RRSP Quick Tips

Quick Tip #1 – Contribute Early to Maximize Your RRSP

You have until Monday, March 3, 2014 to make your 2013 Registered Retirement Savings Plan (RRSP) contribution. But remember to contribute early to avoid the last-minute rush. Contributing early can also boost your RRSP's growth over time, as your RRSP assets will have more time to benefit from tax-deferred compound growth.

Determining Your Available Contribution Room for 2013

1. Start with 18% of your 2012 earned income or $23,820 (whichever is less)
2. Subtract any Pension Adjustment appearing on your 2012 T4 tax slip.
3. Add any unused RRSP contribution room carried forward from previous years.

You can also check your latest Notice of Assessment, Notice of Reassessment or RRSP Deduction Limit Statement (Form T1028), or log on to your Canada Revenue Agency account at **www.cra-arc.gc.ca/myaccount.**

Making Your 2014 Tax Year Contribution

You can start making RRSP contributions for the 2014 tax year as early as January 1, 2014 (March 2, 2015 is the deadline). The contribution limit is rising to $24,270 for 2014.

Quick Tip #2 – Maximize the Tax Advantages

Tax-Deductible Contributions

You can claim your 2013 RRSP contribution as a deduction on your 2013 Income Tax Return to reduce your taxable income and potentially receive a tax refund. It may make sense to wait to claim the deduction if you expect your taxable income to be higher in a future year, as you may receive greater tax savings. You can also claim deductions for contributions made in any previous year since 1991 if you have not claimed them previously.

Tax-Deferred Growth

You can earn investment income within your RRSP on a tax-deferred basis, meaning you don't pay any tax on the income until it is eventually withdrawn – for example, when you convert your RRSP into a Registered Retirement Income Fund (RRIF) and start to withdraw income. This results in greater growth compared to earning investment income in a regular taxable account.

Income-Splitting with a Spousal RRSP

If you expect your spouse to have a significantly lower retirement income than you, consider directing some or all of your allowable RRSP contribution to a spousal RRSP. You can still claim the tax deduction yourself, reducing your taxes now. Your spouse will receive income from the spousal RRSP when it is withdrawn, which will help even out your retirement incomes and put you both in a similar tax bracket, potentially reducing your taxes during retirement.

You can allocate a maximum of 50% of your qualifying income to your spouse, so it may still make sense to contribute to a spousal RRSP if:

- You are not able to achieve optimum result from income splitting; and
- You and your spouse retire prior to age 65 and require income above and beyond available fixed sources.

RBC Wealth Management
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Avoid Making Withdrawals

Unless absolutely necessary, avoid making withdrawals from your RRSP as the entire amount you withdraw will be added to your taxable income. Two exceptions – the Home Buyers' Plan and Lifelong Learning Plan – enable you to withdraw certain amounts that you must eventually repay.

Name a Beneficiary

If you have named your spouse or a financially dependent child or grandchild as the beneficiary of your RRSP, your RRSP assets can be transferred to them on a tax-deferred basis when your estate is settled. Note that a beneficiary cannot be named if the RRSP is based in Quebec.

Consider Insurance to Cover Taxes

If you have not named a beneficiary (or you can't, if you live in Quebec), your RRSP will be collapsed and the balance paid to your estate or other named beneficiaries (such as your non-dependent adult children). The value of your RRSP will be included in your terminal income tax return. As the amount is taxed all at once at your marginal tax rate, many people take out an insurance policy to cover the taxes.

Quick Tip #3 – Make the Most of Your RRSP Choices

With a self-directed RRSP held at a full-service investment firm like RBC Dominion Securities, you can invest in a wide range of investments, from T-bills, GICs and bonds to equities, certain stock options and mutual funds. This gives you greater control over how your RRSP is managed.

Consider Global Diversification to Potentially Reduce Risk

There is no limit on the amount of foreign content you can hold in your RRSP (including U.S. securities). This helps you to diversify, which is a proven risk-reduction strategy.

Reduce Costs when Trading U.S. Securities

You can contribute, buy, hold and settle in U.S. or Canadian dollars in your RRSP. This gives you greater control over when you convert between U.S. and Canadian currencies, so you may be able to reduce the impact of unfavourable exchange rates and save on currency conversion costs.

Quick Tip #4 – Remember the Final Contributions

Your Final Contributions

You can contribute to your own RRSP until December 31 of the year you turn 71, at which time your RRSP must be converted into a retirement income source such as a RRIF. If you have a younger spouse, you can continue contributing to their spousal RRSP until they turn 71, or make one last contribution to your RRSP in the year you turn 71 if you are still earning income.

The "Bonus" Contribution

You can make a cumulative excess contribution of $2,000 without penalty over the life of your RRSP. After that, there is a 1% per month penalty on any amount you contribute over your contribution room.

Quick Tip #5 – Consolidate on a Tax-Deferred Basis

You can transfer certain amounts above and beyond your allowable contribution limit to your RRSP on a tax-deferred basis:

- Amounts in any other RRSPs
- Registered pension plan amounts if you are changing employers (potentially subject to transfer limits)
- Some or all of a lump-sum "retiring allowance" received as part of a severance or retirement package

Please contact us for assistance with your RRSP.