

RRSPs aren't just for retirement

Registered Retirement Savings Plans (RRSPs) were introduced by federal legislation in 1957 to encourage Canadians to save for their retirement. Since then, there have been many changes that affect how money can go into and come out of them. Two programs that allow funds to be withdrawn from RRSPs for purposes other than retirement income are the Lifelong Learning Plan (LLP) and Home Buyers' Plan (HBP). Here's how they can benefit you:

Lifelong Learning Plan (LLP) - Sam and Linda have raised their children to school age with Linda as a stay at home mom. She wants to re-enter the workforce, but needs to upgrade her education so she can get back into her previous profession. Linda will be a full-time student.

While raising their children, Sam and Linda contributed to RRSPs both in Sam's name and in a spousal RRSP in Linda's name. They can withdraw up to \$10,000 each per year from their RRSPs, to a maximum of \$20,000 total, to help pay for Linda's education. They cannot make any withdrawals from Linda's locked-in RRSP.

Sam and Linda will be able to withdraw funds from their RRSPs without having to pay taxes on them as long as Linda participates in a qualifying educational program at a designated educational institution. They will have to pay back the funds within 10 years (sooner if the person who made the withdrawal dies, becomes a non-resident or reaches the age of 70). Sam and Linda will be required to repay a portion of the original withdrawal each year. If all or part of a repayment is not made, then the unpaid amount will be fully taxable.

Home Buyers' Plan (HBP) - Glenn and Jayne started RRSPs as soon as they entered the workforce. They are now ready to buy a home and may withdraw up to \$20,000 each from their RRSPs toward the purchase. They cannot make withdrawals from a locked-in RRSP plan.

The home must be in Canada and they must intend to occupy it as their principal residence within one year of buying or building it. Glenn and Jayne must also qualify as first-time home buyers in order to withdraw funds from their RRSPs without having to pay taxes on them. This means that neither could have owned a home and occupied it as a principal residence "at any time during the period beginning January 1 of the fourth year before the year of the withdrawal and ending 31 days before the withdrawal."

If Glenn and Jayne make any RRSP contributions within 89 days prior to making a withdrawal for HBP purposes, they will not get the tax deduction.

Glenn and Jayne will have up to 15 years to repay their withdrawals (sooner if the person who made the withdrawal dies, becomes a non-resident or reaches the age of 70). A minimum payment must be made each year. If all or part of the required annual repayment is not made, then the unpaid amount must be included as income for tax purposes.

This article is intended to provide a brief overview of the Lifelong Learning Plan and the Home Buyers' Plan for Canadian residents and is not intended to provide specific advice. For a free copy of the Canada Revenue Agency (CRA) guide for either plan, please contact the person below.

Want help with your RRSP strategies? Call today!

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