

Checklist

Transferring a retiring allowance or severance pay

Here's what you need to know before transferring a retiring allowance or severance pay to a plan member's registered retirement savings plan (RRSP), voluntary retirement savings plan (VRSP), defined contribution pension plan (DCPP) or simplified pension plan (SPP).

Definitions

Retiring allowance: an amount paid by an employer to an employee when the employee retires or later, in recognition of his or her years of service.

Severance pay: an amount paid by an employer to an employee due to the employee's loss of employment, whether or not it was paid as damages or pursuant to a court order or judgment.

A retiring allowance or severance pay includes:

- Payment for unused sick leave
- Amounts received when employment was terminated, even if the amount is for damages (e.g. wrongful dismissal when the employee does not return to work)

A retiring allowance or severance pay does not include:

- Wages, salaries, bonuses or overtime pay
- Benefits derived from certain counselling services
- Damages and interest awarded as a result of the actual or alleged breach of an employee's rights under human rights legislation, to the extent that such amounts are not taxable
- Superannuation or pension benefits
- For federal tax purposes, wages in lieu of a termination notice under the Act respecting labour standards, the Canada Labor Code or an equivalent legislation
- Amounts received as a result of an employee's death (may be treated as death benefits)
- Payments for accumulated vacation leave not taken before retirement

Can be transferred to:

- An RRSP
- A VRSP
- A DCPP (will generate a pension adjustment)
- An SPP (will generate a pension adjustment)

Portion eligible for transfer:

Years of service before 1996: \$2,000 for each calendar year (partial or full) of employment with the employer (or another related employer).

Years of service before 1989: \$1,500 for each calendar year (partial or full) of employment with the employer (or another related employer) where none of the employer's contributions to a pension plan or deferred profit sharing plan were vested.

- Not subject to withholding tax when transferred directly to the plan
- Subject to withholding tax if withdrawn
- A transfer to an RRSP or a VRSP does not affect the RRSP deduction limit
- A transfer to a DCP or an SPP reduces next year's RRSP deduction limit, because a pension adjustment must be reported. In addition, the transfer to a DCP or SPP (along with the other annual contributions) is subject to the pension adjustment limits. Briefly, these limits **correspond to the lesser of** the money purchase limit for the year **and** 18% of the compensation received from the employer for the year (excluding any severance pay or retiring allowance).
- Cannot be transferred to a spousal RRSP without affecting the RRSP deduction limit
- Must be reported on the plan member's T4 slip in the Other information area using code 66, and on the RL-1 (Québec) slip in Box O using code RJ in Box "Code (case O)"

Portion not eligible for transfer:

Years of service after 1995 and any amount exceeding the portion eligible for transfer:

- Treated as a new contribution for the employee
- Not subject to withholding tax when transferred directly to the plan and the RRSP or VRSP contribution does not exceed the maximum allowable contribution that can be deducted for the current year (refer to the Notice of assessment, section RRSP Deduction Limit Statement)
- Subject to withholding tax if withdrawn
- Can be transferred to a spousal RRSP as a contribution
- A transfer to a an RRSP or VRSP affects the RRSP deduction limit
- A transfer to a DCP or an SPP reduces next year's RRSP deduction limit, because a pension adjustment must be reported. In addition, the transfer to a DCP or SPP (along with the other annual contributions) is subject to the pension adjustment limits. Briefly, these limits **correspond to the lesser of** the money purchase limit for the year **and** 18% of the compensation received from the employer for the year (excluding any severance pay or retiring allowance).
- Must be reported on the T4 slip in the Other information area using code 67, and on the RL-1 (Québec) slip in Box O using code RJ in the Box "Code (case O)"

For more information about the taxation of retiring allowances, visit the [Canada Revenue Agency website](#).

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200, rue des Commandeurs, Lévis (QC) G6V 6R2 / 1-866-647-5013 desjardinslifeinsurance.com