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TAX MATTERS

A year-end tax checklist for retirement plans

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I'm not planning to retire any time soon. I love what I do, I'm too young, and Carolyn would suffer the effects of "Retired Husband Syndrome" which include, among other things, a bad skin rash and athlete's foot.

Regardless of whether you're retired already, or simply saving for retirement, there are some year-end tax tips you should keep in mind. Consider this checklist for those who have retirement plans, including registered retirement savings plans (RRSPs), registered retirement income funds (RRIFs), and tax-free savings accounts (TFSAs).

Contribute to your RRSP
You have until March 1, 2017, to make a contribution to your RRSP that will entitle you to a deduction on your 2016 tax return, but make that contribution sooner – even before year-end – in order to get your money working for you inside the RRSP as soon as possible.

Contribute to a spousal RRSP
If you contribute to a spousal RRSP by year-end, your spouse can make a withdrawal of those dollars on Jan. 1, 2019, at the earliest without the withdrawal being taxed in your hands. If you wait until 2017 to contribute, your spouse will have to wait until Jan. 1, 2020, before making a withdrawal without attributing the withdrawal to you.

Make an advance contribution
If you turn 71 in 2016, you'll have to wind up your RRSP by year-end. If you also have earned income in 2016, which will provide you with RRSP contribution room in 2017, consider making that 2017 contribution in December, 2016, before winding up your RRSP forever. You may face a small overcontribution penalty for the month of December, 2016, but you'll be entitled to a tax deduction in 2017 for the contribution made in December, 2016, and this deduction will save you more tax dollars than any penalty.

Withdraw funds in a low-income year
If you have little or no other income this year, you may be able to withdraw funds from your RRSP or RRIF before year-end and pay little or no tax on the withdrawal. This can make sense if you need the cash to cover living costs, or where you have TFSA contribution room and plan to invest the funds in that plan, where the future growth and withdrawals will be tax-free.

Maximize 2016 earned income
It's not too late to increase your earned income for 2016, to provide greater RRSP contribution room for 2017. This is easiest where you own a business and can readily control your compensation. Once your earned income for 2016 reaches $144,500, you'll reach the maximum RRSP contribution limit of $26,010 for 2017.

Convert to a RRIF before year-end
You're entitled to a pension credit to offset all or most of the tax on the first $2,000 of eligible pension income annually, which includes any withdrawals from an RRIF if you're 65 or older in the year. If you're 65 or older, consider setting up an RRIF to pay out just $2,000 annually, to take advantage of

the pension credit. Instead, you might consider using some of your RRSP assets to buy an annuity that will pay out $2,000 annually to take advantage of the pension credit.

Base withdrawals on the younger spouse
If you reach age 71 this year, chances are good that you'll be establishing an RRIF by year-end for at least some of the assets in your RRSP. Be sure to base the mandatory (i.e. minimum) RRIF withdrawals on the age of your spouse, if he or she is younger. This will reduce the required minimum annual withdrawal, and will allow you to defer tax longer.

Sell prohibited investments in your plan
You're restricted as to the type of assets that can be held in your RRSP, RRIF or TFSA. If you acquired a non-qualifying asset in 2016, sell it by year-end to avoid being taxed in 2016 on its value. As an aside, the rules have changed around holding private company shares in your plan, so speak to a tax pro if you're in this boat (you'll have an issue if you, or related persons, own 10 per cent or more of the company).

Make TFSA withdrawals before year-end
If you withdraw funds from your TFSA you'll be entitled to recontribute the same amount beginning in the calendar year following the year of withdrawal. So, if you're planning to withdraw funds from your TFSA early in 2017, consider making those withdrawals before year-end instead. This way, you won't have to wait until 2018 to be entitled to recontribute that amount to your plan.

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