
INFORMATION BULLETIN

Retiring Allowances

For many years, the Government of Canada recognized that it was prudent to permit retiring individuals to transfer termination payments into their registered retirement savings plans. The logic was of course to permit an improved retirement income. For some reason, this philosophy was discontinued about five years ago, but fortunately some grand fathering was allowed.

Those individuals who worked for a specific employer prior to 1996 are still entitled to transfer some of their retiring allowances to their RRSP. This is almost always recommended although there may be rare circumstances where it doesn't make sense. The transferable amount is \$2,000 times the number of years worked for the employer before 1996. If you worked for the employer before 1989 and were not a member of the company's pension plan, then an additional \$1,500 per year can be rolled over for each year worked prior to 1989. This latter rule does not apply to many people, and usually not to individuals who have worked in government service. See the example for a typical calculation.

The specific employer includes the company or government that pays you the retiring allowance. It also includes employers related to the payer. For example, switching from one company to its subsidiary or from one government to another will often make you eligible. Basically employment that is recognized by the current employer in determining your retirement benefits will qualify.

Contributions of eligible retiring allowances are normally made directly to the employee's RRSP by the employer. When this occurs, no tax deductions are taken from the payments.

Your employer must identify the retiring allowance on a T4A slip and is responsible for making the

calculation. Remember that your current employer may not always know your history or whether or not you have previously worked for a related employer. It is important therefore, for you to check the calculation of the eligible amount and to question your employer if it does not appear to be correct. Remember also, that expensive penalties are imposed by Canada Customs & Revenue Agency for excess contributions to your RRSP.

Whether or not your employer contributes directly to your RRSP, you are entitled to transfer eligible retiring allowances no later than sixty days after end of the year of your receipt of the allowance.

In addition to the direct transfer or rollover of retiring allowances, you are also entitled to contribute your normal limit, based on 18% of your prior year's earnings, plus any contribution room carried forward from prior years. If you have excess contribution room available, it is often very beneficial to make a larger than usual contribution to your RRSP because you will probably be in a higher tax bracket due to the receipt of termination payments.

Even if you need the money from your retiring allowance, possibly to relocate to a new community or to establish your own business, contributing to your RRSP usually makes sense.

*Questions about retiring allowances??
Call Harvey & Lister Inc.
at 250.492.8821*

If you can leave your contribution in the RRSP until the next calendar year, you will probably save taxes, as after retirement your income usually lessens and you may be in a lower tax bracket. Leaving the contribution in your RRSP for only one year may result in the income being reported at a lower rate of tax, and at the very least will defer the payment date of those taxes for at least one year.

Future RRSP Contributions

RRSP contribution limits are based on “Earned Income” which includes wages, salaries, self employed income, rental income, certain disability pensions and a few other sources of income. It does not include regular pension income, so

individuals who retire and commence receiving a pension are often not permitted any future RRSP contributions. This situation should be considered when contemplating your future income and planning your retirement.

Borrowing from your RRSP

Putting funds into your RRSP can tie up resources that you may need for accommodation, education or business purposes. There are provisions that allow you to borrow from your RRSP for these purposes, so if you need to access the funds, you should consider whether or not you qualify for these loans. (See the Harvey & Lister Inc. information bulletin on this subject.)

EXAMPLE

Jane Doe commenced working for the XYZ Company in 1978. She took some time off in 1991 and 1992 to travel but received a paycheque and a T4 for both of those years. She has always been a member of the company pension plan. She has decided to retire in 2002 and XYZ has agreed to pay her \$55,000 or two weeks salary for every year of employment, as a retiring allowance. Jane is entitled to contribute \$2,000 for each year of service prior to 1996, including the two years she was traveling. She is entitled to rollover the sum of \$36,000 to her RRSP and the calculation is as follows:

1978 to 1995 is 18 Years of Employment before 1996 - 18 X \$2,000 = \$36,000

XYZ will transfer \$36,000 directly to Jane's RRSP and will add the sum of \$19,000 to her final paycheque. Normal income tax deductions will be calculated on the \$19,000, but no deductions will be taken from the \$36,000. Jane will receive a T4A slip showing the following:

T4A

Pension	Lump-Sum Payments	Self Employed Commissions	Income tax deducted	Annuities	Eligible Retiring Allowances	Non-Eligible Retiring Allowances
			\$5,700		\$36,000	\$19,000
Doe, Jane Somewhere, BC			XYZ Company Inc. Somewhere Else, BC			

When Jane completes her tax return, she will include the entire \$55,000 in her income, but will be allowed a deduction of \$36,000 based on her RRSP contribution, before calculating net income.

Remember that when Jane withdraws funds from her RRSP, she will have to include the amounts in taxable income. As a result, the transfer of her retiring allowance is primarily a deferral of tax and depending on future rates, other income and deductions, not a tax savings.