How to get the pension income tax credit

Is withdrawing from a RRIF and contributing to an RRSP a good strategy of getting this credit?

by Janet Gray
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Q: I am 65 years old and will have income for the next three years. I want to open a Registered Retirement Income Fund (RRIF) and transfer some money into it to take advantage of the pension credit on a $2,000 withdrawal. While doing so, can I then turn around and use that $2,000 as part of my contribution to my RRSP? In other words, can you withdraw from an RRIF and contribute to your RRSP in the same year?

—Rhonda P.

A: Thank you, Rhonda, for your question. I assume that you do not have a pension—and you didn't mention the value of your RRSPs. For many, it's a great strategy to open an RRIF and transfer net $2,000 from your RRSP in order to take advantage of the pension credit. Be sure to transfer a little bit extra to the RRIF so the $2,000 withdrawal does not deplete the RRIF and cause it to close. Your financial institution will advise you on what the minimum amount is to keep the RRIF open. Or you can transfer as a lump sum.

And yes—you can technically withdraw from an RRIF and then contribute to an RRSP—if you have the room and are still under 71 years of age. You then get the $2,000 pension credit which reduces income taxes payable. Then, by contributing $2,000 to your RRSP, you will receive a tax deduction that reduces taxable income.

I suggest running a trial tax return to judge the value of this, and also to confirm with a tax accountant or CRA themselves if this strategy is suitable for your situation.

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