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 overcontribution 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 overcontibuted 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) x 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'.



RBC Wealth Management

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.

This document has been prepared for use by the RBC Wealth Management member companies, RBC Dominion Securities Inc. (RBC DS)*, RBC Phillips, Hager & North Investment Counsel Inc. (RBC PH&N IC), RBC Global Asset Management Inc. (RBC GAM), Royal Trust Corporation of Canada and The Royal Trust Company (collectively, the "Companies") and their affiliates, RBC Direct Investing Inc. (RBC DI) *, RBC Wealth Management Financial Services Inc. (RBC WM FS) and Royal Mutual Funds Inc. (RMFI). Each of the Companies, their affiliates and the Royal Bank of Canada are separate corporate entities which are affiliated. *Members-Canadian Investor Protection Fund. "RBC advisor" refers to Private Bankers who are employees of Royal Bank of Canada and mutual fund representatives of RMFI, Investment Counsellors who are employees of RBC PH&N IC and the private client division of RBC GAM, Senior Trust Advisors and Trust Officers who are employees of The Royal Trust Company or Royal Trust Corporation of Canada, or Investment Advisors who are employees of RBC DS. In Quebec, financial planning services are provided by RMFI or RBC WM FS and each is licensed as a financial services firm in that province. In the rest of Canada, financial planning services are available through RMFI, Royal Trust Corporation of Canada, The Royal Trust Company, or RBC DS. Estate & Trust Services are provided by Royal Trust Corporation of Canada and The Royal Trust Company. If specific products or services are not offered by one of the Companies or RMFI, clients may request a referral to another RBC partner. Insurance products are offered through RBC WM FS, a subsidiary of RBC DS. When providing life insurance products in all provinces except Quebec, Investment Advisors are acting as Insurance Representatives of RBC WM FS. In Quebec, Investment Advisors are acting as Financial Security Advisors of RBC WM FS. The strategies, advice and technical content in this publication are provided for the general guidance and benefit of our clients, based on information believed to be accurate and complete, but we cannot guarantee its accuracy or completeness. This publication is not intended as nor does it constitute tax or legal advice. Readers should consult a qualified legal, tax or other professional advisor when planning to implement a strategy. This will ensure that their individual circumstances have been considered properly and that action is taken on the latest available information. Interest rates, market conditions, tax rules, and other investment factors are subject to change. This information is not investment advice and should only be used in conjunction with a discussion with your RBC advisor. None of the Companies, RMFI, RBC WM FS, RBC DI, Royal Bank of Canada or any of its affiliates or any other person accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. ® Registered trademarks of Royal Bank of Canada. Used under license. © 2014 Royal Bank of Canada. All rights reserved. NAV0023-EN (04/2014)