



RRSP to RIF Conversions

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Outline

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- Conversion Options
- Deregistration
- Fair Market Valuation Issues
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RRSP Conversion to RIF

- By December 31 of the year in which an RRSP annuitant turns 71 years of age all RRSPs held by the annuitant must be converted to a RIF.
- A RIF is essentially a reverse RRSP from which the annuitant is required by the Canada Revenue Agency to withdrawal a minimum specified amount each year.

Options for Converting Your RRSP to a RIF

- Redeem/Sell the shares held in the RRSP (i.e. sell the shares back to the CEDIF) or sell the shares to another person. The cash is then transferred to a financial institution which offers RIFs.
- Unfortunately in many cases the CEDIF which issued the share is not required to redeem and a purchaser may be hard to find.

Options for Converting Your RRSP to a RIF

- The second way to convert the shares to cash is to “swap” the shares within the RRSP for their cash value. In this situation the annuitant herself/himself buys the shares from the RRSP at their market value.
- The shares here are no longer within the RRSP but are held directly by the person and the RRSP now has cash which is then transferred to a RIF

Options for Converting Your RRSP to a RIF

- Find a financial institution which will accept the transfer of the shares into a Self-Direct RIF which has other cash holdings which can be used to make the required annual cash withdrawal from the RIF until the CEDIF shares can be either redeemed or sold to another investor.

Deregistering Instead of Converting to a RIF

- De-register the shares (i.e. withdraw them from the RRSP). Under this scenario the shares are removed from the RRSP and the annuitant receives a T4RSP and declares the value of the de-registered shares as income upon which income tax is due in the year in which they were de-registered.

Fair Market Valuations Required for RRSP Conversion to a RIF

- How to determine the fair market value of the CEDIF Corp. shares at the point of transfer which is a Canada Revenue Agency requirement.
 - No public market
 - Private arms length sales (agreed price would be market value) difficulty finding buyers
 - Formal business valuation too expensive for most transactions

CEDIF Incorporated Under the Co-operative Associations Act

- Co-op shares normally have par value which is their issue price and under law the co-operative is required to redeem shares.
- The Act states that the shares may be redeemed at par value or a lesser amount if book value is less and approved by the directors. This is equivalent to the market value of the shares.
- Note if co-op shares are non-par value and non-redeemable the face they same valuation issues noted above for a CEDIF Corp.

Valuation Challenge

- Because of these issues of fair market valuation, transactions may be vulnerable to CRA audits which could determine that the shares have been transferred/converted to RIF at an incorrect value.

Conclusion/Suggestions

- Ensure CEDIF investors are aware of conversion issues before placing shares in an RRSP particularly if shares are not redeemable.
- CEDIFs need to seek ways for their investors to sell their shares to interested parties for RIF conversion.
- Comfort with CRA needs to be sought regarding an acceptable market valuation process.