

Money Matters

"Would you please write on the values of having a spousal RRSP". That's the request of a reader whose husband is out of work. They had to remove money from his RRSP and pay tax. With a spousal RRSP it would have been taxed at a lower rate if taxed at all.

This is a common problem. The older you are the more likely you have accumulated some sizable numbers in your own RRSP but have not been taking full advantage of a spousal plan. When you need money you have to attack it at the higher spouse's tax rate. Had you been using a spousal RRSP you might be able to access it cheaper. Here's the strategy. The older you are the greater likelihood the husband is in a higher tax bracket. The numbers are gradually moving closer with more two income families but for older groups there's a huge gap. As a result, you should try to move money, where possible, into a spousal plan. It might allow you to remove money at a lower tax rate.

Years ago it was popular for the higher income spouse to contribute to a spousal RRSP and have the spouse quickly remove the money. He got a tax deduction at a high rate, she removed it at her low tax bracket. That loophole was quickly closed, so now we have to leave the money in the spousal plan for three years before it can be removed at the lower income spouse's tax rate.

That's why the writer's letter was important. Had they thought ahead they might have been able to remove the money at little or no tax burden. There are several problems though. When you contribute to a spousal RRSP you, the higher income spouse, gets the tax deduction. The money now belongs to your spouse. However, if she removes it within three years of your last contribution to any spousal plan it will be taxed back to you. In the writer's case, simply having a spousal RRSP might not have been enough. They would have been required to contribute to a spousal RRSP for a number of years, then contribute to a personal RRSP for the last three. Then they would have been able to remove the money from the spousal RRSP at the lower income spouse's tax rate. Yes, it's possible that families could have subscribed to this type of regimented behaviour but it's unlike-

ly. Most families who use a spousal RRSP use it year after year looking ahead to the retirement benefits. Once both spouses have turned 65 they are lost as dependent deductions for each other anyway because of Old Age Security income so now you can earn income that is taxed at the lower income spouse's rate. Used properly the spousal RRSP is a very attractive tool.

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-John & Sabrina Espinaca*

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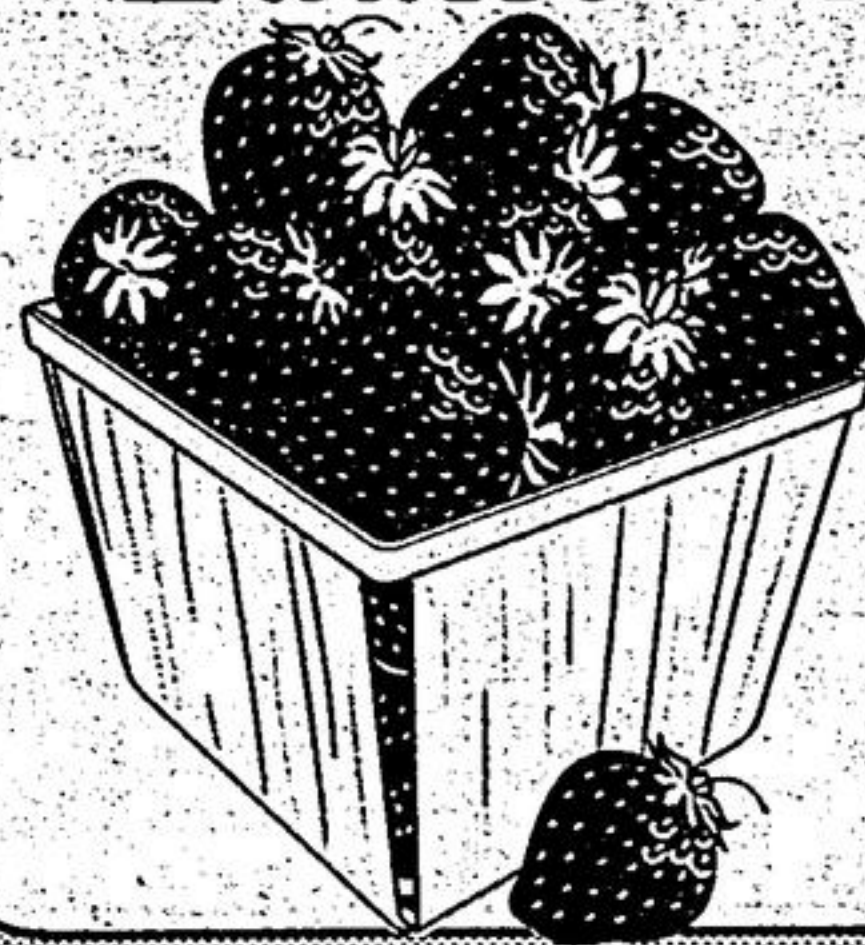
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