# Spousal RRSPs

One of the many benefits of Registered Retirement Savings Plans (RRSPs), aside from their potential for saving, is the flexibility they can provide in tax planning. Spousal RRSPs are an example of this flexibility and are an excellent method by which you can further lower taxes once you are retired. A taxpayer may contribute on a tax deductible basis to a spousal RRSP registered in the name of his or her spouse (including common-law spouses).

The concept behind spousal RRSPs is that the tax paid on funds received as two incomes is generally lower than on the same funds received as one income, depending on the amount. A spousal RRSP is ideal for any situation where one spouse has little or no retirement savings. Income splitting, which provides two incomes at retirement for both spouses instead of just one, can lower taxes in two ways.

First, by splitting your retirement savings between your spouse and yourself, you are reducing your income during retirement which will lower your taxable income. Thus, instead of one spouse paying tax on a single stream of income, both spouses will receive income and pay less tax overall.

Another benefit of spousal RRSPs is that they can provide security for couples where one spouse is older than the other. For instance, although one spouse might be over 69 and no longer eligible to have an RRSP, he or she may still have earned income and can continue to contribute to a spousal plan for the younger spouse.

Under tax regulations, the contribution limits for spousal RRSPs are no different than for regular RRSPs. However, there are certain limitations. The total amount of money you are allowed to contribute and deduct from your income cannot exceed the maximum you could normally contribute to your own plan. For example, if your maximum contribution was $15,500 and you contributed $8,500 to your own RRSP, you would only be allowed to contribute $7,000 to a spousal plan.

In order to avoid situations where couples set up spousal plans with the intentions of deregistering them within a few years to take advantage of one spouse's lower tax rate, the Income Tax Act stipulates that the if the holder of a spousal plan withdraws funds from a plan and a spousal contribution was made to any spousal plan in the year of withdrawal or the previous two years, the contributing spouse will have to pay tax on the money withdrawn at his or her tax rate.

In addition, when the funds from a spousal RRSP are transferred to a Registered Retirement Income Fund (RRIF), this three year rule is not circumvented. Any withdrawal in excess of the minimum amount within the same time period will be taxed in the contributor's hands.

***To take advantage of the benefits of income splitting through a Spousal RRSP, speak to your advisor.***

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