

Money Talk

RRSP Special Report: *Facts about your RRSP*

Once again, it is RRSP season. The time where we all scramble to make last year's RRSP contributions to get the tax deduction. However, making RRSP contributions is not just about reducing taxation, it is about planning for a dream. That dream is financial independence. One day you may want to take it easy, enjoy life. This does not mean you have to quit working, but it will mean, getting out of the rat race and doing the things you have been putting off - taking up a hobby, traveling the world, spending more time with children and grandchildren or just spending more time at the cottage. The RRSP is one vehicle that can help you save money in a tax effective manner to live your dream.

When looking at contributing to an RRSP, it's important to understand the details regarding RRSPs. The rules governing all RRSPs are set out in the Federal Income Tax Act and are administered by Canada Revenue Agency. Below we have tried to summarize some of the key aspects you should know about RRSPs.

Annual Contributions

RRSP Contribution Maximum - The maximum annual contribution limit is currently \$16,500, it is scheduled to increase to \$18,000 in 2006, and \$19,000 in 2007.

Your allowable RRSP contribution for the

current year is the lower of:

- 18% of your earned income from the previous year, or
- The maximum annual contribution limit for the taxation year, or
- The remaining limit after any company sponsored pension plan contributions.

Earned income includes salary or wages, alimony received, and rental income, among other income sources, but does not include items such as investment income. You can find the exact amount you can contribute to your RRSP for the current year on the Notice of Assessment you receive from Canada Revenue Agency after they process your previous year's tax return.

Company Pension Plan or Deferred Profit Sharing Plan

As a member of a company-sponsored registered pension plan or deferred profit sharing plan, the amount that you can contribute to your RRSP must be reduced by the total value of the pension credits you earned for the year. This amount is referred to as a pension adjustment (PA) and it is reported on the T4 slip (Statement of Remuneration Paid) that you receive from your employer.

Annual Contribution Deadline

To be eligible for an RRSP deduction in a specific taxation year, you can make contri-

butions anytime during the year, or up to 60 days into the following year.

Carry-forwards

If you can't make your maximum contribution one year, you can make up that portion of the contribution in later years by carrying it forward. The amount of your unused contribution limit is shown on your federal Notice of Assessment. You may also choose to delay claiming your current year's RRSP tax deduction. To take the deduction in a later year, you must make sure that your allowable deduction limit has not been reached. You may even consider taking a loan to bring your RRSP contributions up to date depending on your tax situation for 2005.

Over Contributing to your Plan

If you make an RRSP contribution beyond your maximum allowable amount for a year it is considered an over-contribution. There is a lifetime allowance of \$2,000 for over-contributions. These contributions must be used before any new contributions are applied.

Home Buyer's Plan

The Home Buyer's Plan allows you to borrow funds from your RRSP to purchase your first home. Here are some of the key facts:

- You and your spouse can each borrow

up to \$20,000.

- The funds must have been on deposit at least 90 days before you withdrew them.
- At least 1/15 of the funds must be repaid each year, beginning two years after the funds were withdrawn.
- A signed agreement to buy or build a qualifying home is required.

Lifelong Learning Plan

The Lifelong Learning Plan allows you to pay for training or education with RRSP funds.

Here are some of the key facts:

- You can withdraw up to \$10,000 per calendar year to finance full-time training or post-secondary education.
- The student can be you or your spouse, but not your children.
- If the student meets disability requirements, then the training/education can be on a part-time basis.
- The total amount that can be withdrawn is \$20,000 with withdrawals over a maximum of four consecutive years.
- Amounts that are withdrawn are not subject to taxes on withdrawal.
- At least 10% of the amount borrowed must be repaid each year, over a maximum period of 10 years.

Separation or Divorce

During separation or divorce, either you or your spouse can transfer existing RRSPs to the other, without being subject to tax, provided that:


- You are living apart when property and assets are settled; and
- You have a written separation agreement or a court order.

Death of a Plan Holder

In the event of death, the proceeds of your RRSP are distributed to whoever was named as your beneficiary or to your estate, if no beneficiary has been designated. This designation can be specified in either your RRSP or in your will. Quebec residents must make the designation by will or marriage contract for most plans. The proceeds of the RRSP will remain tax-sheltered if one of these situations applies:

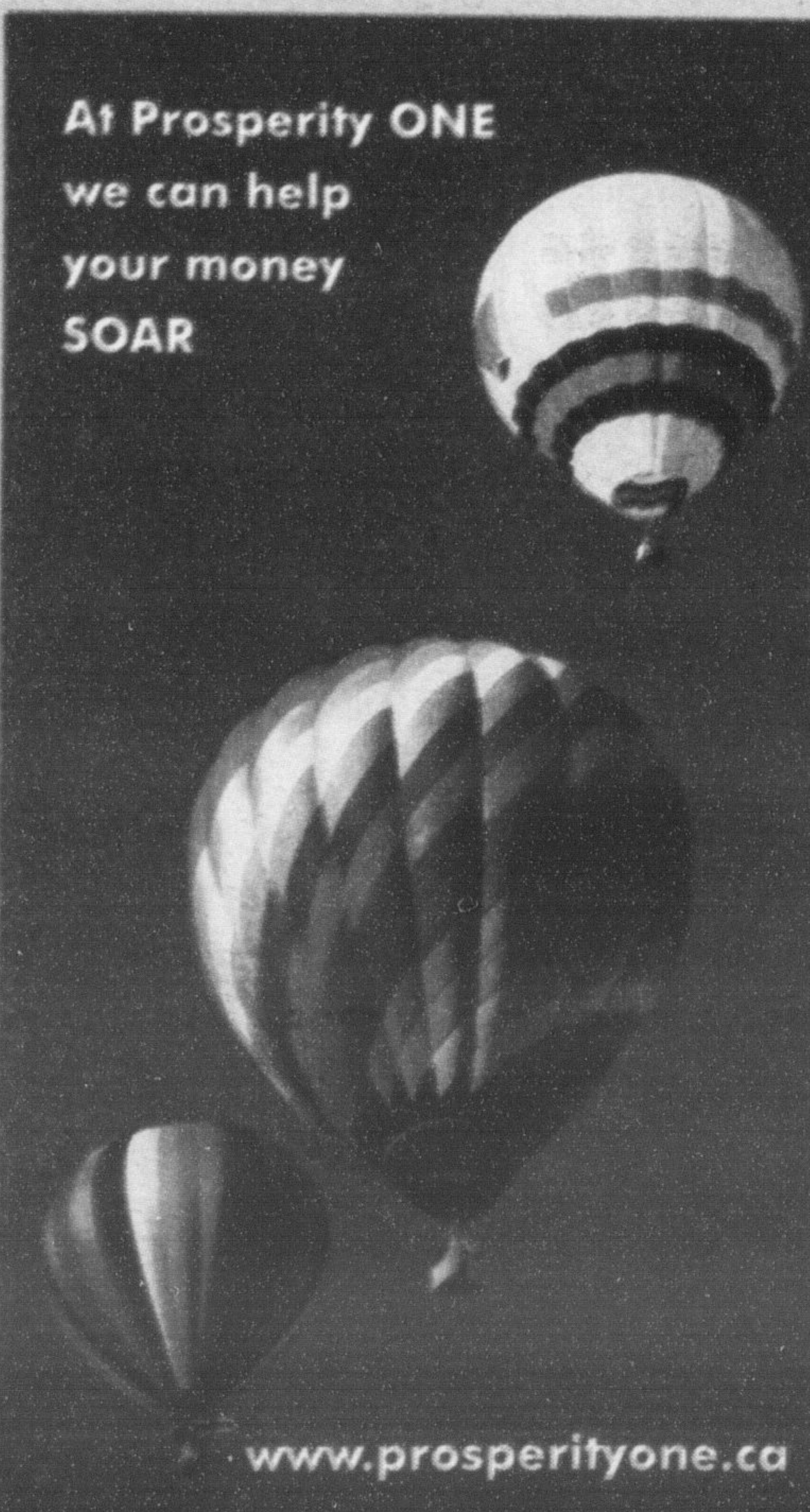
- Your surviving spouse is the beneficiary, and the

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