Tax Alert

Warning: Investing in schemes that promise you tax-free withdrawals from RRSPs and RRIFs could result in you losing your retirement savings

The Canada Revenue Agency (CRA) is finding an increasing number of questionable Registered Retirement Savings Plan (RRSP) and Registered Retirement Income Fund (RRIF) tax-free withdrawal schemes. The CRA is warning that investing in such schemes could result in you losing your entire retirement savings to unscrupulous promoters and in a reassessment of your tax returns.

Stats and Facts

- To date, the CRA has reassessed over 3,100 taxpayers who participated in these schemes resulting in additional taxable income of approximately $144 million.
- Audits of another 1,800 taxpayers with $84 million in RRSP and RRIF investments are currently underway.
- Audits on other arrangements are about to begin.

Questionable RRSP/RRIF schemes

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 deductions of three or more times the amount invested in an RRSP;
- 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. 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. This means that taxes are assessed on these amounts, as well as any applicable interest. Penalties may also be levied for amounts not reported.

2. 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.

These schemes are promoted to look legitimate.

The promotion of these schemes usually appears very professional and makes the schemes appear legitimate. Various promotional methods may be used, including the Internet, local newspaper advertisements, and 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*.

Get professional, independent advice.

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 who is not connected to the scheme or promoter.

Come to us before we come to you.

The CRA has increased its RRSP compliance activities to include promoter audits and audits of trust companies. If you have invested in one of these arrangements and wish to correct previous omissions or errors, you can do so through the CRA's Voluntary Disclosures Program. If you make a full disclosure before any compliance action or investigation is started, you may only have to pay the taxes owing plus interest. More information on the **Voluntary Disclosures Program** is available at the CRA Web site at **www.cra.gc.ca** under the heading "Voluntary Disclosures."

If you encounter a questionable scheme, please call 1-800-267-3100 (English) or 1-800-267-5565 (French).

Previous Tax Alert and Compliance Bulletins:

Owners of self-directed RRSPs should use caution with tax-free withdrawal schemes

Compliance Bulletin No. 3

Compliance Bulletin No. 4