Retirement Compensation Agreement (RCA)

Tonin&Co.
CHARTERED PROFESSIONAL ACCOUNTANTS
WEALTH MANAGEMENT

Overview

Incorporated business owners looking to supplement retirement savings beyond allowable pension plan and RRSP limits, may wish to consider establishing a retirement compensation agreement (RCA). These plans are approved by the Canada Revenue Agency and offer flexible tax and retirement savings solutions that can allow an individual to top up retirement benefits beyond the maximum contribution limits of RRSPs or IPPs.

An RCA is generally defined as a pension plan under which the private corporation makes contributions on behalf of the owner (or key employee). These contributions fund benefits payable to the individual upon retirement. All contributions made to the RCA are deductible for the company. Assets in the RCA compound tax-free.

The RCA pays 50% of the annual contributions to CRA to a refundable tax account (RTA), with the remaining 50% invested to fund future retirement benefits. Half of the net realized income in the investment gains is remitted annually to the RTA. Additionally, half of net losses from the investments can be recovered by the investment account, subject to prior year gains that have been paid to the RTA.

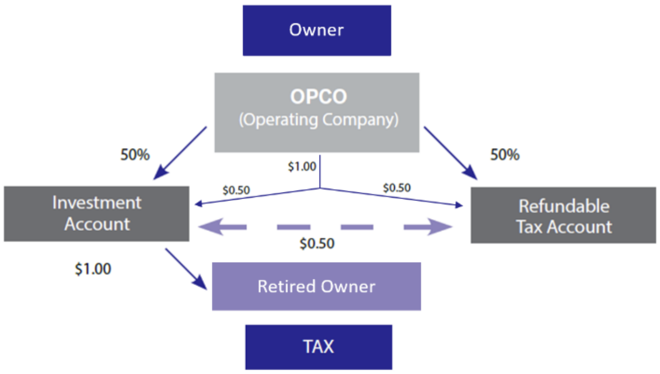
An RCA is typically considered if additional retirement funding is needed after an individual pension plan (IPP) is already established, due to the fact that the 50% refundable tax that goes to CRA does not earn interest while it is held. For every dollar that is withdrawn from the RCA, 50 cents is refunded from the RTA account until the balance is zero.

Due to annual limits on contributions, RCAs are best suited for individuals earning more than $150,000.

Withdrawals from the RCA are flexible with no age requirement, or maximum cap on payment amounts. If not needed to fund retirement, RCA investment balances can be passed on to a surviving spouse or other beneficiaries.

Quick Facts

- RCAs are specifically designed for business owners of incorporated companies, or incorporated professionals.
- These plans are typically the most beneficial to individuals in their 40s or 50s who are drawing a salary of over $150,000 from their corporation, or for companies with more than $200,000 in corporate profit.
- Contributions to the plan are 100% funded by the corporation and are tax-deductible.
- Set-up fees and administration expenses associated with the RCA are tax-deductible to the corporation.
- Contributions to an RCA are not taxable benefits, and are also exempt from payroll and healthcare taxes.
- RCA assets on death are excluded from the estate and not subject to probate if a valid beneficiary is named.
- Up to 90% of assets in the RCA can be borrowed and loaned back to the corporation if required.
- Contributions and investment earnings are 100% creditor proof.
- Simplified flow of money to and from an RCA:



Planning Considerations

- Depending on the beneficiary's tax situation, withdrawals from the RCA may be taxed at lower rates than the initial 50% withholding level when the deposit was made, resulting in a refund of tax to the RCA investment account.
- Coordination of the timing and amount of withdrawals with other retirement income sources will be critical to ensure that the lowest amount of total tax is paid on the withdrawals.
- If amounts in the RCA trust are not required to fund retirement lifestyle during the beneficiary's lifetime, the RCA account proceeds may be passed on to the next generation.
- Proposed changes to tax rules for private corporations may make an RCA strategy appealing to a wider range of private companies looking to protect and save corporate surpluses for usage in retirement.

Consult your accountant, financial planner, or investment manager to determine what strategies are best for you.

You have the vision. We have the focus.
For more information on how to preserve your wealth
and successfully plan for your future, please contact us.
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