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RRSPs: There's *Always* Time *to* Save



Many investment strategies and retirement plan products are available to higher income individuals or those with their own businesses.

But it is still of some comfort to know that registered retirement savings plans (RRSPs) remain available to assist you with your retirement savings, even if you don't belong to one of those groups.

An RRSP is a retirement plan, registered by Canada Revenue Agency (CRA), that you or your spouse (or common-law spouse or partner) can establish. The general idea behind the RRSP is that you contribute to your plan during your working years, thereby providing your own pension fund upon retirement.

Certain tax benefits can result from using an RRSP because deductible contributions can be used to reduce your income tax, while income earned in the RRSP is usually exempt from tax for the time the funds remain in the

plan. Ideally, you may be in a higher tax bracket during your working years than you would be upon retirement. As such, the tax savings you realize as a result of your contributions over the years may be greater than the tax you later pay when you withdraw the funds from your RRSP subsequent to retirement.

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Deadline: March 1, 2006

So that your RRSP contribution may be claimed as a deduction in any calendar year, the contribution must be made within 60 days after the end of that calendar year. That deadline applies to spousal contributions, as well.

If you are unsure of the amount of your RRSP limit for 2005, refer to your 2004 Notice of Assessment where this

information should be clearly detailed. If you can't lay your hands on that Notice, you can call CRA's automated Tax Information Phone Service (TIPS) at 1-800-267-6999, visit CRA's online service "My Account" at www.cra-arc.gc.ca, or call CRA's general help line at 1-800-959-8281. In any case, you should have a copy of your 2004 tax return on hand so you can respond to a few questions by CRA before they provide the information.

Q & A

RRSPs have been around for many years. Their usefulness and how they work, however, is often not clearly understood. The following are a few common questions relating to RRSPs and the corresponding answers.

- Q.** *If I put money into my RRSP this year, how much tax will I save?*
- A.** The tax savings you may realize as a result of your RRSP contribution will generally depend upon the tax bracket you would otherwise be in for the year, as well the amount of your RRSP limit. Other factors may also come into play in certain circumstances.

Q. *If I give my wife \$2000 to put into her RRSP, can I claim the deduction on my tax return?*

A. You can generally only claim the deduction on your tax return if the contribution was made to a *spousal* RRSP for your wife and if you have sufficient RRSP room to make the claim. Otherwise, perhaps your wife can claim the deduction on her own behalf.

Q. *What is the advantage of a spousal RRSP?*

A. Using a spousal RRSP can be a form of income-splitting. For example, when you retire, if you are in a higher tax bracket than your spouse, a spousal RRSP will allow you to transfer some of your income to your spouse so it may be taxed at his/her lower tax rates. The result? Your family will likely pay less in taxes over the long run.

Q. *I have a \$4000 RRSP limit available for 2005. During the year, I made a \$2500 contribution to my own RRSP and a \$2000 contribution to my husband's spousal RRSP. How much can I deduct on my 2005 tax return?*

A. You can deduct up to \$4000 of the contributions on your 2005 return. The remaining \$500 can be carried forward and deducted in a future year, as long as your RRSP limit in the future year is sufficient.

Q. *I understand that income in my RRSP will generally grow tax-free for as long as my funds remain in the RRSP. So wouldn't it be a good idea to put as much as I can in my RRSP, even if I can only deduct an amount equal to my RRSP limit?*

A. No. Rules are in place such that you will be charged a penalty on "excess" funds contributed to your RRSP. (No penalty would generally apply in situations where the excess contribution is no more than \$2000 over your RRSP limit.) In certain circumstances, double-

taxation could even result when overcontributions were made and could not be deducted.

Q. *I withdrew \$1000 from my RRSP last year. Can I just repay it?*

A. No. You cannot make a repayment to your RRSP unless you are participating in the Lifelong Learning Plan or the Home Buyer's Plan. If you want to "replace" the funds that you took from your RRSP, you'll need to have sufficient RRSP room and it will be considered a regular contribution.

Once your 2005 RRSP contribution is made, you should also consider making more regular RRSP contributions throughout the year.

Q. *I lost money in my RRSP mutual fund investments. Can I claim the mutual fund losses on my personal tax return?*

A. No.

Q. *I paid \$800 for interest on money borrowed to invest in my RRSP and I paid \$125 to my plan administrator. Can I deduct these costs on my tax return?*

A. Unfortunately, these expenses are not deductible to you. If, however, you borrowed money to invest in a *non*-registered investment plan or paid management fees for its administration, these costs may then be deductible.

Q. *I can't afford to contribute to my RRSP this year. Will I lose my 2005 RRSP contribution limit?*

A. No, your RRSP contribution limit for the year will not be lost. Any unused portion will be carried forward and **can be added to your future RRSP limit**. In fact, your unused RRSP contribution limit can generally be carried forward indefinitely.

If the Deadline is Close, Don't Panic!

If you have left it a little late and feel you may miss the upcoming RRSP deadline, don't panic! Just take the amount of money that you wish to invest in your RRSP for the year and "park" it in an RRSP savings account. The interest rates on RRSP savings accounts are typically quite low, but this approach will buy you some time so that you can make a less hurried investment decision later. This transaction can be done fairly quickly and allows you to defer the decision of how to invest until after the rush of RRSP season has passed.

When you write the cheque, however, be sure to make an appointment or schedule a follow-up call with your investment advisor, so that you don't forget to move those funds into a more appropriate investment later on.

Once your 2005 RRSP contribution is made, you should also consider making more regular RRSP contributions throughout the year. This can help reduce the pressure of coming up with funds at year end. Early investing can provide you with a greater return over time. Your investment advisor will be happy to assist you in setting up this plan.

Note: Many rules govern your RRSP; this article addresses only a few areas. When planning your RRSP contribution, we recommend you consult your investment advisor. If you have special circumstances that may impact your RRSP limit, contributions, or overcontributions, you may consider consulting your tax advisor, as well. Remember: Each individual's circumstances are different and, in some cases, special rules may apply. ▲

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