

# Change in RRSP rules

On Nov. 21, 1985, the federal department of finance issued a press release regarding the status of RRSP regulation changes which had been proposed in the May 23rd federal budget.

The decision announced at that time was that, with one exception, all RRSP proposals put forth in the budget would be deferred until 1987. The only regulation change to be implemented for the 1986 tax year was the increase from a yearly maximum of \$5,500 to \$7,500 of contribution limits for individuals who do not belong to a pension plan or deferred profit sharing plan of any type.

For the 1986 tax year, RRSP contribution limits remain unchanged. That is, the allowable contribution limits are the lesser of:

1. 20 per cent of earned income;
2. \$5,500 if you are not a member of a registered pension plan;
3. \$3,500 if you are a member of a registered pension plan. However, your contribution maximum must be reduced by the amount of your personal contribution to that pension plan.

This abrupt change in the timetable for RRSP regulation changes has caused a great deal of confusion among the investing public. To clarify the situation, in brief, the present status of the most discussed proposals is as follows:

- the maximum allowable contribution levels for individuals who are members of pension plans or deferred profit sharing plans will remain unchanged for 1986;
- the maximum allowable contribution levels for individuals who are not members of pension plans or deferred profit sharing plans will increase from \$5,500 to \$7,500 for the 1986 tax year;
- the provision to carry forward unused RRSP contributions will not commence in 1986;
- there will be no change in the definition of earned income for RRSP purposes for 1986. Specifically, this means that the proposal to exclude rental in-

come and pension income from the definition has been deferred;

□ the allowable RRSP contribution for those who do not qualify for the maximum will continue to be calculated as 20 per cent of earned income for the 1986 tax year rather than 18 per cent as proposed;

□ the current age 60 minimum for the maturation of RRSPs will remain in effect during 1986. That is, 60 will remain the minimum age at which you will be able to utilize your RRSP funds to purchase an annuity to provide retirement income;

□ no mention was made of the status of the proposed change which, starting in 1990, would limit pension rollovers to normal allowable RRSP contribution limits.

Because the proposals will be the subject of a great deal of further debate during the coming year, it is likely that some significant changes will be made before they are passed into law. To en-

sure that you keep your RRSP investment strategy as current as possible, it is strongly recommended that your fol-

low the debate and keep abreast of the regulation changes as they are finalized.

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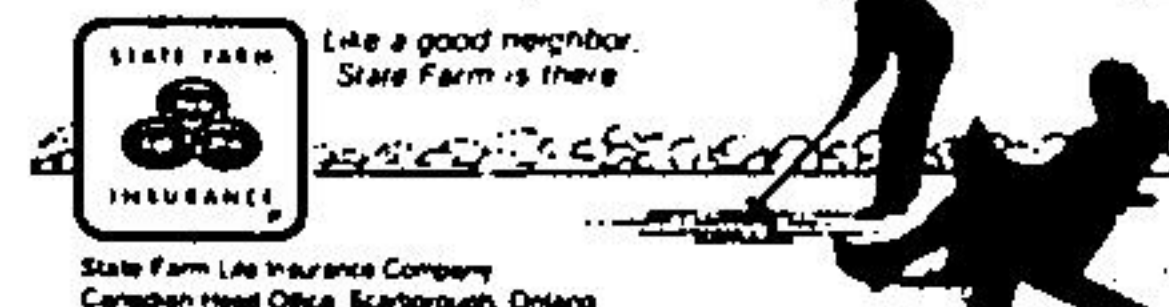


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