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Spousal RRSPs: Beyond Pension Income Splitting

Have you considered the income splitting benefits of a spousal Registered Retirement Savings Plan (RRSP)? For married or common-law couples that anticipate having each spouse/partner in a different tax bracket due to differing retirement incomes, income splitting through a spousal RRSP may provide additional tax benefits beyond pension income splitting.

A spousal RRSP is a plan that you contribute to and is based on your available contribution room and for which you receive tax deductions, similar to a traditional RRSP. The difference is that a spousal RRSP is owned by your spouse, so any funds withdrawn are considered your spouse's assets and must be included on their income tax return, subject to any income attribution rules (described below). Similar to a regular RRSP, a spousal RRSP can be converted to a spousal Registered Retirement Income Fund (RRIF).

Pension income splitting rules allow you to allocate certain income from an RRIF (or RRSP annuity) after reaching the age of 65 to your spouse for tax purposes. The maximum amount that can be split with a lower-income spouse is one-half of this income. A spousal RRSP can enhance the income splitting opportunity if your spouse's future taxable income will be lower than yours, since the full amount withdrawn from the spousal RRSP or spousal RRIF may be included in your lower-income spouse's tax return.

As well, unlike pension income splitting with a regular RRIF, a spousal RRSP or spousal RRIF could be used to split income prior to the age of 65 to supplement your spouse's income during a sabbatical, a period of unemployment or while on parental leave.

If you have a younger spouse, a spousal RRSP can also delay the taxation of retirement income as the spousal RRSP does not have to be collapsed or converted into a spousal RRIF until the year the spouse reaches age 71. Contributions to the plan can continue as long as you have available contribution room and the spousal RRSP has not been collapsed or converted.

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Remember that the income attribution rules of the Income Tax Act generally apply if withdrawals are made by your spouse and you made contributions to any spousal RRSP within the same calendar year or either of the two previous calendar years. In these situations, the RRSP income would be taxed in your hands instead of your spouse's.

The three-year look back rule would not apply if the contributor dies, the relationship ends or if the payment was in respect of minimum RRIF withdrawals (excess RRIF withdrawals may be subject to the attribution rules).

To potentially avoid the attribution rules, you could stop making spousal RRSP contributions and instead fund your own RRSP in the years leading up to the time when withdrawals from the spousal RRSP are to be made.

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