



Wealth  
Management



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## RRSP quick tips – 2019

### Quick tip #1 – contribute early to maximize your RRSP

You have until March 1, 2019 to make your 2018 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 2018

1. Start with 18% of your 2017 earned income, or \$26,230 (whichever is less).
2. Subtract any Pension Adjustment appearing on your 2017 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](http://www.cra-arc.gc.ca/myaccount).

### Making your 2019 tax year contribution

You can start making RRSP contributions for the 2019 tax year as early as January 1, 2019 (March 2, 2020 is the deadline). The contribution limit is rising to \$26,500 for 2019.

### Quick tip #2 – maximize the tax advantages

#### Tax-deductible contributions

You can claim your 2018 RRSP contribution as a deduction on your 2018 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 – 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 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.

You can also allocate a maximum of 50% of eligible pension income to your spouse, but it may still make sense to contribute to a spousal RRSP if:

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

#### **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 can 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 may be included as income on your terminal tax return and taxed at your marginal rate.

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

With a RRSP held at a full-service wealth management firm at RBC, you can invest in a wide range of investments, from T-bills, GICs and bonds to equities, mutual funds and select risk management solutions. 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 and are still earning income, you can continue contributing to their spousal RRSP until the end of the year in which they turn 71.

##### **Over contributions**

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 over-contribute. To avoid double taxation of this excess contribution, consider deducting it from your income in the future, if you have RRSP 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
- 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.**