

# Withdrawing from your RRSP

You've worked hard to contribute money to your RRSP!

The concept is that you will withdraw that money when you've decided to retire and you need a steady income from those investments.

The time may arise when you need to make RRSP withdrawals sooner. If that happens and it is for reasons other than retirement, stop and think twice.

Why? Well, consider the following:

- if you're going to pull the money out of your RRSP, you will lose contribution room equal to the amount withdrawn. There will be an immediate withholding tax of 10% on withdrawals of \$5,000 or less, 20% on withdrawals of \$5,001 to \$15,000, and 30% on withdrawals over \$15,000 and unless it is being used to pay down debt, then you're likely going to buy something that's going to immediately depreciate up to 30% ; plus to add insult to injury
- you will give up plenty in tax-deferred growth from inside your RRSP by making withdrawals early. - A \$5000 early RRSP withdrawal with 30 years to retirement, will result in you giving up \$87,250 in savings, based on a 10% return. A \$20,000 withdrawal with 20 years until retirement will cost you \$134,550!

At certain times, such as: unemployment, disability, maternity or paternity leave you may find yourself strapped for cash. Maybe, you've started a new business and haven't started generating any income yet. In these times of no or low income, at least these are tax-efficient times to make RRSP withdrawals.

The amount that all Canadians can earn without paying federal income tax was increased to \$9,600 for 2007 and 2008 and to \$10,100 for 2009. The bottom line is that, if you had no other income, you'd be able to withdraw \$9,600 from your RRSP and not pay a cent of tax on that income. Even if your income is over \$9,600, you'll still enjoy Canada's lowest marginal tax rate, about 20.35% on taxable income below \$35,000; combined Federal & B.C. Provincial rate.

In most cases these withholdings won't be enough to satisfy your full tax bill on the RRSP withdrawal, and you'll have to make up the difference when you file your tax return for the year of the withdrawal. In other cases, if your income is low enough, you may get back some of the withholding tax as a refund when you file your return. If you want to keep these withholdings to a minimum, be sure to limit each withdrawal to \$5,000 or less.

To summarize:

- early RRSP withdrawals can be done tax-efficiently if your income is low;
- all withdrawals are subject to withholding taxes;
- you'll lose contribution room equal to the withdraw amount; and
- you'll lose plenty in tax-deferred growth when you need it the most – for retirement.