FINANCIAL MATTERS

Spousal and common-law partner RRSPs leverage the power of two

(NC)—Canadian couples can make a significant difference to their tax bills and save more money for retirement by investing in a spousal or common-law partner Registered Retirement Savings Plan (RRSP).

The recently amended Income Tax Act now recognizes both married couples and common-law partners and provides benefits for both through a spousal or common-law partner RRSP. This allows the higher-income partner to contribute to an RRSP owned by the lower-income partner, helping to equalize retirement assets and reduce the retirement income gap. This is most advantageous for couples earning different incomes, whereby one partner may be earning much less than the other.

The primary reason for establishing a spousal or common-law partner RRSP is to allow for income splitting at retirement. Sharing or splitting some of these retirement savings means that when the funds are withdrawn from the plan at retirement, the funds are taxed at the rate of the lower-income spouse or common-law partner. This can reduce the couple's taxes at retirement because they will likely pay less tax by withdrawing the same amount of income from two smaller retirement pools than from one larger one.

For example, if one partner expects to have $68,000 in pre-tax RRSP-generated income at retirement, taxes would be about $22,440 at the marginal tax rate of 33 per cent*. But if the couple receives $34,000 each instead, taxes would only be about $8,500 each, saving them more than $5,000.

"A spousal or common-law partner RRSP effectively allows a couple to engage in income-splitting upon retirement," says Judy Thomson of BMO Mutual Funds. "This strategy can pay off in the long-term by saving you and your partner thousands of dollars in taxes."

Spousal or common-law partner RRSPs can have other benefits as well, especially if the couple differs in age. For example, if a husband is older, he will obviously reach the maximum age limit for RRSP contributions before his wife. However, he can still take advantage of any unused RRSP deduction room by contributing to a spousal RRSP. The husband's taxable income is then reduced by the amount contributed annually, tax-sheltering the savings and accrued income until his wife turns 69.

An investment professional at your local bank branch can review the benefits of a spousal or common-law partner RRSP and explain how this investment vehicle relates to your next tax return.

*Based on a personal marginal tax rate in Ontario for 2004.

Information provided by BMO Retail Investments. For more information visit your nearest BMO Bank of Montreal branch or log on to www.bmo.com/investments.

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