Overlooked RRSP Strategies

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There are a number of common RRSP strategies that many of us use on a regular basis. These include making regular monthly deposits, borrowing to make RRSP contributions and making contributions at the beginning of the year instead of the end of the year. Here are some strategies that may get overlooked:

Take advantage of the pension income amount - There are more and more people working well beyond age 65 for a number of reasons. Pete started working fewer hours after his 65th birthday and wants to defer retirement income as long as he can. He realized, however, that he could take just enough money from his RRSP to buy an annuity that pays him $2,000[1] per year until age 71 and receive this income tax-free.

If Pete doesn't really need this income, he can simply invest it in a non-RRSP and use it to provide some extra income in the future. This will provide a little more income in his later retirement on which he will have to pay very little income taxes.

Reduce or eliminate taxes on a terminal tax return - Sally, a new widow, had to complete and file a terminal tax return for her husband, Jake. She received a substantial amount of money from his life insurance and he had a lot of unused RRSP contribution room. Jake had earned about $65,000 in salary in the year of his death. Sally was able to make a large contribution to a spousal RRSP with Jake as the contributor. By reducing his taxes to zero[2], all the income taxes withheld during the year were refunded. She deposited the refund in her own RRSP.

Make a contribution, but delay the deduction - Just because you make an RRSP contribution for a certain tax year doesn't mean you have to take the deduction right away. Theresa received a small inheritance and also had some unused RRSP contribution room. She made a deposit to her RRSP up to her limit, but did not take a deduction when she filed her tax return. She was a student at the time and had very little income. Theresa can carry forward the actual deduction until she has enough earned income to make it worthwhile. Meanwhile, her deposit will grow tax deferred inside her RRSP.

This strategy can also be used to take a deduction only for the amount of income that falls into the highest marginal tax bracket each year until the contribution amount is all used up. A large deposit now can provide maximum tax savings for several years to come and continues to grow tax deferred.

Pay a small penalty - Penny turned 71 this year and is still working. Her earned income this year determines her RRSP contribution for next year, but she has to convert her RRSPs to an income by the end of this year. By making her contribution in early December and then converting it to a RRIF by the end of the month, she will pay a 1% penalty but get the full deduction next year. For example, if she makes a $15,000 deposit, it will cost her $150 as a penalty, but she will get a $3,300 savings in federal taxes[3], plus provincial taxes, on next year's income.

[1] Receiving income tax-free income from an annuity depends of a variety of factors. Talk to your advisor about your specific situation. [2] Average Tax rate for Ontario resident earning $65,000 in 2019 was 19.24%. As each person's personal situation may vary from this example talk to your advisor about your specific situation. [3] This assumes an Ontario resident earning $49,100 and paying an average tax rate of 15.87% in 2019.

Want help with your RRSP strategies? Call today! **[1]**

** For informational purposes only and not intended to provide specific retirement planning advice. Any tax saving calculations used in this article will vary from province to province depending on each person's individual tax bracket and the personal tax rates in effect from year to year. Using borrowed money to finance the purchase of securities involves greater risk than a purchase using cash resources only. If you borrow money to purchase* *securities, your responsibility to repay the loan and pay interest as required by its terms remains the same even if the value of the securities purchases declines.)*

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