GOOD REDDEN KLOSLER

WEALTH MANAGEMENT

RRSP Basics

What Is An RRSP?

Registered Retirement Savings Plans (RRSPs) are a type of investment account to encourage Canadians to save for their retirement. You are eligible to contribute to an RRSP if you have "earned income" in any previous calendar year and filed a tax return. Earned income for RRSP calculations is primarily:

- Employment income
- Net business income
- Rental income
- Royalty income

Tax Advantages

- Tax deductible contributions, for every dollar contributed to an RRSP, your taxable income for that calendar year is reduced by a dollar. This will result in a reduction in the amount of total tax paid in the year the contribution is made.
- Any investment growth within the RRSP is tax deferred, meaning the RRSP Holder will not have to pay tax on any annual interest, dividends or capital gains while in the RRSP. These investment gains will be taxed as income when the funds are withdrawn out of the RRSP (typically in retirement).
- When you withdraw the funds from your RRSP, you are taxed in the year of the withdrawal, possibly when your marginal tax rate will be lower resulting in tax savings due to the tax deferral.

How Much Can I Deposit?

RRSP contribution room is calculated as 18% of your earned income from the previous calendar year or the annual contribution limit as set by CRA whichever is less. This amount is then added to any carry forward past contribution room and is reduced by any pension contributions made in the previous calendar year.

Types of RRSP

- **Individual**: Individual RRSP accounts are registered in your name alone, the investments held within, the current tax benefits, and future income taxes associated with withdrawals, all belong to you.
- **Spousal**: Spousal RRSP's are registered in the name of your spouse or common law partner, with you as the contributor. They own and have control over the investment decisions within the account, but you get the income tax deduction as the contributor. These contributions reduce your available contribution room, not your spouse's. After three years have passed since the last deposit, any withdrawal made will be taxed in the hands of your spouse. Spousal RRSPs can help equalize RRSP savings between both of you – especially if one person has a lower income, and therefore a lower annual contribution limit. Utilizing this account could help to equalize retirement income between spouses.
- **Group**: Group RRSP's are offered by some employers as a benefit to their employees. You would open

an individual RRSP account, but contributions are made through your employer, generally directly from your paycheck giving you immediate tax savings. All individual employee's RRSPs are held at the same financial institution and are generally limited on the range of investment options.

What Are RRSP invested in?

RRSP accounts themselves are not an investment, they are an account that holds eligible investments. These eligible investments include:

- Cash and cash equivalents
- Gold and silver (maple coin or bars)
- Bonds and GICs
- Mutual funds/ETFs
- Stocks (Canadian and foreign)
- Mortgage related products
- Income trusts

Some notable investment exclusions include but are not limited to:

- Precious metals
- Personal property
- Crypto currencies
- Shares in private holding companies

There are significant penalties for holding ineligible investments, therefore it is highly recommended to review any potential ineligible holding with an expert prior to investing

Other Programs

- **RRSP Home Buyers Plan**: Allows you to withdraw up to $35,000 out of your RRSP to assist in the purchase of qualifying home, if you meet CRA's eligibility requirements, most notably, qualifying as a first-time home buyer.
- **Lifelong Learning Plan**: allows for you to take funds out of your RRSP if you or your spouse/ common law partner is attending full-time training or education.

Both programs require repayment, but do not subject you to a tax penalty for withdrawing from the RRSP prior to retirement. If you are planning on utilizing either of these programs it is recommended that you meet with an advisor to discuss your eligibility and the cost/benefits prior to initiating.

Questions?

Contact us by phone at our Simcoe office: 519-426-5160 or our Tillsonburg office: 519-842-4246 or email at planning@goodcas.com.

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