2020 RRIF MINIMUM RELIEF MEASURES

For those clients making mandatory withdrawals from their RRIF

On March 25, 2020, the Federal Government enacted Bill C-13. This Bill provides relief for retirees who are making mandatory withdrawals from their RRIFs. It reduces the minimum withdrawal rate by 25% for 2020. Let's look at a hypothetical scenario to show how these changes could benefit a retired couple:

Julia and Morris

Julia (age 74) and her husband Morris (76) are both retired. They sold their house in 2018, downsizing to a condo better suited to their lifestyle. After selling their house, their non-registered GICs totaled $1,130,000. Their modest income needs are met through the following sources:

1. interest income ($1,917/ month),
2. their combined OAS ($1,000/month) and CPP ($1,650/month)

Large RRIF Balances

Julia's RRIF was valued at $1,040,000 as at January 1, 2020. Morris' RRIF was worth $648,000 as at the same date. Each has an average marginal tax rate of 30%. Prior to the new minimum RRIF withdrawal rules for 2020, Julia's minimum RRIF withdrawal for 2020 was $58,968 ($1,040,000 x the prescribed rate of 5.67%). This results in tax of **$17,690** ($58,968 x 30%). We have assumed optimal income splitting

Julia's minimum RRIF withdrawal declines by 25% from $58,968 to $44,226. As a result, her tax drops from $17,690 to **$13,268, a savings of $4,423**. For Morris, the savings are **$2,756**. Total household tax savings are $7,178 for 2020. These savings can allow the couple to take smaller monthly withdrawals moving forward.

New Monthly Withdrawals

Julia's previous monthly minimum RRIF withdrawals were $4,914 ($58,968/12). This means she would have already withdrawn $14,742 in the first three months of 2020. Nine months of withdrawals remain in 2020. With a new total minimum withdrawal requirement for 2020 of $44,226, $29,484 in withdrawals are needed over the next nine months. This gives an adjusted monthly withdrawal of ***$3,276*** (*$29,484/ 9 months*) from April onward). This is a tax deferral tactic because in the end the entire RRIF is taxed in full on future withdrawals

Some clients may have already withdrawn their annual RRIF minimum before these changes came into effect. In these cases, they will not have the option to re-contribute to their RRIFs up to the 25% reduction amount.

Clients should also consider a side benefit of minimizing the claw-back of income-tested benefits/credits when exploring the merits of this relief measure. For instance, an OAS claw-back occurs when net income is greater than $79,054 (2020). Advisors can help their clients determine if this is desirable for them.

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