Retirees: Turn Your RRSP Into a RRIF to Pay Less CRA Taxes When You Retire

Description

Retirement brings a host of surprises to Canadians. A costly expense that planners often underestimate or give less importance is tax. Would-be retirees must realize that tax planning doesn't end when you leave the workforce. You'll still contend with the Canada Revenue Agency (CRA). Taxes are thorns, because they impact retirement cash flow.

Aside from living expenses, healthcare costs, and discretionary expenditures, such as a dream vacation, a retiree must include taxes in the budgeting process. If you're looking forward to finally tap your Registered Retirement Savings Plan (RRSP), implement a strategy that could reduce taxes owed to the CRA.

The RRSP is a tax-deferred account, but there's an age contribution limit. You must close the account and withdraw the funds at the end of the calendar year you turn 71. Once you collapse it, the CRA will tax the lump sum withdrawal. The better recourse is to convert your RRSP into a Registered Retirement Income Fund (RRIF).

Advantages from conversion

The CRA regulates, if not dictates, how users manage their RRSPs. Its withdrawal rules are clear. All RRSP withdrawals before you retire are subject to withholding and income taxes. For the lump sum withdrawal upon account closing, the tax due on the entire nest egg is significant.

However, converting of your RRSP into an RRIF is the best call to avoid incurring a massive tax bill. Like the RRSP, the RRIF is a tax-deferred account. As long as you hold your funds in the RRIF, the CRA will not tax the money. Any assets in your converted RRIF will grow tax-free.

Another advantage of the conversion is that an RRIF enables you to have better control over investments. More so, you can temper the withdrawal of your retirement income. Although RRIF withdrawals are likewise taxable, you can withdraw the prescribed minimum amount per year or more, depending on your lifestyle and needs.

Continue building retirement wealth

You can transfer investments held in your RRSP directly to your new RRIF account. Many Canadians who use their RRSPs to build retirement wealth generally invest in dividend all-stars. Among the ideal choices is **Canadian Western Bank** (TSX:CWB).

The 36-year-old financial institution from Edmonton is a top regional bank in the country. It has a $2.48 billion market capitalization and provides personal and business banking products and services, mostly to clients in Western Canada. This bank stock is perfect in an RRSP because of its exemplary dividend-streak record.

Canadian Western Bank has increased its dividend for 28 calendar years in a row. The stock price today is $28.50, while the dividend yield is a decent 4.07%. Analysts covering CWB are bullish and forecast a price appreciation of 23%, from $28.50 to $35, in the next 12 months.

After delivering solid results in the fiscal year 2020, its president and CEO Chris Fowler expects the bank to be a leader in Canada's wealth industry. CWB acquired iA Investment Counsel Inc., a leading provider of financial planning and wealth management services for high-net-worth Canadian families in June 2020.

Systematic withdrawals

The conversion to RRIF is most helpful. Retirees can make systematic withdrawals. Withdraw the minimum amount or only the money you need to avoid landing in a higher tax bracket.

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