TAXATION OF REGISTERED PLANS

Become more tax savvy with Canada's tax-smart registered plans

Whether you're just starting your career or approaching retirement, it's always a wise decision to stay up-to-date on some of Canada's best tax breaks — RRSPs and other registered plans.

Become more tax savvy and take advantage of every tax-saving strategy available to you. A good start? Below, check out the main registered plans under Canada's Income Tax Act — for ways you can save on your taxes pre-retirement, post-retirement and at death.

Registered Retirement Savings Plan (RRSP)

An RRSP is a retirement savings plan that you, as an individual, can set up. You, your spouse or common-law partner can contribute to it. Contributions are limited to $22,970 in 2012 and $23,820 in 2013, 18% of your previous year's "earned income," any "pension adjustment" and, in some situations, by a past service pension adjustment. Any income earned in the RRSP (interest, dividends, capital gains or losses) is usually exempt from tax as long as you keep your funds in the plan. Tax is generally payable when payments are received from the plan (taxed as ordinary income). Contributions to an RRSP are deductible for any given year if made during the year or within 60 days after the year-end. At death, you are normally taxed on the entire amount of the RRSP, unless your RRSP is rolled over to your spouse or minor or dependent child. You can use an RRSP to finance a home, for education or simply as a tax deferral until retirement.

The following plans are available to help you finance your home or education:

- Home Buyer's Plan (HBP) - A HBP allows you and your spouse or common-law partner to withdraw up to $25,000 tax-free from your RRSP to purchase your first home, if you meet specific conditions. Repayment to your 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 you and your spouse or common-law partner to withdraw up to $10,000 tax-free per year, up to $20,000 over a four-year period, from your RRSP to finance your full-time education, provided certain conditions are met. Repayment to your RRSP is over a 10-year period, starting 60 days after the fifth year following the first withdrawal at the latest.

Registered Retirement Income Fund (RRIF)

Upon the age of 71, your RRSP must be transferred to a RRIF. A RRIF allows you to receive an annual minimum income until the earlier of your death or the exhaustion of your RRIF. You do not need to wait until 71 to set up your RRIF — it can be set up at any time. Property is typically transferred from an RRSP, RPP or another RRIF. Income

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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 your age. You may also choose to base the RRIF payout on your spouse's age, if younger. There is no maximum withdrawal amount. Withdrawals are eligible for the $2,000 pension income tax credit. Once you reach the age of 65, withdrawals are also eligible for pension splitting with your spouse or common-law partner.

Registered Pension Plan (RPP)

A RPP is set up by an employer for his or her 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. As an employee, your contributions are tax deductible. Pension income is taxable as ordinary income when received by you. Income is eligible for the $2,000 pension income tax credit and income splitting with your spouse or common-law partner.

There are two kinds of RPPs:

- A 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 pensionable earnings 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 you to contribute higher amounts than an RRSP. The benefit payable at retirement is specified and IPP contributions are made accordingly. Typically, a past service contribution is made at the set-up stage. 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 you, as a plan member, reach 72.

Deferred Profit Sharing Plan (DPSP)

A DPSP is a plan that 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 you, as an employee, are not allowable. Contributions reduce the amount you can contribute to your RRSP. At retirement, the payments you receive are taxed as regular income.

Tax-Free Savings Account (TFSA)

As a Canadian resident over 18, you may open a TFSA and contribute up to $5,500 each year starting in 2013, (up from $5,000 previously, indexed in $500 increments) into the account. The contribution is not deductible from your income, but any income earned, or funds withdrawn, are not taxable. Excess contributions or withdrawals re-contributed to the account 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.

Registered Education Savings Plan (RESP)

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

Registered Disability Savings Plan (RDSP)

This plan helps you (as the contributor) save for the long-term security of your disabled child (as the named beneficiary). The RDSP assets are exempt as an asset and income when determining your child's eligibility for provincial disability benefits. If your child is eligible for the Disability Tax Credit, he or she may establish an RDSP. Contributions are permitted by you, 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 withdrawn. There are no restrictions on when and how the funds can be used, but any Grant or Bond received within 10 years must be repaid. Upon withdrawal, the growth, Grant and Bond are taxed in the hands of your child (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 he/she turns 59. Your child 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/her age and the value of the plan's assets.

Bottom line: A little tax and estate planning can go a long way toward reducing your taxes throughout your life and at death.

Want to learn more?

Your advisor can talk to Empire Life's tax and estate planning professionals about your specific financial situation.