FINANCIAL POST

October 9, 2015

Year-end tax tips for RRSP, RRIF and TFSA plan holders

By Jamie Golombek

Thanksgiving weekend means that we are less than three months away from New Year's Day and the end of the 2015 tax year. Here are some year-end...

Thanksgiving weekend means that we are less than three months away from New Year's Day and the end of the 2015 tax year. Here are some year-end strategies for registered plan holders.

RRSPs

If you turned 71 in 2015, you have until Dec. 31 to make any final contributions to your RRSP before converting it into a RRIF or registered annuity. You don't have the normal 60-day deadline (Feb. 29) this year.

One strategy to consider if you turned 71 this year is making a deliberate, one-time over-contribution to your RRSP in December before conversion if you have "earned income" such as (self-)employment or rental income in 2015 that will generate RRSP contribution room for 2016. While you will pay a penalty tax of one per cent on the over-contribution (above the $2,000 permitted over-contribution limit) for December 2015, new RRSP room will open up on Jan. 1 so the penalty tax will cease in January 2016. You can then choose to deduct the over-contributed amount on your 2016 (or a future year's) return.

This may not be necessary, however, if you have a younger spouse or partner, since you can still use your contribution room after 2015 to make contributions to a spousal RRSP until the end of the year your spouse or partner turns 71.

RRIFs

The 2015 federal budget announced changes to the RRIF factors for ages 71 to 94 "to better reflect more recent long-term historical real rates of return and expected inflation." The new RRIF factors start at 5.28 per cent at age 71, rising to 18.79 per cent at age 94, with the cap remaining at 20 per cent at age 95 and older. You only need to withdraw the lower amount, based on the new RRIF factors, by year-end. If you find that you've withdrawn more than the new minimum amount in 2015, you can re-contribute the excess withdrawal until February 29, 2016 and the amount re-contributed will be tax deductible on your 2015 tax return.

TFSAs

While there is no deadline for making a TFSA contribution, the upcoming federal election could put a wrinkle into your TFSA contribution plans as both the Liberals and NDP have promised to drop the limit back down to $5,500 from the 2015 dollar limit of $10,000. But even if one of those two parties forms a government and proceeds to announce a drop in the annual limit, it's almost certain that it wouldn't apply until 2016, meaning that the $10,000 dollar limit for 2015 will be permanent and there is no rush to contribute by Dec. 31 since any unused TFSA room gets automatically carried forward to future years.

Finally, keep in mind that if you withdraw funds from a TFSA, an equivalent amount of TFSA contribution room will be reinstated in the following calendar year. As a result, if you are planning a TFSA withdrawal in early 2016, perhaps to fund a home renovation or buy a new car, consider withdrawing the funds by Dec. 31, so you won't have to wait until 2017 to re-contribute that amount should new funds become available to you earlier.

Jamie Golombek, CPA, CA, CFP, CLU, TEP is the Managing Director, Tax & Estate Planning with CIBC Wealth Advisory Services in Toronto. Jamie.Golombek@cibc.com[1]

References

1. jamie.golombek@cibc.com