

Withholding tax on RRSP or RRIF or any derivative account.

Many people freak out over withholding tax and wrongly in my opinion. Withholding tax is not an additional tax. It is prepaid tax. For example, if your annual income tax bill is \$15,000 and you were subject to a \$7,000 tax withholding on an RRSP or RRIF redemption, your tax balance owing is \$8,000.

Redemptions from an RRSP account are subject to withholding tax in the following manner:

- 10% (5% for Quebec) on amounts up to and including \$5,000;
- 20% (10% for Quebec) on amounts over \$5,000 up to and including \$15,000; and
- 30% (15% for Quebec) on amounts over \$15,000.

Redemptions from an RRIF account are subject to withholding tax rates in the same manner for redemptions above the mandatory RRIF minimum withdrawal.

Why is there withholding tax on retirement accounts? I am not sure this story is true, but it does illustrate the point. There was a time when withholding tax didn't exist. People redeemed their whole account and the government waited until tax time to receive their cut. The people left the country to never be heard from, and to never pay tax, again. The government said enough of this. We are going to get a reasonable amount up front directly from the withdrawal.