

Spousal RRSPs Reduce Taxes: Now and During Retirement



Spousal Registered Retirement Savings Plans are not universally understood by investors, and are certainly not utilized to their maximum benefit.

These financial vehicles were designed to encourage retirement savings with tax breaks at time of contribution and at time of withdrawal, just like regular RRSPs.

Spousal RRSPs contain additional advantages for couples who have a partner earning higher income than the other. The greater the income discrepancy between the two partners . . . the greater the potential benefit at time of withdrawal.

What you need to Know

The contributor to an RRSP or a Spousal RRSP, receives the initial tax benefit. The contributor's taxable income is reduced by the amount of the contribution. A \$5,200 contribution (\$100/week) reduces taxable income by \$5,200 for the contributor whether it goes into their RRSP or into a Spousal RRSP.

While on-deposit, the investments are treated equally, growing tax free in an RRSP or a Spousal RRSP until the funds are withdrawn. (This assumes that the money is held in the Spousal RRSP for 3 years, otherwise any withdrawals are taxed as income for the contributor, not the spouse.)

At retirement, the household will rely on their savings in their RRSPs to generate income to cover their living expenses now that employment has ended. Both spouses in the couple would begin to withdraw from their RRSPs (or RRIFs). If there is a large discrepancy in the amounts in their RRSPs, one spouse could have significantly higher income than the other when withdrawals are made during retirement.

All other things being equal, a couple with a high-income spouse and a low-income spouse will pay more income tax than a couple with equal levels of income. There are ways to split income between spouses, but they have limitations, and are often under threat of being repealed.

As an example of the effects of balancing income without the aid of income splitting, a couple with one spouse earning \$75,000 and the other at \$0, will pay \$18,402 in income tax in 2017. A couple with each partner earning \$37,500 for a total of \$75,000 will pay \$15,375. A savings of more than \$2,500 each year!!

The Bottom Line

Together, along with your accountant, we should discuss the possibility of utilizing a Spousal RRSP strategy to reduce taxes now and during retirement.