

Retirement Compensation Arrangement (RCA) in Canada: *How It Works*



By Conor McGowan Reviewed October 29, 2026

SIMPLE SUMMARY

An RCA can fund a supplementary retirement promise. A conventional funded RCA splits contributions between the custodian and 50% refundable tax; retirement payments are generally taxable. Compare it with an IPP and RRSP before committing corporate capital.

50%

CONVENTIONAL RCA REFUNDABLE
TAX

\$100,000

ILLUSTRATIVE GROSS
CONTRIBUTION

3

RETIREMENT STRUCTURES
COMPARED

[Get the PDF ↓](#)

- 01. What is a Retirement Compensation Arrangement in Canada?
- 02. Who might use an RCA—and who should be cautious?
- 03. How do the employer, custodian and employee fit together?
- 04. How does the 50% RCA refundable tax work?
- 05. A simple example: what happens to a \$100,000 RCA contribution?
- 06. What happens to investment earnings, payments and refunds?
- 07. Are RCA contributions deductible? Are retirement payments tax-free?
- 08. RCA vs IPP vs RRSP: what is the difference?
- 09. Can life insurance fund an RCA?
- 10. Did the 2023 RCA rules remove the 50% tax?
- 11. What are the costs and risks of an RCA?
- 12. What should you bring to an RCA or IPP review?
- 13. Frequently asked questions
- 14. Compare your retirement options
- 15. Official sources

What is a Retirement Compensation Arrangement in Canada?

A Retirement Compensation Arrangement, or RCA, is an employer-sponsored arrangement for benefits connected with retirement, loss of employment or a substantial change in the employee’s services. Funds are generally held by a custodian

for eventual payment to a beneficiary. It is not a registered pension plan or a personal investment account.^[1]

The word **arrangement** is the term used in the Income Tax Act. You may also hear “Retirement Compensation Agreement.” The agreement is the legal document setting out the promise and its terms; changing the document’s name does not change the tax rules.^[2]

For a high-income owner or executive, the attraction is additional retirement provision beyond what a registered pension or RRSP can deliver. The trade-off is real: refundable tax ties up capital, administration costs money, and the eventual retirement payments are taxable. An RCA is tax deferral with obligations, not a way to make corporate money disappear from the tax system.

02

Who might use an RCA—and who should be cautious?

An RCA may be worth reviewing when an employer wants to fund a genuine supplementary retirement promise for an executive or an owner-employee. A registered plan’s benefit limits, existing pension benefits, expected retirement income and long-term corporate funding capacity all matter.

- An executive with an employer-supported pension top-up.
- An incorporated owner with sustained compensation and a documented retirement-income need.
- A company able to commit capital without weakening operating reserves or acquisition funding.

It is less compelling when the business needs ready access to every dollar, retirement objectives are uncertain, or simpler registered savings remain underused. Being incorporated or having a large tax bill does not by itself justify an RCA.

There is no universal salary threshold that makes an RCA suitable. Start with the benefit being promised, whether compensation is reasonable, and the full after-tax cash-flow comparison—not a product pitch.

How do the employer, custodian and employee fit together?

ROLE	RESPONSIBILITY
Employer	Documents the retirement promise, makes contributions, withholds/remits refundable tax and meets reporting requirements.
Custodian	Holds and administers RCA assets, files the T3-RCA return, manages the refundable-tax account and reports distributions.
Employee or beneficiary	Receives benefits under the arrangement and reports taxable distributions. Employee contributions may also be involved.
Legal, tax and investment specialists	Review the agreement, compensation, funding, investments, reporting and payment terms.

The agreement should address who is entitled to benefits, payment events, vesting, death, termination, contributions and how any remaining assets are handled. Assets held by a custodian should not be treated as an unrestricted corporate cash account.^[1]

Creditor protection is not automatic. Trust terms, insolvency law, ownership, timing and the employer’s obligations need legal review.

How does the 50% RCA refundable tax work?

In a conventional funded RCA, the employer withholds 50% of the gross contribution and remits it to CRA for the RCA trust. The other half reaches the custodian. Investment income and gains within the RCA also enter the refundable-tax calculation under Part XI.3 of the Income Tax Act.^{[1][3]}

The refundable-tax balance is not an investment account earning a return for the RCA. That creates a funding drag: money awaiting refund is unavailable for investment. A strategy comparison must reflect it.

CRA can refund tax to the custodian as distributions reduce the arrangement’s refundable-tax balance. The refund depends on the statutory calculation, tax balance, returns and claim deadlines. It is not an automatic personal tax refund to the retiring owner.^[4]

Refundable does not mean cost-free. *Capital can remain tied up for years, investment returns are uncertain, and retirement benefits are still taxable to the recipient.*

05

A simple example: what happens to a \$100,000 RCA contribution?

Assume a company makes a **\$100,000 gross contribution** to a conventional funded RCA. Ignore fees, investment returns and special arrangements. This is a synthetic teaching example, not a client case or a funding recommendation.

ILLUSTRATIVE GROSS CONTRIBUTION • \$100,000

\$50,000

To the custodian for investment

\$50,000

Withheld and remitted as refundable tax

Two equal halves of the same \$100,000 gross contribution. Refundable tax is not an additional \$50,000 on top in this example.

STEP	AMOUNT	MEANING
Employer’s gross contribution	\$100,000	Total committed before fees and any corporate tax deduction.
Refundable tax remitted	\$50,000	Held through the RCA refundable-tax system.
Initial assets with custodian	\$50,000	Available for investment, subject to costs and plan terms.

If the employer instead pays \$100,000 *directly to the custodian without withholding*, CRA's guidance says it must remit an equal amount of refundable tax. That is a \$200,000 gross contribution, not the \$100,000 split shown above. The distinction matters when someone quotes "the RCA deposit."^[1]

Do not compare \$50,000 of RCA investable assets with \$100,000 of another account's investable assets while ignoring corporate and personal tax. Compare the same employer cost, the eventual net retirement income, fees, investment assumptions and refund timing.

06

What happens to investment earnings, payments and refunds?

The custodian must account for RCA investment income and gains in the refundable-tax calculation. Tax treatment should be modelled for the actual investments and transactions; do not assume ordinary corporate investment-tax or CDA treatment applies to the RCA trust.^[3]

For a Canadian-resident beneficiary, distributions from the RCA trust are generally taxable income. The custodian withholds income tax and issues a T4A-RCA slip. Withholding is a payment toward tax, not necessarily the beneficiary's final tax bill.^{[1][5]}

A simplified refund example helps explain the mechanics. Suppose the refundable-tax account holds \$50,000, with no new contributions or earnings. A \$20,000 gross benefit payment can reduce refundable tax by \$10,000—one-half of the distribution—under the ordinary calculation. The custodian claims the refund through the return; processing and statutory conditions still apply.^{[3][4]}

The beneficiary receives the \$20,000 benefit less required personal withholding. The \$10,000 RCA refund replenishes the arrangement, not the beneficiary's personal tax account. The recipient's tax on the benefit is separate.

Returns remain required even in an inactive year. Do not promise that the full refundable-tax balance will be recovered immediately, on demand or on a fixed timetable.

Are RCA contributions deductible? Are retirement payments tax-free?

Employer contributions to an RCA may be deductible when the Income Tax Act's requirements are met, including the relevant contribution and reasonableness rules. The agreement, the employee's services and compensation, the timing and the employer's circumstances must support the deduction. A deposit does not create an unconditional deduction.^{[6] [7]}

RCA distributions are generally taxable to the recipient. Paying them after retirement may defer personal income tax until a different stage of life, but a lower retirement tax rate is an assumption to test—not a guaranteed result.

An employee contribution has its own deduction conditions. Ask your accountant to distinguish employer funding, employee funding, RCA refundable tax and personal withholding rather than treating all four as the same tax.

RCA vs IPP vs RRSP: what is the difference?

QUESTION	RCA	IPP	RRSP
Primary purpose	Supplementary employer retirement promise.	Registered defined-benefit pension, often for an owner-employee.	Personal registered retirement savings.
Funding limits	Not the ordinary RRSP annual limit; the promise, compensation and deduction rules still constrain funding.	Actuarially determined funding of permitted benefits; registration and pension rules apply.	Individual deduction room from earned income, carry-forward room and pension adjustments.
Accumulation	50% refundable-tax system for conventional funded arrangements.	Registered-plan tax treatment; investment and funding risks remain.	Registered-plan tax treatment; investment risks remain.
Payment tax	Generally taxable beneficiary distributions.	Generally taxable pension income; permitted transfers have separate rules.	Generally taxable withdrawals; eligible transfers have separate rules.
Administration	Agreement, custodian, tax account, annual returns and slips.	Plan administration, actuarial valuations, funding and reporting.	Generally simpler account administration.
Access	Agreement and statutory rules, not ordinary corporate cash access.	Pension jurisdiction and plan terms; locking-in may apply.	Withdrawals generally possible, with tax and loss of used room.

For 2026, CRA lists a **\$33,810 RRSP dollar limit** and a **\$3,932.22 defined-benefit annual pension limit**. The DB figure is a pension-benefit limit, *not* an IPP contribution limit. Neither number establishes your personal funding capacity.^[8]

An IPP’s current-service and past-service funding requires actuarial calculation. Pension adjustments and past-service pension adjustments affect RRSP room. There is no reliable blanket rule that an IPP always permits “two or three times the RRSP contribution.”^[9]

Read the [Individual Pension Plan guide](#) for the existing IPP reference. Compare it with your actual salary history, service and pension benefits; obtain a current actuarial assessment before relying on contribution illustrations.

Can life insurance fund an RCA?

Life insurance can be involved in an RCA, but ownership and the retirement promise determine the analysis. CRA specifically addresses employer payments to acquire an interest in a life insurance policy that is considered an RCA: refundable-tax obligations can arise on those payments.^[1]

Insurance may help match particular long-term funding or death-benefit needs. It also introduces policy charges, surrender-value limitations, premiums, underwriting and potentially non-guaranteed dividends. A policy's tax-exempt status is not a blanket exemption from RCA rules.

A trust-owned RCA policy is not ordinary corporate-owned life insurance. Do not assume a death benefit paid to an RCA trust creates a CDA credit for the employer corporation. Corporate CDA treatment depends on the statutory recipient and the actual policy/ownership structure.^[10]

Death benefits, beneficiary entitlements and subsequent distributions need to be modelled under the arrangement. An RCA is not automatically a tax-free estate transfer. For the separate corporate-insurance strategy, see [corporate-owned life insurance](#) and [the capital dividend account](#).

10

Did the 2023 RCA rules remove the 50% tax?

Not for conventional funded RCAs as a general rule. The legislation distinguishes certain *excluded contributions* made on or after March 28, 2023 to acquire or renew a letter of credit or surety bond securing a supplementary retirement promise. The precise statutory definition and arrangement conditions must be satisfied.^[3]

There is also a narrow transitional election for specified refundable tax associated with qualifying earlier excluded contributions. It is not a general election to recover all RCA contribution or investment tax. CRA's return instructions link annual claims to the specified refundable-tax balance and eligible benefits paid directly by the employer.^{[1][11]}

A security-backed promise and a funded trust are economically different. Ask who pays the retirement benefit, who bears employer-credit risk, what the annual security costs are and whether the transaction actually qualifies. Do not treat a security fee as exempt merely because of its label.

11

What are the costs and risks of an RCA?

- **Capital tied up in refundable tax:** less initial capital earning investment returns.
- **Administration:** legal drafting, custody, accounting, tax returns and investment oversight.
- **Investment risk:** lower returns can increase the funding needed for the promised benefit.
- **Liquidity risk:** employer funding commitments can compete with operating needs.
- **Personal tax:** distributions remain taxable; expected future tax rates can change.
- **Agreement risk:** death, employment changes, company sale or termination can expose unclear terms.
- **Special-rule risk:** prohibited investments and advantage rules can create additional taxes and compliance consequences.^[1]

A sound comparison includes a scenario with lower investment returns and another with a higher retirement tax rate. If the arrangement only looks attractive under optimistic assumptions, it may not be the right structure.

12

What should you bring to an RCA or IPP review?

- Salary/T4 history and the employee's role and service record.
- Existing pension statements, RRSP deduction-room information and relevant pension adjustments.

- Company financial statements, operating reserves and sustainable funding capacity.
- Target retirement date, income needs and existing household assets.
- Any proposed RCA agreement, pension plan text, actuarial report or insurance illustration.
- Death, disability, business-sale and employment-change priorities.

The useful question is not “Which plan has the biggest contribution?” It is **which structure can fund the retirement promise reliably, after all taxes and costs, without weakening the business?**

GOALD can help frame that comparison with your accountant, legal counsel and, for an IPP, an actuary. Tax deductions, plan funding, registration and legal terms require the appropriate specialist review.

13

Frequently asked questions

Is an RCA the same as a Retirement Compensation Agreement?

RCA means Retirement Compensation Arrangement in the Income Tax Act. An agreement is the document governing a retirement promise; its label alone does not determine its tax treatment.

Is the 50% RCA tax permanent?

It is a refundable-tax mechanism. Refunds depend on the arrangement’s refundable-tax balance, distributions, statutory rules and required returns. It still ties up capital, and beneficiary payments remain taxable.

Does \$100,000 contributed to an RCA mean \$100,000 can be invested?

Not in the conventional funded example with \$100,000 as the gross contribution: \$50,000 is withheld and remitted as refundable tax and \$50,000 goes to the custodian, before fees.

Are RCA retirement payments tax-free?

Generally no. Distributions from an RCA trust are taxable to the beneficiary. Personal withholding and the RCA refundable-tax refund are separate mechanisms.

Can an incorporated owner use both an IPP and an RCA?

An RCA may supplement registered pension benefits, but the combined promise, compensation, funding and tax treatment require plan-specific review. Having one does not automatically justify the other.

Is an IPP better than an RCA?

Neither is always better. Compare actual permitted pension benefits and actuarial funding, the RCA refundable-tax drag, fees, access rules, cash flow and net retirement income.

Does life insurance inside an RCA create a corporate CDA credit?

Do not assume so. An RCA trust receiving policy proceeds is not the employer corporation receiving ordinary corporate-owned insurance proceeds. Ownership, recipient and statutory rules control the outcome.

Can I get all RCA refundable tax back immediately?

Do not assume an immediate full refund. The statutory tax-account calculation, distributions, applicable elections, filing requirements and processing determine what can be refunded and when.

RELATED GUIDES

Continue your retirement review.

CONTINUE READING

Individual Pension Plan (IPP)

The existing IPP reference; confirm contributions with a current actuarial assessment.

CONTINUE READING

Insured Retirement Program (IRP)

A separate insurance-and-lending approach, not an RCA or registered pension.

CONTINUE READING

Taking money out of your corporation

Salary, dividends and other corporate withdrawal routes.

CONTINUE READING

Corporate-owned life insurance

Insurance ownership and corporate estate liquidity, separate from RCA trust funding.

SOURCES

Official Canadian references

1. [CRA — Retirement Compensation Arrangements Guide](#)
2. [Income Tax Act, s. 248 — RCA definition](#)
3. [Income Tax Act, s. 207.5 — Refundable tax and excluded contributions](#)

4. [Income Tax Act, s. 207.7 — RCA tax and refunds](#)
 5. [CRA — T4A-RCA reporting](#)
 6. [Income Tax Act, s. 20 — Contribution deduction provisions](#)
 7. [Income Tax Act, s. 67 — Reasonableness](#)
 8. [CRA — 2026 pension and RRSP limits](#)
 9. [CRA — Past service pension adjustment guide](#)
 10. [Income Tax Act, s. 89 — Capital dividend account](#)
 11. [Income Tax Act, s. 207.71 — Specified refundable tax](#)
-

Educational information only, not individualized tax, legal, pension, investment or insurance advice. Federal rules are summarized as reviewed October 29, 2026; pension jurisdiction and arrangement terms can change the result. Examples are synthetic and exclude fees and investment returns unless stated. No deduction, investment result, refund timetable or retirement tax rate is guaranteed. Obtain legal and tax review of an RCA and actuarial advice for an IPP before implementation.