

RRSP Savings



RRSP Savings Through Reduced Income Tax Withholdings on Employment Income

Each year you wait for your tax refund. This refund is a result of various deductions or tax credits, such as Registered Retirement Savings Plan (RRSP) contributions, that you used on your tax return to reduce your taxable income. However, you may not be aware that it is possible to increase cash flow during the year by reducing the income tax withheld on your employment income.

How to Increase Cash Flow

If the amount of income tax withheld on your employment income is reduced, you pay less income tax over the year rather than overpaying and then applying for a refund the following year. And instead of the Canada Customs and Revenue Agency or CCRA (formerly Revenue Canada) having the use of these excess tax withholdings during the year, you get to keep your own money.

This increased cash flow can help you make regular commitments, such as RRSP contributions. The RRSP deduction limit is frozen at \$13,500 for 2000 through 2003. This limit will increase to \$14,500 in 2004 and \$15,500 in 2005, after which the limit will be indexed to increases in the average wage.

With everyday financial demands consuming so much income, it is becoming more difficult to contribute a lump sum each year. And by delaying your contribution to the end of the RRSP season, you lose the opportunity to shelter that year's investment income from tax.

The best way to reach your RRSP limit is to contribute monthly. Notify the CCRA that your taxable income will be reduced by the annual RRSP contribution, thus allowing a reduction of payroll withholding taxes.

For instance, the 2000 limit of \$13,500 amounts to contributions of \$1,125 per month. By notifying the government of this contribution, your monthly tax bill could fall by as much as \$585, or 52 per cent of the contribution. When combined with other available reductions described below, the savings can be substantial.

CCRA Requirements

While the legislation requires that there be "undue hardship" before the CCRA can reduce employee withholdings, many district offices apply this rule liberally and will routinely permit a reduction of withholdings for certain deductions and tax credits. As in the case described above, the CCRA will normally permit a reduction in withholdings for RRSP contributions made early in the year. While the CCRA may request receipts showing that contributions have been made, based on RRSP contributions made in prior years, they may accept a letter stating that contributions will be made during the year. This reduction in withholdings not only applies to RRSP contributions, but can also be permitted based on the following deductions or credits:

- Tax-deductible alimony or separation allowance payments paid pursuant to written agreements or court orders made before May 1, 1997, and deemed to be child support payments unless otherwise identified in the order or agreement
- Tax-deductible interest and carrying charges on an investment or business-related loan
- Medical expenses
- Allowable business investment losses
- Child care expenses

Sample Source Deduction Letter

Canada Customs and Revenue Agency
Tax Services Office

Attn.: Source deductions regarding tax deduction waivers

REQUEST FOR REDUCTION OF TAX DEDUCTIONS AT SOURCE

Name _____ SIN _____

Address _____

_____ Phone no. (business) _____

Employer's name _____

Name of payroll officer _____

Address _____

_____ Phone no. (business) _____

Address of payroll office, if different from above _____

I hereby request an authorization for my employer to take into consideration an additional exemption for source deduction purposes because I anticipate the following allowable deduction(s) for the year 19____.

1. **Registered Retirement Savings Plan Premiums:** \$ _____

Attach photocopy of receipts for contributions already made or supply details of contributions to be made on a regular purchase plan.

2. **Interest and Carrying Charges on Investment Loans:** \$ _____

Attach copy of loan agreement with lender; or supply statement(s) from lender(s), confirming amount(s) and date(s) of loan(s) and estimated interest for the taxation year. State purpose of the loan and details of investment of principal amount of loan. For mutual fund investment, attach copy of receipts.

3. **Alimony or Separation Allowance Payment Deemed to Be Child Support Payments to:**

Name _____ SIN _____

Address _____ \$ _____

Attach copy of judgment or written separation agreement (including any previous agreement) if not previously filed with the department. Judgment or written agreement must have been made before May 1, 1997 for these payments to be deductible and payments must not be identified as solely for the support of the former spouse.

Sample Source Deduction Letter, continued

4. Other: \$ _____

Specify and provide full details on separate sheets if necessary (e.g., child care expenses, limited partnership losses, mining, or other tax shelter investments).

STATEMENT OF ESTIMATED INCOME FROM ALL SOURCES IN 19____

Salary, bonuses, etc. \$ _____
Commission income less expenses claimed on TDIX (*Attach copy.*) \$ _____
Interest and foreign dividends \$ _____
Dividends from Canadian taxable corporations (*State actual amount.*) \$ _____
Net rental income (loss) \$ _____
Other income (*Specify business, capital gains, pension, etc.*) \$ _____

Are tax returns filed for all years now due? _____

If not, state years for which returns have not been filed _____

Explain why tax returns not filed _____

Has assessment notice been received for the latest year required to be filed? _____

If not, state date return filed _____

Were any taxes unpaid on filing? _____

If yes, state amount of debit _____

If refund claimed, state approximate amount of refund claimed \$ _____

I claim personal tax credits for 19____ for dependants.

Spouse (common-law spouse, or equivalent to married) _____

I certify that the information given in this statement is correct and complete to the best of my knowledge and belief.

Date _____ Signature _____

As well, some district offices permit reduced withholdings based on certain tax shelters. The procedure for obtaining the reduction in your employee withholdings may vary depending on the requirements of specific taxation offices.

Generally, to apply for a reduction in withholdings, you must send a letter to the source deductions section of the appropriate district taxation office, indicating which deductions or credits you rely on to support the reduction in withholdings in accordance with the undue hardship provision of subsection 153(1.1) of the Income Tax Act. Copies of receipts in support of the reduction, if available, should be enclosed.

The following information should be included in the letter:

- The name and address of your employer
- The name of your employer's payroll officer
- Your social insurance number

You should also indicate whether all tax returns due have been filed and if taxes owing with respect to prior years have been paid. In a separate schedule, you should provide a calculation of estimated income from all sources for the year.

The CCRA does not provide an official form on which this information can be submitted. However, the sample letter on the previous two pages may be used as a guideline. Some local tax service offices will provide an informal form for their own administrative purposes, so you should check with your local tax service office for additional guidelines.

If the CCRA grants the request, it will send a letter to your employer indicating that tax withholdings can be reduced by a specific amount. A copy of this letter will be sent to you. This procedure must generally be repeated each year.

Note: If you are a member of a Group RRSP, your employer's payroll department will handle your RRSP contributions and your tax deductions. However, if you do not contribute to your RRSP through payroll deductions, you need to send a letter of request to the CCRA.

Residents of Quebec must send a separate letter to the Quebec Ministère du Revenu in addition to the request sent to the CCRA. This should ensure Quebec taxpayers obtain both provincial and federal withholdings relief.

This Taxation Bulletin has been prepared with assistance from the Chartered Accounting firm of

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