

Payout Annuity Taxation

Understanding tax on registered and non-registered annuities



Insurance

All annuity payments are subject to tax, but the tax treatment of an annuity, whether life or term certain, differs depending on the source of the funds. The table below explains the tax treatment of both registered and non-registered prescribed annuities.

Type of Contract	Taxation of Annuity Payments												
Registered contracts and withholding tax	<p>Annuities purchased with funds from Registered Retirement Savings Plans (RRSPs), spousal RRSPs, Registered Retirement Income Funds (RRIFs), spousal RRIFs, locked-in plans or pension plans are considered registered annuities.</p> <p>All payments from registered annuities are 100% taxable and reported as income to the taxpayer in the year they are received.</p> <p>Tax will be automatically withheld at source from each gross annuity payment and will be remitted to the government on your behalf. You will receive an annuity payment net of applicable withholding taxes.</p> <p>The tax withheld from your annuity payment depends on your residency and on the annual amount withdrawn.</p> <p>The following chart illustrates the withholding tax rates required to be withheld.</p> <table border="1"><thead><tr><th>Amount of annual annuity payment</th><th>Withholding tax for residents of all provinces (except Quebec)</th><th>Withholding tax for residents of Quebec</th></tr></thead><tbody><tr><td>\$5,000 or less</td><td>10%</td><td>20%</td></tr><tr><td>\$5,000.01 to \$15,000</td><td>20%</td><td>25%</td></tr><tr><td>\$15,000.01 or more</td><td>30%</td><td>30%</td></tr></tbody></table> <p>For non-residents, withholding tax is 25% unless reduced by a treaty. See www.cra-arc.gc.ca/E/pub/tp/ic76-12r6/README.html.</p> <p>Your choice to waive tax withholding at source You have the option to waive any taxes withheld at source when applying for an RBC® Payout Annuity (with the exception of RPP-locked-in funds). You must indicate your choice on the RBC Payout Annuities Application form.</p> <p>Reporting taxable income You will receive a T4RSP/T4RIF or T4A (depending on the type of fund used to purchase your annuity) for the total amount of payments received during the previous calendar year. You will be responsible for reporting these amounts as taxable income and the credit for the withholding tax at source.</p> <p>Please note that the tax withheld may not always be enough to offset the tax you owe in your tax bracket. As a result you may have to pay more tax on your annuity payments when you include the amounts on your personal tax return.</p>	Amount of annual annuity payment	Withholding tax for residents of all provinces (except Quebec)	Withholding tax for residents of Quebec	\$5,000 or less	10%	20%	\$5,000.01 to \$15,000	20%	25%	\$15,000.01 or more	30%	30%
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<p>Registered contracts and withholding tax</p>	<p>Example John Anderson is retired and living in Ontario. He owns a single life registered annuity that provides him with a gross monthly payment of \$1,000 (or \$12,000 per year). The tax withheld at source is calculated based on his total annual payments, even though he's receiving his payments on a monthly basis.</p> <p>Based on his circumstances, John falls in the 20% withholding tax bracket, which means that 20% will be withheld at source from each monthly payment.</p> <p>Gross monthly payment = \$1,000 Required withholding tax = 20% Required withholding tax amount (\$1,000 x 20%) = \$200</p> <p>According to this calculation, John will receive a net monthly annuity payment of \$800</p>
<p>Non-registered contracts</p>	<p>All RBC Payout Annuities are taxed on a "prescribed" basis. This means that payments are a level blend of interest and capital, where only the interest portion is taxable in the year it is received.</p> <p>Reporting taxable income There are no taxes withheld at source, but rather, a T4A will be issued for payments made in the previous calendar year. You will be responsible for reporting these amounts as income on your personal income tax return and will be taxed at your marginal tax rate.</p> <p>If you meet certain criteria outlined by Canada Revenue Agency, you may qualify for the pension income tax credit, and you may be able to claim up to \$2,000 on your annual federal tax return if you reported annuity payments. Please visit the Canada Revenue Agency website for more details at www.cra-arc.gc.ca</p>

This is a general summary of income tax considerations for owners of contracts who are Canadian residents. You should consult your tax advisor about your individual circumstances at the time of purchase of your Payout Annuity Contract.

For more information, please contact your insurance advisor today.



Insurance

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Clients should consult their own lawyer, accountant or other professional when planning to implement a strategy. This will ensure that their own circumstances have been considered properly and that action is taken on the latest available information. Interest rates, market conditions, tax rules and other investment factors are subject to change. RBC Life Insurance Company makes no warranties, expressed or implied, as to the accuracy or completeness of the information contained herein. RBC Life Insurance Company shall not be liable for any losses or damages arising from any errors or omissions in such information or results, or any action or decision made by you in reliance on any information or results.

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