

Severance Payment

RRSP Process and FAQs

The following outlines the process and guidelines approved by the Canada Revenue Agency for the payment of severance amounts to be contributed to an RRSP. All RRSP payments will be deposited into the employee's bank account along with their pay for the applicable pay period. Employees will then be responsible for transferring the severance payment to their personal RRSP.

Process

Severance Payments under \$15,000

- You must complete the attached Declaration of Intent form and submit to Human Resources, which will confirm that you agree to contribute the amount of your severance to an RRSP.
- You must have personal RRSP contribution room available.
- Income tax will not be deducted from the total severance payment amount.
- CPP and EI premiums will be deducted from the payment unless you have already reached the annual maximum or are CPP exempt.

Severance Payments of \$15,000 or more

- To avoid income tax deductions from your severance, you need to request a personal tax waiver from CRA. To do this, you must complete a T1213 form (Request to Reduce Taxes at Source) and submit to CRA for approval. This approval can take up to 60 days.
- The T1213 form can be located on the CRA website at: <https://www.canada.ca/en/revenue-agency/services/forms-publications/forms/t1213.html>
- When you receive your CRA approval CRA, send it to Human Resources immediately. If you do not receive approval for the amount requested, please email severance@mun.ca to determine what options may be available to you.
- If you have not received your CRA approval prior to the payment date for the Quarter you selected, please email HR at severance@mun.ca and we will delay the payment for you until the appropriate documentation has been received.
- After the severance payment has been made, you will contribute the amount of your severance to an RRSP.
- CPP and EI premiums will be deducted from the payment unless you have already reached the annual maximum or are CPP exempt.



Severance Payment

Declaration of Intent – Reduction to Tax Withholding

Severance payments made prior to the end of employment are considered to be employment income for income tax purposes. The Canada Revenue Agency has given special permission for the University to pay severance without deducting income tax in cases where employees declare that the amount paid will be contributed to an RRSP.

Employee Information (please print)

Social Insurance Number:	
Employee Name:	

Conditions

1. You agree to contribute to your RRSP, or to your spouse’s RRSP, as a deductible contribution for the year that you receive the payment, all or part of the severance paid to you. The contribution is based upon your maximum RRSP deduction limit even if you contribute to your spouse’s or common-law partner’s RRSP.
2. The contribution must not exceed:
 - The amount of the payment you receive;
 - Your RRSP deduction limit for the year in which you receive your payment; or
 - \$15,000

Agreement

I agree contribute all of the severance payment I receive OR the remaining portion of my severance payment, as I also chose to receive a portion as a cash payment.

Employee Signature

Date

Note: You can find your maximum RRSP deduction limit by consulting one of the following:

- Your most recent Notice of Assessment or Reassessment
- Your personal account at www.cra.gc.ca/myaccount
- Quick Access at www.cra.gc.ca/quickaccess
- Tax information Phone Service (TIPS) at 1-800-267-6999. To use TIPS, you will need your social insurance number, month and year of your date of birth, and the total income reported on line 150 of your previous year’s tax return.
- Call CRA inquiries line for individuals at 1-800-959-8281.

FAQs

1. Can my severance be treated as a retiring allowance?

No. It is an early severance payout and therefore it must be treated as employment income.

2. Will I get an extra \$2,000 of "RRSP room" for each year I was employed before 1996?

No. The severance payout is not a retiring allowance, so the CRA rules surrounding retiring allowances, such as the pre-1996 eligible room and transfers to RRSPs, do not apply. If you want the flexibility that is offered to retirees when collecting their severance, you will have to wait until you retire. The severance payout is a one-time lump sum payment and is treated as employment income and subject to all applicable deductions. Information regarding retiring allowances can be found on the CRA website.

3. Why is my severance payout subject to EI and CPP deductions when it's being transferred to an RRSP?

This is not an RRSP transfer similar to what we would facilitate at retirement. The severance payout is employment income and it is not considered a retiring allowance. As such, it is subject to all applicable statutory deductions (e.g. income tax, CPP, and EI); however, if all or a portion of your payment is transferred to an RRSP, subject to availability of RRSP contribution room, it is possible that you may not be required to pay income tax on the amount transferred. The payment is still subject to EI and CPP deductions unless you have already reached the annual maximum or are CPP exempt.

4. I have been instructed to complete a Declaration of Intent form? What is this?

The Declaration of Intent is a Canada Revenue Agency (CRA) requirement and must be completed by you and maintained on file by the University. It is the basis upon which the University can pay severance directly to you, for contribution to an RRSP without deducting income tax. By completing and signing the form, you agree to contribute the RRSP amount to your or your spouse's RRSP for the taxation year in which you receive your payment. Should you not to complete the RRSP transfer, when you file your taxes for the year in which the payment was made, you will be required to pay income tax on the full severance amount.

5. Will/can Memorial transfer my payment directly into an RRSP?

No. Memorial cannot facilitate the transfer of funds to the financial institution. The severance payment will be paid directly to you. If you wish to contribute to your RRSP, and you have the RRSP room to do so, the funds can be paid to you without income tax withholding as per the above information and you will then make the contribution to your RRSP. Any financial institution/provider is fine, provided the contribution is being made to a registered RRSP.

6. How do I know if I have enough room in my RRSP's to cover what I wish to contribute from my severance payment?

You will find your amount of personal RRSP contribution room for the year in which you elect to receive your severance on your Notice of Assessment (NOA) issued by the Canada Revenue Agency (CRA).

7. Where can I find my Notice of Assessment (NOA)?

You can obtain a copy of your Notice of Assessment (NOA) by logging into My Account from the Canada Revenue Agency (CRA) website <https://www.canada.ca/en/revenue-agency/services/e-services/eservices-individuals.html> or by calling 1-800-959-8281. Questions about your personal RRSP contribution room should also be directed to CRA by calling 1-800-959-8287.

8. What if the \$15,000 tax waiver from CRA is not enough to cover my full payout?

If you expect your severance payout to be more than the \$15,000 covered by the waiver, you have two options:

- i. You can receive up to \$15,000 of your payout, without income taxes deducted, to be contributed to an RRSP if you have the personal RRSP contribution room to do so. The remainder will be paid to you with income taxes deducted.
- ii. To contribute more than \$15,000 to an RRSP without income taxes deducted, you must apply to CRA for a personal tax waiver. Please refer to the above process information regarding the submission of a T1213.

9. Who do I contact if I want to speak with someone about the T1213 form?

If you have a question about filling out or submitting the T1213, you can contact the inquiry line at CRA (1-800-959-8281).

10. When should I transfer the RRSP payment?

You would be responsible to make the RRSP transfer for the tax year in which you receive the payment (e.g. paid in 2020, transfer for 2020 tax year). Consult with your financial advisor or your financial institution to determine how and when to transfer the RRSP payment.

Further FAQ information can be found here:

http://www.mun.ca/hr/services/my_employment/SeveranceFAQs-Final.pdf