

## One Last Chance For An RRSP Contribution

Individuals turning 69 must wind down their RRSPs by the end of the year in which they turn 69.

This means that they must transfer the assets in their RRSP to a RRIF, purchase an annuity, simply withdraw or cash in the assets, or any combination of these options.

### Restricting Contributions

For some individuals, the rule change reduces the amount of money that they would have been able to contribute to their RRSP under the old rules.

For example, if a 69 year old still had earned income under the old rules, they would have been able to make a RRSP contribution in their 70th year. However, under the new rules, since they cannot have an RRSP after the age of 69 this would not be allowed.

### Getting Around The Rules - One More Contribution

There is a way for someone falling under the new rules to contribute once more to their RRSP. To do this, they must have earned income during 2006 that would otherwise give them the ability to contribute to an RRSP during 2007, even though they will not be allowed to have one.

The new rules also introduced carry forward rules that allow someone to make an RRSP contribution and deduct it in the future.

Therefore, the way they get the contribution into their RRSP is to make an over contribution during the month of December 2006.

### Example:

John turns 69 this year and must wind down his RRSP by the end of the year. However, John is a doctor and still works part time meaning he has earned income. His income levels would allow him to make a \$19,000 RRSP contribution next year.

Because John has to wind down his RRSP, he cannot make the contribution next year and he will lose the opportunity to get a tax deduction and get \$19,000 more into his RRSP.

However, there is a way around it.

John would make an RRSP contribution of \$19,000 in December. This would mean that John would have overcontributed to his RRSP.

Current rules impose a 1% penalty per month on overcontributions to an RRSP. The penalty for John in December would be \$170 (assuming he takes advantage of the \$2,000 overcontribution limit that is allowed without a penalty).



Starting January 1, 2007, John would no longer be subject to the overcontribution penalty because he would have an allowable contribution limit of \$19,000 based upon his earned income from the prior year. This means that for a penalty tax of \$170, John can contribute an additional \$19,000 to his RRSP and receive the deduction for it in 2007. This is allowed because the carryforward rules allow an individual to make a contribution to their RRSP and deduct it at any point in time in the future based upon their earned income.

John is simply making the contribution while he still has an RRSP to allow him to take advantage of one more year of contributions.

## Spousal Contributions - A Second Way to Beat The Rules

John could also continue to contribute to a spousal RRSP after he winds down his RRSP as long as his spouse is under the age of 69 and he continues to have earned income. As well, he could take advantage of the above overcontribution strategy in the December of the year that his spouse must wind up her RRSPs.

### Remember....

For this strategy to work, an individual must have earned income that would allow them to deduct an RRSP contribution. Also, to minimize the penalty tax the contribution should be made in December.

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