

THE NAVIGATOR

RRSP STRATEGIES AT AGE 71

Even though you must wind-up your RRSP in the year you turn 71, this does not necessarily mean that you will no longer be able to benefit from RRSP deductions! The following strategies can be used even after age 71, as long as you still have RRSP contribution room.

THE 'FORGOTTEN RRSP CONTRIBUTION' WHEN YOU'RE STILL EARNING INCOME AT AGE 71

In the year you turn age 71, there is a strict December 31 deadline to wind up your RRSP and choose an RRSP maturity option. You will not be able to make any further contributions to your individual RRSP after this date.*

RRSP contribution room is based on your previous year's income, which creates an unusual situation in the year you turn 71. Based on your earnings in the year you turned 71, you may have created RRSP contribution room but after the age of 71 you will no longer have your RRSP to contribute to.

This is where the 'forgotten RRSP contribution' comes in! Just before the December 31 deadline, you can make an RRSP contribution based on your earned income for the year. If you have already made the maximum contribution for the

current year, the CRA will consider the December contribution to be an extra contribution that is subject to the over-contribution penalty of 1% of the extra amount per month.

For example, if you have not used up your allowed \$2,000 lifetime over-contribution amount and you make the maximum RRSP contribution, based on your contribution limit, for next year, you will be assessed a small, one month penalty of 1% on the overcontributed amount, above the \$2,000 allowed.

For example: If your RRSP contribution limit next year was \$20,000 you would have a penalty of \$180, $(\$20,000 - \$2,000) \times 1\%$.

In January of next year, the extra RRSP contribution will no longer be considered an over-contribution because, on January 1, of next year, new contribution room will be realized based on your earned income from

this year. This means that the penalty will only apply for one month, and for next year, you will get an additional tax deduction for the RRSP contribution that otherwise would have been forgotten. It is likely that the taxes saved by deducting the contribution on your tax return will far outweigh the one month penalty.

To summarize these issues, if you turn 71 this year, you must choose an RRSP maturity option by December 31, of this year. As long as you have earned income this year, you can make the forgotten RRSP contribution in December pay a small penalty tax and claim the RRSP deduction on next year's income tax return.

YOU'RE 71 OR OLDER BUT HAVE A YOUNGER SPOUSE

You must choose an RRSP maturity option (such as a RRIF or annuity) or deregister your RRSPs by the end of the year in which you turn 71.

* If you are not familiar with the three ways you can wind up your RRSP, ask your RBC advisor for a copy of our article 'RRSP Maturity Options'.



Please contact us for more information about the topics discussed in this article.

Even though you can no longer hold an RRSP in your own name after this time, you can make an RRSP contribution to a spousal RRSP in future years as long as your spouse is 71 or younger at year end.

Even though you are over 71, you can still make a contribution to a spousal RRSP if you have RRSP contribution room resulting from either carryforward room or earned income from the year. You can be 71 or older, earning income and therefore still generating new RRSP contribution room. You can claim the tax deduction for the contribution when you file your tax return.

USING UP YOUR EXISTING RRSP ROOM

If you have accumulated unused RRSP room and have not contributed to your RRSP because you are in a low tax bracket, consider using up your RRSP

room by making a contribution in the year you turn 71 years old.

However, you must do so by December 31st, not in the first 60 days of the following year as you may have done in the past.

You do not have to deduct the amount you contribute this year. You may want to deduct this contribution in a future year when your income is higher as a result of receiving RRIF, pension, or annuity payments. You can use RRSP deductions to offset any kind of income.

USING UP YOUR \$2,000 OVER-CONTRIBUTION WHEN YOU'RE 71

If you over-contributed to your RRSP by \$2,000 in a past year, you are allowed this over-contribution and it will not trigger the 1% over-contribution penalty. You can deduct this over-contribution from your income now by using up your RRSP contribution room.

For example, if your RRSP contribution room is \$15,000 in the year you turn 71 and you over-contributed to your RRSP by \$2,000 in a prior year, then you could contribute \$13,000 to your RRSP and deduct \$15,000. This will ensure you deduct the \$2,000, which eliminates the possibility of double taxation.

If you do not deduct the \$2,000 from your income, then that amount will be subject to double taxation: once going into the RRSP (as you did not deduct it, you are paying tax on this amount) and a second time when you withdraw it from your RRSP or RRIF.

If you have any questions or require clarification on any of the issues discussed in this document, please feel free to discuss these with your RBC advisor.