



There is often a temptation to withdraw funds from your Registered Retirement Savings Plan (RRSP) prior to your retirement years. 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 a lifetime retirement income. When money is withdrawn from your RRSP, it is considered part of your taxable income for that year. You will pay tax on the money withdrawn at your marginal tax rate. At retirement, if you place the funds in one of the qualified post-RRSP maturity options, 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 \$5,000 contribution each year for 25 years and earned 8% per year, your RRSP would be worth \$395,000 at the end of 25 years. However, if in the tenth year, instead of contributing \$5,000, you withdrew

\$10,000, your RRSP would only be worth \$343,000 after 25 years. That's a difference of \$52,000. It is also important to keep in mind that all money withdrawn from your RRSP is subject to income tax in the year of withdrawal.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' or Lifelong Learning Plans), the trustee of your plan is required to withhold tax and remit it to CRA on your behalf. When you prepare your annual tax return, the tax withheld is reported as tax already paid.

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 as well as 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 CRA, to participate in the program.

Amounts withdrawn from your RRSP under the HBP must be repaid to your RRSP over a 15 year period. Generally, for each year of your repayment period, you have to repay 1/15 of the total amount you withdrew until the full amount is repaid to your RRSP.

Before applying to withdraw funds under the HBP you must meet the following conditions:

- You have to enter 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.
- You have to intend to occupy the qualifying home as your principal place of residence no later than one year after buying or building it. 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 that that person occupy the qualifying home as his or her principal place of residence.
- You have to be considered a first-time home buyer.
- 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 have previously owned a home, you may still be considered a first-time home buyer.

When a withdrawal is made 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.
- You have to be a resident of Canada.
- You have to complete Form T1036 for each eligible withdrawal.
- You have to receive all withdrawals in the same calendar year.
- You cannot withdraw more than \$25,000.

After all your withdrawals have been made you must meet the following condition:

- You have to buy or build the 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 before October 1 of the year after the year of the withdrawal.

While the HBP initially looks 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 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 Lifelong Learning Plan 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.

[Please contact your BMO Nesbitt Burns Investment Advisor for more information and strategies to effectively manage withdrawal from your RRSP.](#)

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