Topic: Tax-Related Tips

Last Minute RRSP Tips

The deadline for making contributions to your RRSP is March 2, 2009. As long as you make your contribution by that date, you can deduct your investment from last year's earned income and possibly get a hefty tax refund. If you're like most of us, you have waited until this last month, and now you are feeling a bit panicky. RRSP lists, like dinner party lists, to-do lists and Christmas lists, help quench the panic. Here's your RRSP list.

1. Dig out your Notice of Assessment from Revenue Canada. (You probably got it last May and, with any luck, it's in the shoe box where you throw all your tax receipts.) It tells you how much you can contribute to an RRSP for the past calendar year and how much unused contribution room you have from previous years. If you can't find the Assessment, call Revenue Canada (1-800-959-8281) or calculate your own contribution limit at [18%] of your earned income.

2. If the amount you are allowed to contribute is more than you have on hand, consider a loan. The interest you pay on RRSP loans is usually less than the amount you can earn on your investment, if you repay the loan within one year. Plus, you get the tax refund, which means that you can repay the loan faster (paying even less interest), or you can put the refund in your RRSP (earning even more interest), pay down your mortgage or just spend the windfall.

3. When you make an appointment with your financial institution to talk about getting a loan and where to invest your RRSP contributions, set up a monthly contribution plan so you won't have to go through all this again next year. Monthly contributions to RRSPs earn more than just making one lump sum contribution at the end of the year, even if the rate of return on both types of contributions is the same. If you are purchasing stocks or mutual funds through a monthly plan, you also benefit from dollar cost averaging. Dollar cost averaging is a fancy way of saying that you buy more when the price is low, and less when the price is high, so that your average cost decreases.

4. If you are part of a couple, make sure that both of your RRSPs are about the same size. The partner with the higher income can contribute part of his/her contribution to the one with a lower income through a spousal plan. The partner with the higher earnings is in a higher tax bracket and will get a larger return. When you both retire, it makes sense for you to have equal amounts in your RRSPs because the tax assessed will be lower than if all of the income was in one partner's name.

5. Diversify. Don't put all your eggs in one basket. Spread the money around. The reason you have heard this advice so often is because it is true. Every kind of stock or mutual fund can have a downturn, and interest rates can fall. Putting some of your money in mutual funds or stocks and some in investments like term deposits protects you from heavy losses during downswings. Talk to an advisor at your financial institution. They can help you diversify, put your eggs in different baskets, and spread the money around.

6. If you're receiving a severance package, check with your employer to see whether you can roll the money over into your RRSP to prevent taxes being deducted at the source. Even if you have to withdraw some of the money during the year (until you find your perfect new job), you can withdraw it in amounts of less than [$5,000], paying only a [10%] withholding tax at the time of withdrawal.

If you don't like to do things in a panic and are unsure about where to invest your RRSP dollars, just contribute to an RRSP savings account. The interest on these accounts is very low, but you are able to transfer your funds into a different type of investment without any penalty. Just be sure to make an appointment with an investment advisor to sort out your options.

For more financial information please contact us.

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