Wealth Management
Dominion Securities

RRSP quick tips

Please contact us for assistance with your RRSP.

Quick tip #1 – contribute early to maximize your RRSP

You have until February 29, 2024 to make your 2023 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 2023

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.canada.ca/en/revenue-agency/services/e-services/e-services-individuals/account-individuals.html.

Here's how your RRSP contribution room is generally calculated (there may be other factors depending on your individual situation):

1. Start with 18% of your 2022 earned income, or $30,780 (whichever is less).
2. Subtract any Pension Adjustment appearing on your 2022 T4 tax slip.
3. Add any unused RRSP contribution room carried forward from previous years.

Making your 2024 tax year contribution

You can start making RRSP contributions for the 2024 tax year as early as January 1, 2024. The contribution limit is rising to $31,560 for 2024.

Quick tip #2 – maximize the tax advantages

Tax-deductible contributions

You can claim your 2023 RRSP contribution as a deduction on your 2023 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 and capital gains within your RRSP on a tax-deferred basis, meaning you don't pay any tax until you eventually make withdrawals. This results in greater growth compared to earning investment income in a regular taxable account.

Income-splitting with your spouse

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 Your spouse will receive income from the spousal RRSP when it is withdrawn, which may help even out your retirement incomes and put you both in a similar tax bracket, potentially reducing your taxes during retirement.

Although you can allocate a maximum of 50% of eligible pension income (which includes RRIF income) to your spouse, it may still make sense to contribute to a spousal RRSP if:

- You are not able to achieve optimum results from pension income splitting; and
- You and your spouse retire prior to age 65 and require income from your registered plans.

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 tax free, provided the amounts withdrawn are repaid to your RRSP within a prescribed time frame.

Name a beneficiary

If you have named your spouse or a financially dependent child or grandchild as the beneficiary of your RRSP on your plan documentation or in your Will, your RRSP assets may be transferred to them on a tax-deferred basis. Note that a beneficiary cannot be named on the plan documentation if you are a resident of Quebec.

If you designate anyone other than your spouse or financially dependent child or grandchild as the beneficiary of your RRSP, your RRSP will be deregistered on your death and the value of your RRSP at death will be included as income on your terminal tax return and taxed at your marginal tax rate.

Quick tip #3 – make the most of your RRSP choices

With an RRSP held at a full-service wealth management firm such as RBC Dominion Securities, you can invest in a wide range of investments, from T-bills, GICs and bonds to equities 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. However, you should always consider the potential impact of foreign withholding tax.

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. Bear in mind that tax is always calculated based on the Canadian conversion.

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 and are still earning income, you can continue contributing to their spousal RRSP until the end of the year in which they turn 71.

Excess contributions

You are allowed to over-contribute a cumulative lifetime total of $2,000 to your RRSP without incurring a penalty tax. This limit is designed to provide a buffer in case of accidental over-contributions. You can use the $2,000 over-contribution to have your funds grow on a tax-deferred basis in the RRSP, but keep in mind that the additional over-contribution amount will not be deductible. As you get closer to retirement, make sure that you eventually claim the $2,000 as part of your deductions to avoid double taxation.

Quick tip #5 – consolidate on a tax-deferred basis

- Consider consolidating multiple RRSPs in your name for more efficient management.
- If you receive a retiring allowance from your employer, you may be able to defer tax and transfer any eligible retiring allowance to your RRSP without using unused RRSP contribution room. If you want to defer the taxes payable on the non-eligible portion of your retiring allowance, you can contribute the amount to your own RRSP or to a spousal RRSP, provided you have sufficient unused RRSP contribution room and the contribution is made within 60 days from the end of the year you received it.

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