

Getting the RRIF Re-Contribution Deduction Right — The CRA Corrects Its Error

Every Canadian taxpayer who holds money in a registered retirement income fund, or RRIF, is required to withdraw a specified percentage of the balance each year, with the withdrawal amount increasing each year with the taxpayer's age. This minimum amount is mandated by law – a taxpayer may always withdraw more than the statutory minimum amount but can never withdraw less, even if the funds aren't needed outside the RRIF.

The financial crisis that began in the fall of 2007 and the precipitous drop in the value of investments (especially those held in the stock market) that followed placed RRIF holders in a difficult position in 2008. The law required them to make the usual annual withdrawal, but their funds, in many cases, were tied up in investments that had suffered a dramatic drop in value. Funds would have to be withdrawn from the depleted balances of those investments and, once withdrawn, would lose any opportunity to rebound when the hoped-for market recovery took place.

Recognizing the significant financial hardship that many older taxpayers would be facing as a result, the federal government moved, in the fall of 2008, to provide a one-time partial exemption from the mandatory annual RRIF withdrawal. It announced, as part of the Economic and Fiscal Update released in November 2008, that RRIF annuitants of any age would be entitled to reduce their required withdrawal amount for 2008 by 25 per cent. As the announcement was made so late in the tax year, the government recognized that many RRIF annuitants would already have withdrawn more than 75 per cent of their required withdrawal for the year. It therefore proposed that RRIF annuitants who had withdrawn more than the new, lower, required withdrawal for the year would be entitled to re-contribute any excess amount and to claim a deduction for that re-contribution on their tax return for the 2008 tax year. Finally, the deadline for re-contribution was extended past the end of the year, and taxpayers had until April 14, 2009 to make a re-contribution which would then be deducted on the 2008 tax return, which for most affected taxpayers would be filed on or before April 30, 2009.

Unfortunately, all of these changes were being considered, proposed, and implemented as the personal income tax return forms for the 2008 tax year were being prepared and printed by the Canada Revenue Agency. Perhaps because of that, a number of tax forms were printed without the line on which the taxpayer would claim a deduction for a qualifying RRIF re-contribution, effectively preventing them from claiming the deduction to which they were entitled and denying them the benefit of the entire program. Even more unfortunate, the types of return forms most often used by seniors, many of whom are RRIF holders, were some of those affected by the omission. Specifically, the T1Special and the T1S-A for seniors for the 2008 tax year do not include the RRIF deduction line. Unless the taxpayer or his or her tax advisor was otherwise aware of the availability of the deduction, they would not know about the taxpayer's right to re-contribute and claim an offsetting deduction.

To ensure that affected taxpayers receive any deduction to which they are entitled, the CRA has issued an announcement that taxpayers who believe that they may be affected should contact the Agency's individual help line at 1-800-959-8281 and speak to a client services agent. Alternatively, the taxpayer can check his or her copy of the return that was filed – the RRIF re-contribution deduction would have been claimed on line 232, which appears on page 3 of the return and is identified as "Other deductions".

If the taxpayer made a qualifying re-contribution (that is, a contribution of up to 25 per cent of the 2008 required withdrawal that was re-contributed on or before April 14, 2009), the taxpayer can request and will receive an adjustment to his or her 2008 tax return, to reflect the re-contribution deduction. Adjusting the return to include the deduction will, of course, reduce the taxpayer's federal income tax liability for the 2008 tax year and, since the tax for that year has already been paid, should produce a refund. Note that the CRA has not extended the deadline by which a qualifying re-contribution can be made – only re-contributions made by April 14 of this year can be claimed.

Taxpayers (or their advisors) who know that they were entitled to a re-contribution deduction but were unable to claim it can simply go ahead and file a T1 Adjustment Request. The form for doing so can be found on the CRA's Web site at <http://www.cra-arc.gc.ca/E/pbg/tf/t1-adj/t1-adj-08e.pdf>. An adjustment request can also be filed online, and direction on how to do so, as well as information on filing a request by mail, is available on the CRA's Web site at <http://www.cra-arc.gc.ca/tx/ndvdl/tpcs/ncm-tx/chnqrtrn-eng.html?=#lnk>.

Finally, it's worth noting that T1 Adjustment Requests can be made by any taxpayer who realizes that he or she has made an error in completing a tax return for any of the previous 10 years (that is, for 1999 or later tax years). By now, virtually all individual Canadian taxpayers who filed by the tax filing deadlines will have received a Notice of Assessment for the 2008 tax year. It's useful to review that Notice of Assessment, even where the numbers agree with those provided on the tax return. The complexity of our tax laws results in a detailed and sometimes confusing tax return form, and it's easy to miss an available deduction or credit, even where the forms used are correct and complete. Filing a T1 Adjustment request can ensure that the taxpayer gets all of the deductions or credits to which he or she is entitled, and that's a result that every taxpayer can embrace.