

Tax Tip
Week of March 1, 2010

Avoid RRSP Schemes

CRA has issued a warning that there are currently a number of RRSP schemes that promise tax free withdrawals from RRSPs and RRIFs. However, taxpayers that invest in these schemes may end up losing a portion of their retirement savings. CRA has reassessed over 5,000 investors who participated in these schemes resulting in additional taxable income of approximately \$250 million. Additional audits are ongoing.

According to CRA taxpayers should avoid schemes that promise the following:

- withdrawal of funds from an RRSP or RRIF without paying tax—promoters often promise to return part of the taxpayer's investment by offshore debit or credit cards, offshore bank accounts, or loan-back arrangements;
- immediate access to assets in "locked-in" RRSPs or RRIFs;
- income tax receipts providing deductions of three or more times the amount invested in an RRSP; and
- unrealistic returns on investments.

Typically, promoters of these questionable schemes direct the owner of a self-directed RRSP or RRIF to purchase a particular investment through a specific trustee. The particular investment could be shares in a company, units of participation in a co-operative, a mortgage, or other types of investments.

Taxpayers should avoid these schemes for two reasons:

1. These arrangements can put their retirement savings at risk. In some cases, the promoter walks away with all the funds and cannot be found. Many Canadians have lost their entire retirement savings to unscrupulous promoters by participating in such arrangements.
2. The full amount of any withdrawal or ineligible investment is included in the taxpayer's income in the year the investment was made

or the withdrawal occurred, even when the savings are lost to the promoters. Interest and penalties may also be levied for amounts not reported.

The promotion of these schemes usually appears very professional, and makes the schemes appear legitimate. Various promotional methods may be used, such as the Internet, local newspaper advertisements, and/or promotional meetings. Promoters often provide opinion letters from professionals that give the impression that the letter writer endorses the scheme. These letters should not be interpreted as providing any assurance that these schemes do what they claim to be doing or that the promised tax benefits are in accordance with the Income Tax Act.

If you are thinking about investing in one of these arrangements, it's very important that you get independent legal and tax advice. Independent advice means advice from a tax professional that is not connected to the scheme or promoter.