

Ottawa to proceed with cuts to RRIF withdrawals

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Taxpayers won't face penalties if proposed change isn't passed, CRA says

The federal government will let investors take advantage of some tax measures proposed in the fall economic statement even though the fiscal plan was not passed before Parliament was shut down.

The Canada Revenue Agency said Thursday that Canadians will be able to take advantage of a proposal included in the economic update to reduce the minimum withdrawal from their registered retirement income funds (RRIF) by 25% for this year.

"In light of prorogation of Parliament, many seniors and financial institutions are seeking confirmation that they can act upon the government's proposal," Minister of Revenue Jean-Pierre Blackburn said in the release.

The release says the CRA has advised banks that the CRA can administer the proposed change before it is passed.

The agency also said taxpayers and financial institutions acting in good faith will not face penalties if the proposed change does not end up being passed, but taxpayers may have to withdraw the ineligible amount from their RRIF if that happens.

"I want to assure Canadian seniors, who are understandably concerned about the impact of the recent sharp decline in financial markets on their retirement savings, that the government is committed to allowing them to keep more of their savings in their RRIFs for 2008," Finance Minister Jim Flaherty said in the release. "We recognize the difficult circumstances they face. That is why we acted, and that is why we fully intend to proceed with the RRIF proposal."

The RRIF measure reduces by 25% the minimum amount that a senior must withdraw from his or her RRIF in 2008.

If a senior has already withdrawn more than the new reduced minimum amount, he or she can re-contribute the excess (up to the original minimum amount) and can claim a deduction on this amount for 2008. Similar rules will apply to variable benefit money purchase registered pension plans.