

April 22, 2015

Good News for TFSAs and RRIFs

Summary

Higher Tax-Free Savings Account (TFSA) contribution limits and lower Registered Retirement Income Fund (RRIF) minimum withdrawal rates were two changes announced in yesterday's federal budget that will have an immediate impact on our private clients once the budget comes into law:

- The maximum annual TFSA contribution limit will increase to \$10,000, from \$5,500, effective this year.
- Minimum withdrawal rates from RRIFs will decrease, effective this year. If you have already withdrawn the minimum this year, you will be able to re-contribute the difference between the old minimum and the new minimum.

TFSAs

The TFSA was introduced by the federal government in 2009 with an annual contribution limit of \$5,000. The limit was indexed to inflation in \$500 increments, resulting in a new limit of \$5,500 starting in 2013. The 2015 budget raises the limit to \$10,000 a year and ends the automatic inflation adjustments.

Since all unused contribution room since 2009 is carried over year after year, the total allowable contribution room since creation of the TFSA was \$36,500 until earlier this week. The new cumulative maximum is \$41,000. If you have extra contribution room, please contact your Portfolio Manager to discuss a transfer to your TFSA from your non-registered account at Foyston, Gordon & Payne (FGP) or to discuss alternate funding arrangements.

TFSA contribution room starts at age 18. If you have children who have reached this age, you can help them start saving tax-free by encouraging them to open their own FGP TFSA. Any financial gift you give them that they then contribute to their TFSA will not have any tax implications for you or your children.

If you do not yet have a TFSA with FGP, please contact your Portfolio Manager to set one up. In order to encourage our private clients to save, we have waived all investment management fees for TFSAs since 2009.

RRIFs

RRIFs have always had minimum withdrawals in order for the Canada Revenue Agency to recover a portion of the tax deduction you received when you originally contributed to your RRSP. With current low interest rates, these minimum withdrawal amounts are eating into the capital of many RRIF holders. The federal government decided to lower the minimums as follows:

Age at start of year	Old Minimum RRIF Withdrawal (%)	New Minimum RRIF Withdrawal (%)	Difference (%)
71	7.38	5.28	2.10
72	7.48	5.40	2.08
73	7.59	5.53	2.06
74	7.71	5.67	2.04
75	7.85	5.82	2.03
76	7.99	5.98	2.01
77	8.15	6.17	1.98
78	8.33	6.36	1.97
79	8.53	6.58	1.95
80	8.75	6.82	1.93
81	8.99	7.08	1.91
82	9.27	7.38	1.89
83	9.58	7.71	1.87
84	9.93	8.08	1.85
85	10.33	8.51	1.82
86	10.79	8.99	1.80
87	11.33	9.55	1.78
88	11.96	10.21	1.75
89	12.71	10.99	1.72
90	13.62	11.92	1.70
91	14.73	13.06	1.67
92	16.12	14.49	1.63
93	17.92	16.34	1.58
94	20.00	18.79	1.21
95 and over	20.00	20.00	No change

Source: Government of Canada Economic Action Plan 2015

If you already made your withdrawal this year based on the old minimum, you can now contribute the difference back into your RRIF and get a tax deduction. As the federal government's budget says: "Re-contributions will be permitted until February 29, 2016 and will be deductible for the 2015 taxation year." Here's an example:

Max had a \$100,000 RRIF balance on December 31, 2014. His minimum withdrawal percentage for 2015 was 7.99%. On January 31, 2015, he withdrew the minimum of \$7,990. The new minimum is 5.98%, or \$5,980. Max therefore "over-withdrew" \$2,010 relative to the new minimum. He can now put that \$2,010 back into his RRIF and get a tax deduction to offset the tax he was required to pay when he withdrew that extra \$2,010 from his RRIF.

If you withdrew the old minimum and would like to reinvest the difference, please contact your Portfolio Manager for information on how to re-contribute the extra amount.

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