

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 defined contribution pension plan (DCPP), simplified pension plan (SPP), registered retirement savings plan (RRSP) or voluntary retirement savings plan (VRSP):

Definitions

Retiring allowance: an amount paid by an employer to an employee when the employee retires, 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

<p>A retiring allowance or severance pay includes:</p>	<ul style="list-style-type: none"> • 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)
<p>A retiring allowance or severance pay does not include:</p>	<ul style="list-style-type: none"> • 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 • Wages paid in lieu of a termination notice (for federal tax purposes only) • 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
<p>Can be transferred to...</p>	<ul style="list-style-type: none"> • DCPP and SPP (will generate a pension adjustment) • RRSP • VRSP
<p>Portion eligible for transfer</p>	<p>Years of service before 1996: \$2,000 for each year or part of a year of employment Years of service before 1989: \$1,500 for each year or part of a year of employment where none of the employer's contributions to a pension plan or deferred profit sharing plan were vested in the employee's name when the employer paid the retiring allowance</p> <ul style="list-style-type: none"> • Not subject to withholding tax when transferred directly to the plan • Subject to withholding tax if withdrawn • Does not affect the RRSP and VRSP contribution room. However, a transfer to a DCPP or SPP will reduce the RRSP contribution room for subsequent years • Cannot be transferred to a spousal RRSP • Must be reported on the plan member's T4 slip in the Other information area using code 66, and the RL-1 slip in Box O and 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: <ul style="list-style-type: none">• Treated as a new contribution for the employee• Not subject to withholding tax when transferred directly to the plan and the RRSP contribution does not exceed the maximum allowable contribution that can be deducted for the current year (refer to the "Available contribution room" amount found on the RRSP/PRPP Deduction Limit Statement)• Subject to withholding tax if withdrawn• Can be transferred to a spousal RRSP• Does affect the RRSP and VRSP contribution room• Must be reported on the T4 slip in the Other information area using code 67, and on the RL-1 slip in Box O using code RJ in the Code (case O) case.
For more information	www.cra-arc.gc.ca/tx/bsnss/tpcs/pyrll/rtrns/t4/spcl/trnsfr-eng.html