

# Life Letter *mature*

## Beware of "tax-free cash from RRSPs" schemes

Warnings have been issued by Canada Revenue Agency (CRA) about schemes that promise tax-free withdrawals from registered retirement savings plans. Some investors have lost their retirement savings and are still liable for the income taxes on them.

There has been an increase in promotions of schemes that claim you can access your RSP funds without technically withdrawing them. These schemes typically involve using RRSP or RRIF funds to buy an investment, like a mortgage or private company shares, in an arrangement that gives access to the cash, minus the promoter's fee.

Promoters may offer any of the following:

- Unrealistic investment returns.
- Access to funds in "locked-in" RRSPs or RRIFs. These funds originated in a pension plan and are typically not accessible until they are paid out as income after age 65.
- Tax deductions of three or more times the amount invested in the RSP.
- Withdrawing funds from an RSP without paying income taxes. A promise may be made by the promoters to return part of the investment by means of offshore credit or debit cards, loan-back arrangements or offshore bank accounts.

These schemes must be avoided because of:

**Horrendous tax costs** - When deposits are made to an RRSP, they are tax deductible within certain limits. Funds are fully taxable when they are withdrawn. This rule also applies when an RSP makes a *non-qualified investment*. These schemes may involve just

such an investment. If so, taxes will have to be paid on the entire value of the investment made by the RSP, plus interest and penalties.

**Retirement savings at risk** - In some cases, the promoters of these schemes have simply vanished along with the RSP funds. The Federal court of Appeal has held that the taxpayer is still liable for the income taxes on the RSP withdrawal.

These schemes can look legitimate and can be professionally promoted. Some even use opinion letters from lawyers or accountants that seem to endorse the scheme.

It is crucial that you seek independent tax and legal advice from a professional not connected to the scheme before investing in any of these arrangements.

According to CRA in November 2007, 3,100 taxpayers have been reassessed resulting in \$144 million added to income of participants in these schemes. Another \$84 million is currently being audited.

You are encouraged to report a questionable scheme to CRA at 1-800-267-3100 (English) or 1-800 267-5565 (French).

***Want help with your retirement plans?  
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