible contributions can be made. Minimum annual withdrawals are mandatory (except in the first year) and are based on the individual's age. An individual may also choose to base the RRIF payout on his/her spouse's age if younger. There is no maximum withdrawal amount. Withdrawals are eligible for the $2,000 pension income tax credit. Once the individual reaches the age of 65, withdrawals are also eligible for pension splitting with a spouse or common law partner.

The Sales, Tax, Estate Planning, Underwriting & Product (STEPUP) team provides broker support, including seminar education, advanced concept illustrations & Client case consultations.

Marilyn deRooy is a member of STEPUP. She focuses on legal, tax & estate planning concepts, and guidance for related product strategies.

Ready to discuss estate planning and client wealth strategies that matter to you and to your clients, please contact your Account Manager

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Registered Pension Plan (RPP):

A RPP is set up by an employer for its employees, to provide a pension upon retirement. Funds are contributed by an employer, or by both the employer and employee. Employer contributions are tax deductible for the employer and are not a taxable benefit to the employee. Employee contributions are tax deductible for the employee. Pension income is taxable as ordinary income when received by the employee. Income is eligible for the $2,000 pension income tax credit and for income splitting with a spouse or common law partner.

There are two kinds of RPPs:

- money-purchase plan, which is analogous to a RRSP, where the amount of the pension payment is determined by the contributions and the investment growth. Contributions for current services are the lesser of 18% of earned income and the contribution limit to a RPP for the year
- A defined benefit plan provides a defined pension amount upon retirement. Contribution amounts for current service are required to ensure the terms of the pension are funded. They are based on actuarial calculations. Past service contributions may also apply.

Individual Pension Plan (IPP):

An IPP is a registered defined benefit pension plan, designed for a single participant. It generally allows higher contribution amounts than those permitted under an RRSP. The benefit payable at retirement is specified and IPP contributions are made accordingly. Typically a past service contribution is made at time of set up. At retirement, benefits may be paid directly from the plan or transferred to an Individual Retirement Plan. Starting in 2012, annual minimum withdrawals from an IPP are required, similar to a RRIF, once the plan member reaches the age of 72.

Deferred Profit Sharing Plan (DPSP):

A DPSP is a plan, which allows the employer to deduct contributions made for the benefit of its employees based on criteria specific to each plan (current or accrued profits). The employer can contribute up to 18% of the salary paid to the employee without exceeding the limit for the year. Contributions by the employee are not allowable. Contributions reduce the amount you can contribute to an RRSP. Normally at retirement, amounts contributed are taxed as regular income in the employee's hands when received.

Tax-Free Savings Account (TFSA):

Canadian resident individuals over 18 may open a TFSA and contribute up to $5,000 each year (indexed annually) into the plan. The contribution is not deductible from the individual's income, but any income earned, or funds withdrawn, are not taxable. Excess contributions or withdrawals re-contributed to the plan the same year, are subject to a 1% monthly penalty tax. No deduction may be claimed for interest paid on money borrowed for a TFSA contribution.

Home Buyer's Plan (HBP):

A HBP allows an individual and his/her spouse or common-law partner to withdraw up to $25,000 tax-free from their RRSP to purchase their first home if specific conditions are met. Repayment to their RRSP must be made over a 15-year period beginning in the second year following the year of withdrawal.

Lifelong Learning Plan (LLP):

This plan allows an individual and his/her spouse or common-law partner to withdraw up to $10,000 tax-free per year with a maximum of $20,000 over a four-year period from their RRSP to finance their full-time education provided certain conditions are met. Repayment to their RRSP is over a 10-year period.

Registered Education Savings Plan (RESP):

This plan helps an individual build an education fund for his child or grandchild by allowing tax-deferred investment growth. Contributions (up to the child's age of 31) are not tax-deductible to the contributor, but the income in the plan grows tax-free (a maximum of 35 years). When the child withdraws the funds, the income portion is taxable to the child and any capital withdrawal is tax-free. The lifetime contribution limit is $50,000 per child beneficiary.

Registered Disability Savings Plan (RDSP):

This plan helps an individual save for the long-term security of a disabled child. The RDSP assets are exempt as an asset and income when determining a person's eligibility for provincial disability benefits. Any individual that is eligible for the Disability Tax Credit may establish an RDSP. Contributions are permitted by the individual, a family member/ or friends and may be eligible for a government Grant or Bond. Contributions are not tax-deductible, but funds are invested tax-free until withdrawal. There are no restrictions on when the funds can be used or for what purpose, but any Grant or Bond received within 10 years must be repaid. Upon withdrawal, the growth, the Grant and the Bond are taxed in the hands of the beneficiary, typically at a much lower tax rate. Contributions are capped at a lifetime maximum of $200,000 (no annual limit) and can be made until the beneficiary turns age 59. The beneficiary must begin receiving payments from the plan by the end of the year he/she turns 60, subject to annual limits based on life expectancy, his age and the value of the plan's assets.

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