

Financial Planning

RRSP Strategy at 71



December 2022

Even though you must wind up your RRSP in the year you turn 71, this does not necessarily mean that you can no longer benefit from RRSP deductions. The following strategy can be used, even after 71, if you still have RRSP contribution room or continue to make room.

You'll be able to claim RRSP deductions even after age 71 – beyond the age at which you still have an RRSP – if you make excess contributions to your RRSP before you wind up your plan by the end of the year in which you reach 71, and you still have earned income. You will need to pay penalty tax for any excess contributions you make, however the tax savings are far greater than the penalty tax.

How it works:

Wendy turns 71 this year and will need to wind up her RRSP by Dec. 31. Wendy has continued to work this year and has earned income of \$171,000 in 2022. This will provide her with RRSP contribution room for next year of \$30,780 (\$171,000 times 18 per cent), which is the maximum in RRSP contribution room possible for 2023 (your earned income in one year provides RRSP contribution room for the following year). Now, even if your earned income is not as high as Wendy's, this idea still works. This example uses the maximum RRSP contribution room so that you can understand the potential tax savings.

Problem: Even though Wendy has created RRSP contribution room for 2023, she won't have an RRSP around any longer since she turned 71 this year and must wind up her plan by the end of the year. But Wendy can still take advantage of her 2023 RRSP contribution room. How? By making her 2023 RRSP contribution in 2022 while she still has an RRSP.

Assuming Wendy has already maximized her RRSP contributions for 2022, making an additional contribution for 2023 before the end of this year will cause an overcontribution to her RRSP and will give rise to a penalty. But the penalty will be just \$288. CRA allows an overcontribution of \$2,000 without a penalty, so she'll face a penalty on an overcontribution of \$28,780 (\$30,780 less \$2,000). The penalty is 1% per month, so she'll face a penalty of \$288 (\$28,780 times 1%) for the month of December.

Solution: On Jan. 1, 2023, Wendy's overcontribution problem will disappear because she'll be entitled to \$30,780 of RRSP contribution room on that date thanks to her earned income from 2022. Wendy will be allowed to claim an RRSP deduction in 2023 for the \$30,780 RRSP contribution that she will have not yet deducted. This deduction will save Wendy \$14,209 in taxes in 2023.

Wendy will need to file Form T1-OVP to report her overcontribution and pay the penalty. The deadline for this form is 90 days after the end of the year.

Should Wendy expect to have more earned income in 2023, she could make an advance contribution to her RRSP before the end of this year for 2024 as well. She'll face penalties for more months in this case, but the tax savings will still make this worthwhile.

If you are turning 71 this year, you have until Dec. 31 to take advantage of this strategy.