

RRSP Withdrawals

There is often a temptation to withdraw funds from your Registered Retirement Savings Plan (RRSP) prior to your retirement. Careful consideration should be given to the financial impact of this decision. Even though the Canada Revenue Agency (CRA) allows for withdrawals from your RRSP at any time, it is important to keep in mind that the funds in an RRSP are designed to provide you with income for the remainder of your lifetime, after your retirement. When money is withdrawn from your RRSP, it is considered part of your taxable income and subject to income tax in the year of the withdrawal. If you place the funds in one of the qualified RRSP maturity options at retirement, you will be taxed only on the portion paid to you each year.

Early withdrawals from an RRSP may seriously affect the amount of money you accumulate by retirement. For example, if you made a \$10,000 contribution each year for 25 years and earned six per cent per year, your RRSP would be worth \$581,564 at the end of 25 years. However, if in the tenth year, instead of contributing \$10,000, you withdrew \$20,000, your RRSP would only be worth \$505,353 after 25 years. That's a difference of over \$76,000. It's also important to keep in mind that all money withdrawn from your RRSP is subject to income tax in the year of withdrawal. As a result, you may be better off getting the necessary cash from somewhere other than your RRSP.

Withholding tax

When you withdraw money from your RRSP (other than for the Home Buyers' Plan or Lifelong Learning Plan), the trustee of your plan is required to withhold tax and remit it to the CRA on your behalf. When you prepare your annual tax return, the tax withheld is reported as tax already paid.

As shown in the chart, the percentage of withholding tax is based on the amount of the withdrawal.

Amount of payment	Withholding tax in all provinces except Quebec	Withholding tax in Quebec
Up to \$5,000	10%	21%
\$5,001 to \$15,000	20%	26%
More than \$15,000	30%	31%

* In Quebec, the withholding tax is higher because it includes provincial and federal tax.

Home Buyers' Plan

The Home Buyers' Plan (HBP) is a federal government program that allows you to withdraw up to \$25,000 tax-free from your RRSP to purchase or build a qualifying home. You must be a first-time home buyer, as defined by the CRA, to participate in the program.

Before applying to withdraw funds from your RRSP under the HBP, you must meet the following conditions:

- Have entered into a written agreement to buy or build a qualifying home for yourself, for a related person with a disability, or to help a related person with a disability buy or build a qualifying home. Obtaining a pre-approved mortgage does not satisfy this condition.

- Intend to occupy the qualifying home as your principal place of residence, no later than one year after buying or building the house. If you buy or build a qualifying home for a related person with a disability, or help a related person with a disability buy or build a qualifying home, you must intend for that person to occupy the qualifying home as his or her principal place of residence.
- Be considered a first-time home buyer. You will be considered a first-time home buyer if you did not own a home that you occupied as your principal place of residence (or live in a home owned by your spouse or common-law partner which you both occupied), at any time between January 1st of the fourth year before the year of the HBP withdrawal and ending 31 days before the date of the withdrawal.

In all cases, your repayable HBP balance on January 1 of the year of the withdrawal has to be zero.

Note: Even if you or your spouse or common-law partner has previously owned a home, you may still be considered a first-time home buyer.

When making an RRSP withdrawal under the HBP you must meet the following conditions:

- Neither you, nor your spouse or common-law partner, or the related person with a disability you help buy or build the qualifying home, can own the qualifying home more than 30 days before the withdrawal is made.
- Be a resident of Canada.
- Complete Form T1036 for each eligible withdrawal.
- Receive all withdrawals in the same calendar year.

After all your HBP withdrawals have been made from your RRSP, you must meet the following conditions:

- Buy or build the qualifying home for yourself, for a related person with a disability, or help a related person with a disability buy or build a qualifying home, before October 1 of the year after the year of the withdrawal.

Your HBP withdrawal must be repaid to your RRSP over a 15 year period. Each year, you will be required to repay 1/15 of the total amount withdrawn under the program. If you do not make a required annual repayment, the amount must be included as RRSP income on your income tax return.

While the HBP may initially look attractive — because no interest is paid on the loan from your RRSP — the loan is not free. The considerable cost to your RRSP is the potential growth of the loan amount and the compound income it would have earned over time. The younger you are, the greater the loss to your RRSP.

Lifelong Learning Plan

You may also make tax-free withdrawals from your RRSP through the Lifelong Learning Plan (LLP), to finance full-time training and education costs for you or your spouse. You may withdraw up to \$10,000 a year, to a maximum of \$20,000. If either you or your spouse is disabled, part-time training and education costs would be eligible. Amounts withdrawn from your RRSP through the LLP are considered a loan and must be repaid to your RRSP within 10 years. Generally, in each year of your repayment period, you have to repay 1/10 of your original LLP balance, until the full amount is repaid. The first repayment must be made in the year following the last year you or your spouse were enrolled full-time, or in the fifth year after the first withdrawal was made, whichever comes first. You may take advantage of this program more than once in your lifetime; however, once you begin making repayments to your RRSP no new withdrawals will be allowed until all repayments have been made.

For more information, speak with your BMO financial professional.

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