A few years ago I wrote on the ability to borrow from your RRSP, and the response to the article was quite unexpected. In fact, in the fifteen + years that I have been writing for The TaxLetter, this is the one article that spurred a lot of emails to me regarding the ability to actually use your RRSP as a personal credit facility. We all know that withdrawing from your RRSP before it’s time results in a punitive tax hit to you; so if there is a legitimate way to access your RRSP funds before you “turn of age”, then I guess that will make for a popular topic. And since there have been some small updates to certain strategies since I last wrote on this issue, I thought it might be worthwhile to do a little refresher on the topic, and provide an update on the practicalities of actually borrowing from your RRSP.

Essentially, there are three ways to access your RRSP funds prematurely without triggering a penalty:

1. The Home Buyers’ Plan
2. The Lifelong Learning Plan
3. The “RRSP Mortgage

The Home Buyers’ Plan

If you need money from your RRSP because you are buying a home, this plan is the alternative to an out and out withdrawal. A tax-free withdrawal of up to $25,000 can be made under the “Home Buyers’ Plan” (previously this amount was capped at $20,000). Basically, the withdrawal is designed to apply only if you - and your spouse, if married legally or common-law - are “first-time” home buyers (a four-year look-back rule applies - see below). The withdrawal must be repaid in equal installments over 15 years - to the extent that a minimum repayment for a year is not made, the shortfall is taxed in your income. The 15-year repayment period commences in the second calendar year following the calendar year of the RRSP withdrawal, but payments made in the first 60 days of a year count as repayments for preceding year. For example, if you make a withdrawal in 2018, you must commence making RRSP repayments under the Home Buyers Plan by March 1, 2021.

There’s no specific restriction on “doubling up” on the withdrawal e.g., where a home is held in co-tenancy. For example, a husband and wife may together withdraw up to $50,000 (i.e., up to $25,000 from each spouse’s plan).

You’re generally eligible for the plan provided that:
❖ you’ve never participated in the program before;
❖ you’ve signed an agreement to build or purchase a qualifying home;
❖ the home (or a replacement property) is bought or built by October 1 of the year following the year in which you’ve received the funds from the RRSP or (extensions are available in some instances); and

Samantha Prasad, LL.B., is a tax partner with the Toronto-based law firm Minden Gross LLP, a member of Meritas Law Firms Worldwide, and a Contributing Editor of The TaxLetter, published by MPL Communications.
you intend to occupy the 
home as your principal place 
of residence within one year 
of buying or building the 
home.

Finally, a “look-back” rule 
prohibits ownership of an owner-
occupied home by you or your 
spouse (including a “common 
law” spouse) for a period of four 
years or so.

Is a Home Buyers Plan with-
drawal a good idea?  The big 
problem with the home buyer’s 
plan is that you could be caught 
in a cash-flow crunch that could 
lead to tax penalties down the 
road. Firstly, the cash-flow drain 
due to repayments to the plan 
may impinge on your ability to 
make your regular - tax-
deductible - RRSP contributions 
in the future. So, without the 
RRSP write-off, your tax bill 
could go up. Worse still, if the 
required Home Buyer’s Plan 
repayment - which is not 
deductible - is not made on a 
timely basis, then you’ll suffer a 
进一步 taxable benefit. Even 
harsher rules may apply if you 
pass away or cease to be a Cana-
dian resident. (Note: Restric-
tions apply to deductions for 
ordinary RRSP contributions if 
made less than 90 days before 
the withdrawal.)

If you or your spouse are 
about to drop into a low tax 
bracket (e.g., there are plans to 
retire from the workforce), the 
Home Buyers’ Plan may make 
more sense. For example, the tax-
able benefit resultant from non-
repayment may result in little or 
no adverse tax consequences 
under these circumstances.

Having said this, participat-
ing in a Home Buyers’ plan is 
usually a better bet than an out-
right withdrawal from your plan, 
which is a straight add-on to your 
taxable income in the year of 
withdrawal – the only problem is 
whether $25,000 is enough in 
this real estate market!

The Lifelong 
Learning Plan

Tax-free withdrawals from 
RRSPs are also allowed to support 
what the government calls “life-
long learning.” Taking a page 
from the “Home Buyer’s Plan,” 
you can withdraw up to $10,000 
per year from your RRSP, to a 
maximum of $20,000 over a 4 
year period, if you or your spouse 
is enrolled in a qualifying educa-
tional or training program (nor-
mally full-time for at least three 
months during the year).

Withdrawals are repayable to 
the RRSP over a period of 10 
years in equal installments; other-
wise there will be a taxable bene-
fit. Repayments must normally 
commence in the year following 
the last year of full-time enrol-
ment, or in the sixth year after 
the first withdrawal, if earlier.

If you do not have an RRSp, 
you can’t set one up and then 
immediately make a withdrawal 
under the lifelong learning plan; 
the contribution must be in the 
RRSP for at least 90 days before 
you can deduct in from your 
income. If you already have an 
RRSP, you must also wait 90 days 
from the date of any contribution 
before you can get the deduction 
and withdraw the funds.

Is a Lifelong Learning with-
drawal a good idea? The answer 
is fairly similar to the Home 
Buyer’s Plan. Having to fund 
RRSP repayments will, no doubt, 
interfere with your ability to 
make regular - tax-deductible - 
RRSP contributions. This prob-
lem could come at a time when 
you’re in a higher tax bracket 
than when the RRSP withdrawal 
was made. If this is the case, it 
may often make sense to “pass 
up” the “lifelong learning” 
opportunity and make an ordi-
nary taxable withdrawal from 
your RRSP to fund education, 
then make a regular tax-
deductible contribution when 
the workforce is re-entered. The 
basic personal exemption will 
now cover off $11,635 of taxable 
income, not to mention tuition 
and education tax credits which 
may also be available to shelter 
the withdrawal.

The RRSP Mortgage

The Home Buyers’ and Lifel-
long Learning Plans are not true 
loans (instead, tax penalties apply 
if you don’t restore the funds to 
your RRSP within applicable 
time limits) - but the RRSP mort-
gage is. You can take out a loan 
from your RRSP provided that it 
is insured by the CMHC or a 
public mortgagor insurer (such as 
Genworth Financial Canada or 
AIG United Guaranty Canada). 
This is an exception to the rule 
that an RRSP cannot hold the 
mortgage of the plan-holder or a 
family member.

You might use your loan to 
pay down your mortgage. So 
instead of paying mortgage inter-
est to the bank, you pay yourself. 
In this case, your benefit is large-
ly based on the difference 
between the interest rates you’d 
otherwise pay on your mortgage 
(i.e., this is what you “save”) and 
the return you’d make on your 
RRSP if you didn’t follow this 
strategy. In addition, if you are 
paying more into your RRSP 
than the return you would make 
on a conventional investment,
you will have more money compounding in your plan on a tax deferred-basis.

There is no tax rule that you have to use your RRSP loan to pay down your mortgage, or even put the money into your home, for that matter - the tax rules require that the loan must be secured by Canadian real estate. So the loan might be used, for example, to provide financing for a new business (the mortgage insurer must approve of the use, though). What’s more, if the money is used for business or investments, the interest should generally be tax-deductible to the borrower. (The CMHC does not allow these “equity take out” loans, though; so when it comes to this sort of thing, you’re better best is to go with Genworth or AIG.)

According to CanRev, the “RRSP mortgage” - which must be secured by Canadian real estate - must have normal commercial terms, including market interest rates.

Now you might be thinking that this is a great idea, and how do you sign up? Well, word of caution. Obtaining an RRSP mortgage is not as easy as it may seem. For one thing, the insurance providers such as Genworth tend to be very particular about when they would provide insurance, especially as some believe that when you borrow from your own RRSP, there may be a higher risk of default. Why? Well, some people may think that when they are borrowing from themselves, then maybe it’s not such a big deal if one or two payments are missed. However, CRA in addition to the mortgage insurers would have an issue with this since you would effectively be taking money tax free from your RRSP without repaying it.

Tax Tip #1. One interesting use of an RRSP mortgage could be to make a catch-up contribution to your RRSP - that is, if you haven’t maxed out on your RRSP contributions in the past. It works like this: your RRSP makes you a mortgage loan. Then you put the proceeds right back into your RRSP - as a catch-up contribution, that is - and you get a tax deduction based on the amount of your catch-up contribution.

Tax Tip #2. It’s possible to make an RRSP mortgage loan to another family member. It is also possible (theoretically, at least) to do the RRSP mortgage manoeuvre based on a second mortgage or even a vacation property. However, it may not always be possible to get mortgage insurance in these circumstances as the insurers tend to shy away from the risk associated with a non-income producing property (especially if it is already subject to another bank’s mortgage).