Standard Life

Spousal RRSP Basics

Understanding the Tax Savings

Registered Retirement Savings Plans (RRSPs) are very popular with Canadians—for good reason. See **RRSP Basics – Understanding the Tax Savings**.

Spousal* RRSPs offer added advantages:

- Potential tax savings, thanks to income splitting
- Increased access to certain programs (e.g., Home Buyer's Plan)

* In all cases, spousal refers to spouse or common-law partner.

What is a Spousal RRSP?

A Spousal RRSP is an RRSP where the contributor and annuitant (the person who will be withdrawing the funds) are not the same. The contributor uses his or her RRSP room to contribute to an RRSP for a spouse or common-law partner.

A regular RRSP may also become a Spousal RRSP. Let's assume that Susan used her RRSP room to contribute to her own RRSP. Susan's spouse John had also contributed to a Spousal RRSP for Susan. Where funds are transferred from the Spousal RRSP that John contributed to into Susan's own RRSP, the entire arrangement is considered a Spousal RRSP. This has important implications with regard to "income attribution" rules.

What are the contribution limits?

Tax rules govern how much individuals can contribute each year, or how much "RRSP room" they have. (See **RRSP Basics – Understanding the Tax Savings** for more details.)

RRSP room is calculated for each taxpayer. The taxpayer can choose to use this room to contribute to his or her own RRSP or to a Spousal RRSP. Note that RRSP room is not doubled with a Spousal RRSP.

Contributors over 71 cannot contribute to their own RRSP. However, these taxpayers might still be able to contribute to a Spousal RRSP for a spouse who is not yet age 71.

When should clients contribute?

No later than 60 days after the end of the calendar year. Spousal RRSPs must "mature" no later than the end of the year in which the spouse (the annuitant) turns 71. Contributions to a Spousal RRSP cannot be made after December 31st in the year this person turns 71.

Income Attribution Rules

The tax rules do not allow for the short-term use of Spousal RRSPs as income-splitting devices. The "income attribution" rules were introduced to discourage this. Under a special "three-year rule," amounts withdrawn from a Spousal RRSP within three years will be included in the contributing spouse's income, rather than the annuitant's income. The end result is that income is not split!

Income Attribution Case Study

1. In May 2008, Alan contributes $10,000 to a Spousal RRSP for his wife.
2. In September 2009, Alan contributes $5,000 to a Spousal RRSP for Amanda at another insurer.
3. In October 2011, Amanda withdraws $11,000 (including investment earnings) from the Spousal RRSP at the first insurer.

The "three-year rule" means that income attribution will apply if contributions were made: (a) at any time during the calendar year of the withdrawal (2011), or (b) during the two preceding calendar years (2009 and 2010).

Alan will therefore include $5,000 in his income in 2011 since he contributed this amount in the three-year period to a plan for Amanda. She is taxable on the balance of $6,000. To avoid attribution, Amanda should wait until 2012 to withdraw amounts from either RRSP (assuming no new amounts were contributed).

Spousal RRSP Tips

(For general Tips, refer to RRSP Basics – Understanding the Tax Savings)

Tips:

1. Contribute as early as possible and for as many years as possible. A taxpayer of any age may contribute to a Spousal RRSP until December 31st of the year in which the spouse or common-law partner turns 71. This is useful where there is a discrepancy in the partners' ages.
2. Remember that RRSPs can be used for purposes other than retirement. If both spouses have RRSPs, access to the Home Buyer's Plan is doubled.
3. Either partner can access the Spousal RRSP for education needs as part of the Lifelong Learning Plan.
4. Consider a Spousal RRSP if you anticipate that a spouse will have little or no income (e.g., stays home to rear children) and the income splitting will provide tax savings.
5. If a taxpayer has died, the executor may use the deceased taxpayer's RRSP room to make a contribution to a Spousal RRSP.
6. If a spouse turns 71 during the year, taxpayers may consider using earned income to make a final contribution to the Spousal RRSP. (Make the contribution for the following year immediately before the end of the current year, so that the penalty tax of 1% per month for excess contributions is less than the tax savings realized on the contribution.)

Traps:

1. Do not miss the deadline for making contribution (i.e., contribute no later than 60 days after the end of the calendar year). Contributions must be made no later than December 31st in the year the spouse turns 71.
2. Monitor withdrawals from a Spousal RRSP to avoid application of the "attribution rules." (The rules do not apply minimum payments are received from a RRIF.)
3. The eligible portion of a retiring allowance cannot be transferred to a Spousal RRSP.
4. Make sure that the RRSP matures by the end of the year in which the annuitant spouse turns 71. This avoids having an income inclusion for the value of the assets in the plan.
5. Remember that where funds from a regular RRSP and Spousal RRSP are co-mingled, the entire plan becomes a Spousal RRSP.
6. Be careful if the establishment of an Individual Pension Plan (IPP) is being considered for a taxpayer and past service is to be set up. Amounts from a Spousal RRSP cannot be used to make a "qualifying withdrawal" or a "qualifying transfer," where past service is being acquired for someone other than the annuitant of the Spousal RRSP. This may limit the set up of past service.

Note

Amounts may be transferred from RPPs to locked-in RRSPs or certain other arrangements. This document does not discuss additional conditions that pension standards legislation may impose on these plans.

Are spousal plans still valuable now that we have Pension Splitting?

With the pension splitting rules that were introduced in 2007, taxpayers may allocate up to 50% of their "eligible pension income" to a spouse or common-law partner. This allocation is done when the couple files their tax returns. RRSP assets may be used to purchase a registered annuity or may be transferred to a RRIF, with withdrawals then being made from the RRIF. The payments from registered annuities and RRIF (both minimums and maximums) are eligible pension income to a taxpayer who is at least age 65. (Lump-sum withdrawals from an RRSP do not qualify as eligible pension income.)

Since the pension splitting rules allow for income splitting, taxpayers now ask whether it still makes sense to use Spousal RRSPs as an income-splitting tool. To determine the answer, consider:

- Is the Spousal RRSP of value since the couple anticipates that one of the partners will want to withdraw the funds well before retirement (e.g., one partner to stay at home for child rearing or the couple will need the funds for living expenses)?
- Since pension splitting of income originating from RRSPs is generally available at age 65, is the Spousal RRSP of value when retirement occurs before that time?
- For taxpayers aged 65 or over, is the use of Spousal RRSPs diminished with the pension splitting rules, especially taking into account income attribution rules do not apply to income split under the pension splitting rules?
- Spousal RRSPs result in double access to the Home Buyer's Plan. Will this be of value to the couple?

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