ADVISORTOCLIENT

What is a spousal RRSP?

BY **John Natale** January 24, 2017

Here are key facts about this tax-saving tool.

What is a spousal RRSP?

- A spousal RRSP is an RRSP that is opened by your spouse, but you contribute to it
- Your contributions are based on your contribution limit and you claim the tax deduction
- Your spouse is the legal owner of the plan and makes all investment decisions and withdrawals
- A spousal RRSP provides an opportunity for income splitting at any age (subject to certain tax rules called attribution rules), and you choose the amount to split by deciding how much to contribute

Note that your “spouse” can be either your common-law or married partner.

How spousal RRSPs can help you split income

With spousal RRSPs, you can split income any time, as long as the attribution rules don’t apply. If a spousal contribution hasn’t been made in the current calendar year or the two previous calendar years, any withdrawals from the RRSP will be taxed to your spouse.

Note that using a spousal RRSP is different from *pension income splitting*, which can only happen from a RRIF after age 65. Under pension income splitting, you can allocate up to 50% of your eligible pension income to your spouse or common-law partner.

What are the spousal RRSP attribution rules?

If funds are withdrawn from a spousal RRSP within three years of you making a spousal contribution, all or part of the withdrawn amount will be taxed as your income, not your spouse’s.

Ideal candidates

Income splitting through the use of a spousal RRSP is best suited for those:

- who have a spouse in a lower marginal tax bracket; and
- who want the flexibility to income split using the spousal RRSP at any age (subject to the attribution rules) and the ability to decide how much to split.

Because the attribution rules use calendar years, it is usually best to make spousal contributions within the calendar year, instead of during the first 60 days of the following year. For example, if a spousal contribution is made in February 2017 for the 2016 tax year, the income attribution will cease to apply on January 1, 2020 (provided no further spousal contributions are made). However, if the contribution had been made before December 31, 2016, the attribution would cease to apply on January 1, 2019.

How does income splitting save me tax?

Spousal RRSPs save you tax if your spouse is in a lower tax bracket than you and he or she takes income from the plan. The following table helps illustrate how income splitting with a spousal RRSP can work. In this example, a couple withdrawing the same amount of income is able to save $2,400 annually by using this strategy.

	Individual RRSP – 40% Tax Rate ($)	**Spousal RRSP – 20% Tax Rate ($)**
RRSP Income/Withdrawal	12,000	12,000
Taxes Payable	4,800	2,400
After-Tax Income	7,200	9,600
Tax Savings (Annually)		**$2,400**

For illustration purposes only

As mentioned, pension income splitting rules only allow you to split up to 50% of your RRIF income (if you are 65 or older) with your spouse. With spousal RRSPs, you determine the amount of income to split by deciding how much to contribute to the spousal RRSP.

What happens if my spouse is younger than me?

If you have a younger spouse, you can continue to contribute to their spousal RRSP until the end of the year your spouse turns 71, provided that you still have RRSP contribution room available. Also, with a younger spouse, the income from those RRSP contributions can be delayed until the year after your spouse’s 71st birthday.

What happens if I have unused contribution room when I die?

In the year of your death, or within 60 days after the year-end, your legal representative may make a contribution to your spouse’s RRSP under the normal rules. This contribution will be deductible on your final tax return.

What else do I need to know?

It is important to understand that a spousal contribution becomes the property of your spouse, which could have implications if you divorce. (With pension income splitting, no assets are transferred.)

Also, keep in mind that any funds withdrawn from a spousal RRSP cannot be re-contributed later without using future available contribution room. In this instance, a TFSA may be a better option as withdrawals are added back to the unused contribution room in the following calendar year.

What happens next?

To use a spousal RRSP:

1. Determine your contribution room available from your latest notice of assessment.
2. Contribute to a spousal RRSP so that you can claim the tax deduction and your spouse, as legal owner, can have future withdrawals taxable to them when the attribution rules no longer apply.

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