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A closer look at the new RRIF rules

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The draft legislation to put the new RRIF rules into law includes a provision stating that the old rules still apply in three situations

By Jamie Golombek | May 25, 2015 06:00

The change to the registered retirement income fund (RRIF) minimum withdrawal factors announced in this year's federal budget will permit seniors to keep more of their retirement savings in tax-deferred status for longer periods of time. However, you need to be aware that the old rules will still apply in certain situations.

The previous RRIF minimum withdrawal factors had been in place since 1992 and were based on a particular rate of return and indexing assumption. For example, under the old rules, a senior who is 71 at the beginning of the year must withdraw 7.38% of the opening fair market value of his or her RRIF. The RRIF minimum withdrawal factor then increased each year until age 94, when the percentage was capped at 20%.

In contrast, the new RRIF minimum withdrawal factors for ages 71 to 94 were put in place "to better reflect more recent long-term historical real rates of return and expected inflation." The new RRIF minimum withdrawal factors start at 5.28% at age 71, rising to 18.79% at age 94, with the cap remaining at 20% at age 95 and older. The federal government estimates that the new RRIF minimum withdrawal factors will permit close to 50% more capital to be preserved to age 90 compared with the previous factors.

These new, lower factors — combined with the doubling of the annual limit for tax-free savings accounts (TFSAs) to $10,000 — may help reduce the risk that seniors will outlive their savings by allowing them to keep more of their funds in RRIFs longer, as well as permit more of the required RRIF withdrawals to be contributed annually to a TFSA to further bolster the tax-free growth of their retirement savings.

Bill C-59, which contains the draft legislation needed to effect the new RRIF rules, was introduced in Parliament in May. Among the numerous technical provisions was a rule that states that the "unreduced minimum amount for 2015 … continues to apply" in three situations:

> The first has to do with withholding taxes on RRIF withdrawals. The general rule is that when a client receives a payment from a RRIF in excess of the "minimum amount," the RRIF carrier must withhold 10% for payments of less than $5,000, 20% if the payment exceeds $5,000 but is not more than $15,000, and 30% for payments above the $15,000 threshold. For 2015, the old minimum amounts are to be used to calculate the withholding required, meaning that your clients may end up owing some additional taxes when they file their 2015 tax returns next year, which is not a bad thing assuming they plan for it.

> The second, similar situation has to do with RRIF withdrawals by non-residents. Let's say a client moved to Florida but kept his or her RRIF in Canada. Payments from a RRIF to non-residents are subject to a non-resident withholding tax at various rates, as adjusted by any tax treaty that Canada has with the foreign country.

Under some treaties, such as the Canada-U.S. Tax Treaty, a lower rate of non-resident tax is withheld in cases in which the total RRIF withdrawals in a year do not exceed the greater of twice the minimum amount for the year and 10% of the fair market value of the RRIF at the beginning of the year.

For purposes of determining non-resident withholding taxes in 2015 in these treaty cases, the old minimum amounts are to be used, which may result in less withholding taxes than otherwise would have been the case.

> The final situation has to do with the attribution rules for spousal RRSPs and RRIFs. To prevent short-term income splitting, there is a special attribution rule that states that if a client withdraws funds from a spousal RRSP or RRIF, and contributions have been made by the client's spouse to a spousal RRSP in the same calendar year or any time in the previous two calendar years, there may be attribution of the withdrawal to the contributor spouse who will be forced to pay taxes on that withdrawal. There is an exception, however, for the minimum amount, which may be withdrawn from a RRIF before any possible attribution of income occurs.

With the older, higher minimum amounts being used, less income may be attributed back under this rule for 2015.

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