

# Benefits of Spousal RRSPs

By Kevin Dolan

Spousal RRSPs are a popular income splitting device for couples as a higher income spouse can contribute to the retirement plan (RRSP) of a lower income spouse (or common-law partner) and use the contribution as a tax deduction on his/her tax return. The Spousal RRSP contribution reduces the amount that can be put into RRSP of the higher income spouse.

For example, if John has \$20,000 in RRSP contribution room, he can contribute \$10,000 to his spouse's RRSP and \$10,000 to his own RRSP while deducting the full \$20,000 from his taxable income.

## Advantages

The primary advantage of a Spousal RRSP can be realized when withdrawals are made. If the Spouse has a lower income at the time that a withdrawal is done, the rate of tax to be paid can be lower.

Income splitting through a Spousal RRSP also provides benefits when calculating Old Age Security (OAS) entitlement and any potential claw back that might be incurred. By using a Spousal RRSP, a higher income spouse is able to reduce his/her taxable income below this threshold and avoid the claw back.

Another benefit of Spousal RRSPs comes after the higher income spouse turns 71. Normally, an individual cannot make any RRSP contributions to his/her own plan after the age of 71 years; however, an individual can still make tax deductible Spousal RRSP contributions until the younger spouse turns 71 years of age.

To avoid having to include your spouse's Registered Retirement Income Fund (RRIF) withdrawals in your income, ensure that only the minimum annual withdrawal amount is withdrawn for the first two years of the Spousal RRIF.

## Withdrawals: Issues to Consider

The Spousal RRSP belongs to and is the property of the plan holder. If the plan holder wants to deregister funds from or trade positions in the Spousal RRSP, the consent of the contributing spouse is not needed, and the contributing spouse does not have to be informed.

In addition, if the funds are withdrawn within 2 years of a contribution to a Spousal RRSP, the withdrawn amount will be taxed as income to the contributor to the plan. However, Attribution Rules do not apply to the Minimum Annual RRIF withdrawals from a Spousal RRIF account.

To determine whether a Spousal RRSP might be appropriate for your situation, please contact me.

