FINANCIAL

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NEWSLETTER

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Unlocking Your LIRA

In Alberta, if you have a provincially regulated Locked-In Retirement Account (LIRA) and you are age 50 or over, you may unlock up to 50% of the funds in your account and transfer them “in-kind” to an existing RRSP or Life Income Fund (LIF). A LIF for a LIRA is similar to a RRIF (Registered Retirement Income Fund) for an RRSP. Typically, you open one in retirement, or by age 71 at the latest, and begin government-mandated annual minimum withdrawals.

By transferring your LIRA to a LIF and commencing annual withdrawals thereafter, you can simultaneously unlock up to 50% of the account.

A withdrawal from any registered account, a LIRA included, is generally taxable. Exceptions may be available under government programs, including the Home Buyer’s Plan and the Lifelong Learning Plan.

Withholding tax rates will apply at source on any withdrawal from your LIRA; when you file your tax return, actual tax rates in Alberta, as high as 48%, may apply.

There are five reasons you can unlock your provincially regulated LIRA in Alberta, and gain access to the funds, for financial hardship.

Low income – You can unlock up to $27,650 in 2017 if your income for the next 12 months will be less than $36,867.00.

Foreclosure – You, or your pension partner, has been notified of a pending foreclosure on a mortgage or line of credit secured by your primary residence. You can unlock up to the amount overdue plus the cost of any legal fees you have incurred.

Eviction for rent arrears – You, or your pension partner, are being evicted from your primary residence due to rent owed. You may be eligible to unlock up to the amount of the unpaid rent.

First month’s rent and security deposit – You, or your pension partner, need first month’s rent plus the security deposit for a new home where you will live.

Medical costs – You, or your pension partner or your dependents, have out-of-pocket medical expenses not otherwise covered by another source in the past 12 months or the next 12 months. Allowable medical expenses can include a renovation to your home due to an illness or disability. You can unlock up to the amount of the expenses you have paid in the past 12 months or will pay in the next 12 months.

Your “pension partner” is defined in Alberta as someone you are married to or your common-law partner of more than 3 years (less if you have a child together) and he or she is required to sign a waiver form to permit a withdrawal from your LIRA. As your pension partner has rights to some part of your pension in the event of separation or death; a waiver must be signed.

Other circumstances where the “unlocking” of all or a portion of a LIRA or LIF is allowed include:

- small balances in the account, under a specified threshold amount;
- becoming a non-resident of Canada;
- shortened life expectancy;
- spousal or child maintenance enforcement orders.

Principal Residence Exemption Rules

The principal residence exemption allows for all or part of the realized capital gain on the sale of a taxpayer's principal residence to be tax free. For the purposes of the principal residence exemption, the Canada Revenue Agency defines the taxpayer to be a family unit consisting of the taxpayer, their spouse and any unmarried minor children.

The CRA permits a family unit to designate one residence as their principal residence for any given year. Families with one home would have only one principal residence which means they would get full exemption from tax on any capital gains.

Until recently, the CRA did not require a taxpayer to report the sale of their principal residence on their income tax return. Unlike the sale of a property not classified as a principal residence where the capital gains realized would be reportable and taxable, the sale of a residence designated as the principal residence was exempt from tax reporting and from inclusion of any capital gain or loss into income or as a deduction. However, on October 3, 2016, the Canadian Government announced administrative and legislative changes to CRA's reporting requirements for the sale of a principal residence. Starting with the 2016 tax year, a taxpayer is required to report basic information related to the sale of their principal residence. The minimum information to be reported includes the year of acquisition, the proceeds of disposition, and a description of the property sold. In some cases, the principal residence exemption does not cover all of a taxpayer's capital gain on the sale of their home. In those cases, additional information must be provided to determine the full amount of the gain and the portion of the gain that is exempt.

These changes only impact the reporting of the sale of a principal residence and do not change the tax exemption associated with the sale of a principal residence. However, not reporting the sale of a principal residence could be costly. The normal time limits on reassessments no longer apply to unreported real estate sales. CRA can reassess an unreported real estate sale at any time and has the discretion to accept or reject a principal residence exemption claim that is not filed as part of the original tax return for the year of the sale.

These changes also apply to transfers of a principal residence other than a sale; for example, a gift to a child, or a bequest under a Will.

Budgeting Tips for Post-Secondary Students

- **Make a budget, and revisit it often:** Preparing a budget is the best way to stay in good financial shape when you are away at school. There are several online tracking tools available, which automatically keep track of your spending.
- **Do your research:** Check online sources to see if you qualify for free money you don't have to pay back, such as scholarships, bursaries or grants.
- **Only borrow what is necessary:** Your budget will include all the money you have for education – RESPs, savings and scholarships. Compare that to the total cost of school, both hard and discretionary costs, and only borrow what is needed to fill in the gap.
- **Take advantage of your student status:** Ask for student discounts everywhere you go – hairs salons, retailers and restaurants around campus. Take public transit, rent or buy used textbooks, and change your mobile phone plan to ensure you are only paying for what you need.

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