CIBC

Ten RRSP hacks

November 2024

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An RRSP allows you to set aside a portion of your income for retirement, deferring tax on both the funds initially contributed as well as on any earnings on the invested funds until the time of withdrawal (or death). Here are 10 RRSP hacks that may help you reap the full benefits of your RRSP contributions.

1. Forget the RRSP altogether

For many Canadians attempting to save for retirement, a Tax Free Savings Account (TFSA) may be the better option. Canadian residents who are at least 18 years old are permitted to open a TFSA, provided they have a social insurance number. The amount you can contribute to a TFSA is based on your "TFSA contribution room." Canadians who were at least 18 in 2009 and have not yet opened up a TFSA can immediately contribute $95,000 in 2024 ($102,000 in 2025) to a TFSA[1].

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[1] Consisting of the accumulated TFSA dollar limits for each year since 2009. The TFSA dollar limits are $5,000 each of 2009 through 2012, $5,500 for 2013 and 2014, $10,000 for 2015, $5,500 for 2016 through 2018, $6,000 for 2019 through 2022, $6,500 for 2023, and $7,000 for 2024 and 2025.

Our report, The RRSP, the TFSA and the Mortgage, describes some of the factors to be considered when choosing, given limited funds, whether to make a contribution to an RRSP or TFSA, or to pay down your mortgage.

If you anticipate that you will be in a lower tax bracket in your retirement years, investing in an RRSP may be preferable to a TFSA. You might even consider withdrawing funds on a tax-free basis from your TFSA and contributing the proceeds to your RRSP. You could then re-contribute the amount to your TFSA in a later year once your RRSP contributions are maximized and additional cash becomes available.

If you're currently making accelerated payments on your mortgage or other debt, consider whether making RRSP contributions might be a better use of your cash. RRSPs may be a better option than paying down debt when the rate of return on RRSP investments is expected to be greater than the rate of interest on debt. Additional information is available in the report referenced above, as well as in the report Mortgages or Margaritas: Is paying down debt putting your retirement at risk?

2. It's never too early to start an RRSP

For kids under 18 who earn money through part-time or summer jobs, it may be worthwhile to file a tax return to report earned income to the Canada Revenue Agency (CRA), creating RRSP contribution room. The child can then choose to either make an RRSP contribution with their earnings or, at the very least, build up that RRSP contribution room for use in a future year, perhaps waiting until income becomes taxable.

3. Use an RRSP to buy your first home

The Home Buyers' Plan (HBP) allows you to withdraw up to $60,000 from your RRSP to purchase or construct a new home. Your spouse or partner spouse or partner[2] may also be able to withdraw $60,000, for a combined total of $120,000. You generally will not qualify for an HBP withdrawal if either you or your spouse or partner has owned a home in the past 5 years and occupied it as a principal residence. You can also participate in the HBP if you are not a first-time home buyer, provided you were living separate and apart from your spouse or partner for at least 90 days as a result of a breakdown in your marriage or partnership.

Amounts withdrawn under the HBP must be repaid over a maximum of 15 years or the amount not repaid in a year is added to your income for that year. For withdrawals made under the HBP between January 1, 2022, and December 31, 2025, repayments must begin in the fifth year after the year of withdrawal; otherwise, repayments must begin in the second year after withdrawal. Since it may be over 20 years before you are required to fully repay funds under the HBP, this could have a serious impact on your retirement savings, if you otherwise weren't saving. It, therefore, generally makes sense to repay the borrowed funds as soon as possible.

There are no penalties for returning HBP funds to an RRSP before the required repayment date, so early repayment allows you to continue to maximize the tax benefits from investing within an RRSP as soon as possible.

4. Use an RRSP to go back to school

Under the Lifelong Learning Plan (LLP), you can withdraw up to $10,000 per year, or $20,000 in total, to finance full-time education for you or your spouse or partner. If both you and your spouse or partner withdraw funds, a total of $40,000 would be available over 2 years. To qualify, the student must have been enrolled or received a written offer to enroll in a qualifying educational institution. Most Canadian universities and colleges and many foreign educational institutions will qualify. You must repay amounts withdrawn under an LLP over a 10-year period, starting 5 years after the first withdrawal or 2 years after ceasing studies, whichever is earlier.

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[2] In this report, spouse refers to someone to whom you are legally married. Partner refers to a common-law partner under the *Income Tax Act*, which means someone who cohabits with you in a conjugal relationship, provided the two of you have cohabited for the past 12 months or are jointly parents of a child.

Just like with the HBP, until funds are repaid into the RRSP, you would forfeit any potential growth on the withdrawn funds. Since there are no penalties for returning LLP funds to an RRSP before the required repayment dates, early repayment allows you to continue to maximize the tax benefits from investing within an RRSP as soon as possible.

5. Use an RRSP to hold your mortgage

You may also borrow funds from your RRSP by using Canadian real estate, such as your home, as security for the loan. If the borrowed funds are not needed to actually fund the real estate purchase (such as if you already have fully paid for your home), the funds can then be used for any purpose, for instance funding personal expenses, starting a business, or making non-registered investments. If the funds are used to earn income from a business or property, you may also be able to claim a personal tax deduction for the interest that you pay.

When you use the funds in your RRSP to invest in a mortgage on Canadian real estate, there are strict rules in place if you, or someone related to you, own(s) the property being mortgaged (such as your own home). Such a mortgage, known as a “non-arm’s length mortgage,” must be administered by an approved lender under the *National Housing Act*. The interest rate and other terms and conditions must reflect normal commercial practices. Finally, there must be private or Canada Mortgage and Housing Corporation mortgage insurance.

Of course, the advantage of investing in a mortgage through your RRSP should be weighed against the costs and risks involved. In addition to the typical one-time mortgage expenses, most approved lenders charge a mortgage administration fee each year. But by far the biggest upfront cost is the mortgage-insurance premium, which can typically range from 0.6% to 4.0% of the amount of the mortgage.[3]

When you use your RRSP funds to invest in your own mortgage, your repayments are restricted under the terms of the mortgage. For example, if you have a 5-year fixed mortgage, you may face penalties if you were to repay the full balance before the 5-year term has elapsed; however, it may be possible to establish prepayment options that allow increased repayment to your RRSP without penalties, such as “doubling-up” on regular mortgage payments and/or repaying an additional 20% of principal annually.

This is an advanced strategy and consultation with your financial, tax and legal advisors is essential before using RRSP funds to invest in a mortgage.

6. Consider pension income splitting

Pension income splitting is the ability to split up to half of your pension income with your spouse or partner. Any pension income that qualifies for the $2,000 federal pension income credit also qualifies to be split. Specifically, this would include annuity-type payments from a Registered Pension Plan (RPP), regardless of age, and also includes Registered Retirement Income Fund (RRIF) or Life Income Fund withdrawals upon reaching age 65.[4] It does not, however, include RRSP withdrawals.

If you are at least 65 years of age and are married or living in a common-law relationship, you may want to consider converting a portion of your RRSP to a RRIF (if you don’t already have a RRIF) so that you can benefit from pension splitting. Any withdrawals from a RRIF, whether minimum withdrawals or other amounts, would qualify for pension splitting once you are 65.

Splitting pension income may have benefits beyond the taxes that are saved by having pension income taxed at a spouse’s or partner’s lower tax rate. Pension splitting also has the ability to affect credits and benefits that are solely based on one spouse's or partner’s net income. For example, the federal age amount is worth about $1,320 in 2024 ($1,350 in 2025) but is phased out with income between over about $44,300 in 2024 ($45,500 in 2025). Provincial credits for pension income are also available.

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3 The premium on an increase to the loan amount for portability ranges from 0.6% to 6.3% of the amount of the mortgage.

4 In Quebec, the income recipient must be at least age 65 for pension splitting with all types of income.

In the fourth quarter of 2024, the maximum OAS pension that you may receive starting at age 65 is $727.67 monthly (about $8,700 annually) if you are under age 75 and $800.44 monthly (about $9,600 annually) if you are at least age 75.[5] You must repay (or will not receive) some of your pension due to the OAS pension recovery tax, sometimes rereferred to as "clawback,"[6] which decreases your pension at a rate of 15% once your taxable income exceeds $90,997 in 2024. You will not be entitled to any OAS pension if your taxable income exceeds $148,451 ($154,196 if you are at least age 75).[7] If pension splitting allows you to lower your net income, you may be able to preserve some (or all) of the benefits.

7. Contribute to a spousal or partner RRSP

If you think that, upon retirement, you will have higher income or will have accumulated more retirement assets than your spouse or partner, it may be beneficial to contribute to a spousal or partner RRSP. This strategy is often used to accomplish post-retirement income splitting since withdrawn funds are usually taxed in one spouse's or partner's (the annuitant's) hands instead of the other's (the contributor's). If the annuitant is in a lower tax bracket than the contributor in the year of withdrawal, there may be an absolute and permanent tax savings.[8]

But are spousal or partner RRSPs still relevant given the ability to income split RRIF income, as discussed above?

The pension splitting rules do not make spousal or partner RRSPs irrelevant. First of all, spousal or partner RRSPs allow an individual to split more than 50% of pension income. With a spousal or partner RRSP, one could theoretically "split" up to 100% of RRSP (RRIF) income with a lower-income spouse or partner.

Secondly, primarily due to the definition of pension income, as described earlier, if an individual is under 65, eligible pension income typically only includes annuity payments from an RPP and will not generally include amounts paid from an RRSP or RRIF. So anyone who wants to income split before age 65 and does not have an RPP should still consider the use of spousal or partner RRSP contributions, which may allow the ultimate withdrawals to be taxed in a lower-income spouse's or partner's hands without having to wait until age 65.

8. Divide an RRSP upon separation or divorce

Upon separation or divorce, amounts may be transferred on a tax-deferred basis from the RRSP of one spouse or partner to the other, provided there is a court order or written separation agreement that implements a division of property in settlement of their rights arising from the breakdown. This "rollover" is not available to fulfil support obligations.

If you are the beneficiary of a spousal or partner RRSP to which your spouse or partner contributed, your plan issuer may remove your spouse's or partner's information from your plan if:

- The RRSP issuer has proof that you and your spouse or partner are living apart because your marriage or partnership has broken down,
- Your spouse or partner has not made contributions to any spousal or partner RRSPs for you for the year and the 2 previous years, and
- You have not taken withdrawals from your spousal or partner RRSP during the year.

Afterwards, the property in your spousal or partner RRSP can be combined with any other RRSPs you own, with the added benefit of possible savings on annual RRSP administration fees (generally charged per account).

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5 More information about Statistics related to the Old Age Security Program and the Canada Pension Plan is available at canada.ca/en/employment-social-development/programs/pensions/pension.html.

6 Additional information on the OAS Pension Recovery Tax can be found online at canada.ca/en/services/benefits/publicpensions/cpp/old-age-security/recovery-tax.html.

7 This is the maximum threshold based on the OAS pension for the first quarter of 2023. OAS benefits are indexed quarterly.

8 The contributor may be liable for tax if the annuitant withdraws funds within 2 years of a contribution.

When dividing up an RRSP, the tax to be paid on the ultimate withdrawal should also be considered. For example, suppose Alexi and Katerina are divorcing and have RRSPs with a total fair market value of $100,000, with $80,000 in Alexi's RRSP and $20,000 in Katerina's. If Alexi is expected to have a marginal tax rate of 40% upon withdrawal while Katerina's marginal tax rate is expected to be 20%, for both Alexi and Katerina to receive the same amount after tax, Alexi would need to have RRSPs worth $57,143 and Katerina would need to have RRSPs worth $42,857,[9] as shown in Figure 1.

Figure 1 — Division of RRSPs to yield equal amounts for each spouse or partner after tax

Description	Alexi: 40% tax rate	Katerina: 20% tax rate	Combined
Balance before division	80,000	20,000	100,000
Tax-deferred transfer	(22,857)	22,857	0
Balance after division	57,143	42,857	100,000
Tax on withdrawal	(22,857)	(8,571)	(31,428)
After-tax amount	**34,286**	**34,286**	**68,572**

If there is a significant difference in the spouses' or partners' marginal tax rates, it may be preferable to transfer tax-deferred assets to the lower-taxed spouse or partner and tax-paid assets to the higher-taxed spouse or partner.

9. Designate an RRSP beneficiary

A beneficiary of an RRSP is the person who receives the property in your RRSP after you die. A beneficiary can either be designated in your will or designated on the RRSP itself (except for non-insurance plans in Quebec). Specific rules may also apply to locked-in plans. If there is a valid beneficiary designation, then the property in the RRSP is not considered to be part of your estate, which may help to avoid provincial estate administration taxes (where applicable). Also, if there is a designated beneficiary on the RRSP, creditors, other than the CRA, generally cannot make a claim against your RRSP property for debts that were owed by you.

For tax purposes, the fair market value of the property in your RRSP is fully taxable on the date of death. This means that amount must be included in your income; however, your estate representative may be able to claim a deduction if certain individuals receive the RRSP proceeds.

If your spouse or partner, or your child or grandchild who was dependent on you because of a physical or mental infirmity, receives the proceeds of your RRSP, then a "rollover" is possible. If certain steps are taken, including if beneficiaries transfer the amount received to certain registered plans (such as an RRSP or a RRIF) in their names, the beneficiaries can defer tax until they withdraw from their plans. Further, the rollover does not reduce the amount of contribution room otherwise available to the beneficiaries. Your minor dependent child or grandchild (who does not have a physical or mental infirmity) is also eligible for the rollover, but only for the purchase of an annuity to age 18.

10. Leave your RRSP to charity

RRSP property can be donated to a charity when you die. The charity can either be designated as a beneficiary in your RRSP documentation [10] or named as a beneficiary in your will.

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9 The percentage to be received by each individual is calculated using the following formula: (1 minus the spouse's or partner's marginal tax rate) divided by [(1 minus the spouse's or partner's marginal tax rate) plus (1 minus individual's marginal tax rate)].

10 Except for non-insurance plans in Quebec.

Remember, the basic rule is that you will have an income inclusion of the fair market value of the RRSP property at the time of your death. Your estate will also be taxable on income earned on the RRSP property after your death. But, if the RRSP is designated to charity or the proceeds are bequeathed to charity, a donation tax credit may be claimed. It is treated as a donation by the estate in the year that the donation is actually made. So long as it is made within 36 months after death, the donation can be claimed on your final personal tax return, or by your estate.[11] In many cases, the amount of the donation tax credit from the donation will offset the taxes on the income included from the RRSP.

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[11] For graduated rate estates, the time period is extended from 36 to 60 months.