Spousal RRSPs Explained

Canadians have limited opportunities to transfer income from one spouse to another if both are salaried employees. Spousal RRSPs are one practical way of income splitting. They help defer taxes immediately and reduce taxes in retirement. The long term objective of investing in a spousal RRSP is to minimize taxes for a couple during retirement by putting retirement income in the hands of the lower income spouse. It's based on the assumption that the current lower-income spouse will continue to be in a lower income tax bracket during retirement. By equalizing each spouse's retirement income, the overall tax bill is reduced by keeping both spouses in a lower tax bracket. When deciding whether to contribute to either your RRSP or to a spousal RRSP, you should attempt to estimate both your and your spouse's income from all sources in retirement. Your goal should be to equalize these incomes at that time – by doing so, you will achieve income splitting which will minimize your taxes in your retirement years.

How does it work?

The higher income spouse contributes to a RRSP for the lower income spouse. If you belong to a CUMIS Group RRSP plan, it may allow for spousal RRSP accounts. Check your plan booklet for more details. The amount contributed can be used as a tax deduction for the contributor. Your spousal RRSP contribution, when combined with your own personal RRSP contribution, may not exceed your personal RRSP contribution room. The contributions, once in the spousal account, become the property of the spouse.

For example, let's look at Sam who earns $50,000 a year. Sam's contribution limit is $9,000 (based on the contribution limit of 18% of previous year's earned income and assumes no carry-forward of unused contributions or over-contributions). Sam may contribute $9,000 to his personal RRSP, or $9,000 to a spousal RRSP, or a portion to each RRSP as long as the total contribution does not exceed $9,000.

Canada Revenue Agency has defined a three-year attribution rule. This rule is designed to prevent a high-income spouse from contributing to a spousal plan and then having the funds withdrawn soon thereafter and taxed in the hands of the lower-income spouse. The rule states that if your spouse withdraws assets from their spousal RRSP within three calendar years of your last contribution to a spousal RRSP, the withdrawal is treated as income on your personal tax return (this does not include redemptions under the Homebuyers Plan). If the withdrawal is made more than three years after the last contribution, the withdrawal is treated as income on your spouse's tax return.

Finally, a spousal RRSP is also a way to defer taxes if you are no longer able to contribute to a personal RRSP once you are older than age 71. As long as your spouse is 71 or younger, you can contribute to a spousal RRSP and still claim the tax deduction.

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