RRSP Withdrawals

There can be a temptation to withdraw funds from your Registered Retirement Savings Plan ("RRSP") prior to your retirement. However, careful consideration should be given to the financial impact of this decision. Even though the Canada Revenue Agency ("CRA") allows for withdrawals from your RRSP at any time, it is important to keep in mind that the funds in an RRSP are designed to provide you with income for the duration of your retirement years. When funds are withdrawn from your RRSP, they are considered part of your taxable income and subject to income tax in the year of the withdrawal. If you place the funds in one of the qualified RRSP maturity options at retirement, you will be taxed only on the portion paid (i.e., withdrawn) to you each year.

Early withdrawals from an RRSP may seriously affect the amount of money you accumulate by retirement. For example, if you made a $10,000 RRSP contribution each year for 25 years and earned six percent per year, your RRSP would be worth $581,564 at the end of 25 years. However, all things being equal, if in the tenth year, instead of contributing $10,000, you withdrew $20,000, your RRSP would only be worth $505,353 after 25 years; a difference of over $76,000. It's also important to keep in mind that the funds withdrawn from your RRSP are subject to income tax in the year of the withdrawal.

Withholding tax

When you withdraw funds from your RRSP (other than for the Home Buyers' Plan or Lifelong Learning Plan), the trustee of your plan is required to withhold tax and remit it to the CRA on your behalf. When you prepare your annual tax return, the tax withheld is reported as tax already paid.

As shown in the following table, the percentage of withholding tax is based on the amount of the withdrawal.

Amount of payment	Withholding tax in all provinces except Quebec	Withholding tax in Quebec*
Up to $5,000	10%	19%
$5,001 to $15,000	20%	24%
More than $15,000	30%	29%

* In Quebec, the withholding tax is higher because it includes provincial and Federal tax.

Home Buyers' Plan

The Home Buyers' Plan ("HBP") is a Federal government program that allows you to withdraw up to $35,000 tax-free from your RRSP to purchase or build a qualifying home. You must be a first-time home buyer, as defined by the CRA, to participate in the program. However, access to the HBP is also extended to help Canadians maintain home ownership after the breakdown of a marriage or a common-law partnership.

Before applying to withdraw funds from your RRSP under the HBP, you must meet the following conditions:

- Have entered into a written agreement to buy or build a qualifying home for yourself, for a related person with a disability, or to help a related person with a disability buy or build a qualifying home. Obtaining a pre-approved mortgage does not satisfy this condition.
- Intend to occupy the qualifying home as your principal place of residence no later than one year after buying or building the house. If you buy or build a qualifying home for a related person with a disability, or help a related person with a disability buy or build a qualifying home, you must intend for that person to occupy the qualifying home as their principal place of residence.
- Be considered a first-time home buyer. You will be considered a first-time home buyer if you did not own a home that you occupied as your principal place of residence (or live in a home owned by your spouse or common-law partner which you both occupied), at any time between January 1 of the fourth year before the year of the HBP withdrawal, and ending 31 days before the date of the withdrawal.

In all cases, your repayable HBP balance on January 1 of the year of the withdrawal has to be zero.

Please note: Even if you or your spouse or common-law partner has previously owned a home, you may still be considered a first-time home buyer.

When making an RRSP withdrawal under the HBP you must meet the following conditions:

- Neither you, nor your spouse or common-law partner, or the related person with a disability whom you help buy or build the qualifying home for, can own the qualifying home more than 30 days before the withdrawal is made;
- Be a resident of Canada;
- Complete Form T1036 for each eligible withdrawal; and
- Receive all withdrawals in the same calendar year.

After all your HBP withdrawals have been made from your RRSP, you must meet the following conditions:

- Buy or build the qualifying home for yourself, for a related person with a disability, or help a related person with a disability buy or build a qualifying home before October 1 in the year following the year that the withdrawal was made.
- Your HBP withdrawal must be repaid to your RRSP over a 15-year period. Each year you will be required to repay 1/15 of the total amount withdrawn under the program. If you do not make a required annual repayment, the amount must be included as RRSP income on your income tax return.

While the HBP may initially look attractive – because no interest is paid on the loan from your RRSP – the loan is not free. The considerable cost to your RRSP is the potential growth of the loan amount and the compound income it could have earned over time. The younger you are, the greater the loss to your RRSP.

Lifelong Learning Plan

You may also make tax-free withdrawals from your RRSP through the Lifelong Learning Plan ("LLP"), to finance full-time training and education costs for you or your spouse/common-law partner. You may withdraw up to $10,000 a year, to a maximum of $20,000. If either you or your spouse/common-law partner is disabled, part-time training and education costs would be eligible. Amounts withdrawn from your RRSP through the LLP are considered a loan and must be repaid to your RRSP within 10 years. Generally, in each year of your repayment period you have to repay 1/10 of your original LLP balance, until the full amount is repaid. The first repayment must be made in the year following the last year that you or your spouse/common-law partner were enrolled full-time, or in the fifth year after the first withdrawal was made, whichever comes first. You may take advantage of this program more than once in your lifetime; however, once you begin making repayments to your RRSP no new withdrawals will be allowed until all repayments have been made.

First Home Savings Account

In 2023, the tax-free First Home Savings Account ("FHSA") was introduced. This new registered plan enables prospective first-time home buyers to contribute up to $40,000 toward saving for their first home on a tax-free basis. Similar to an RRSP, contributions to an FHSA are tax-deductible, and withdrawals to purchase a first home – including from investment income – are non-taxable, like a Tax-Free Savings Account ("TFSA").

In advance of a home purchase, FHSA holders are able to transfer funds from their RRSP to an FHSA on a tax-free basis, subject to the FHSA annual and lifetime contribution limits and the qualified investment rules. Although such transfers are subject to FHSA contribution limits, they are not deductible from income and do not reinstate an individual's RRSP contribution room.

Conversely, you can transfer your FHSA assets to your RRSP (or RRIF) on a tax-free basis, without impacting your RRSP contribution room, which provides flexibility if you have not used your FHSA assets to purchase a home within its 15-year lifetime (or age 71 restriction), thereby providing an additional boost to your RRSP savings.

An individual is permitted to make both an FHSA withdrawal and an HBP withdrawal in respect of the same qualifying home purchase.

To learn more about the new FHSA, please request a copy of our publication, *First Home Saving Account*.

For more information, please speak with your BMO Private Wealth professional.

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