

INVESTMENT PLANNING COUNSEL'S *Special* Report



We make it *easy*.

Is your RRSP on the back burner?

It's easy to get distracted when saving for a far-off goal like retirement. But an RRSP offers many rewards, so it's critical to stay focused and make the best use of this unique opportunity each year.

Earning a tax deduction is one good reason for contributing to an RRSP each year. But even more compelling is the tax-sheltered growth of your investments over what could be many years. It's this tax-deferred compounding of earnings that will create the nest egg you need to successfully live your dream.

There are a lot of details to keep in mind when contributing to your RRSP. The rules governing RRSPs are set out in the federal Income Tax Act and administered by Canada Revenue Agency, and they're constantly subject to change. Outlined below are some of the key facts about RRSPs that you should be aware of for this tax season.

How Much You Can Contribute

The maximum you can contribute to your RRSP each is calculated as:

- **The lower of 18% of your earned income from the previous year OR the maximum dollar limit for the taxation year, as shown to the right;**
- **LESS any company-sponsored pension plan contributions;**
- **PLUS any unused RRSP contribution room carried forward from past years.**

"Earned income" includes salary or wages, alimony received, and rental income, among other

income sources, but does not include items such as investment income. You can find the exact amount you can contribute to your RRSP for the current year on the Notice of Assessment you received from Canada Revenue Agency after your last tax return was processed.

RRSP Contribution Maximums

- **for 2014, the dollar limit is \$24,270**
- **for 2015, the dollar limit is \$24,930**
- **for 2016, the dollar limit is \$25,370**

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Company Pension Plan or Deferred Profit Sharing Plan

If you are a member of a company-sponsored registered pension plan or deferred profit sharing plan, the amount that you can contribute to your RRSP is reduced by the total value of the pension credits you earned for the year.

This amount is referred to as a pension adjustment (PA) and is reported on the T4 slip (Statement of Remuneration Paid) you receive from your employer.

Carryforwards

If you can't make your maximum contribution one year, you can make up that portion of the contribution in later years by carrying it forward.

You also have the option to make a contribution now, within your limits, but claim the related tax deduction in a future year. This may be favourable if you expect to be in a higher tax bracket in the future and therefore to earn a bigger tax deduction. You may even consider getting a loan to bring your RRSP contributions up to date.

“The contribution deadline is March 2 for 2014 tax year. However, we recommend that you make your RRSP contribution as soon as possible.”

Annual Contribution Deadline

To be eligible for an RRSP deduction in a specific taxation year, you can make contributions anytime during the year, or up to 60 days into the following year. This year's deadline is March 2. However, we recommend that you make your RRSP contribution as soon as possible to maximize tax-deferred compounding in your plan. If possible, consider investing next year's contribution or starting a regular monthly plan to eliminate the last-minute crunch.

Over-Contributing to your Plan

If you make an RRSP contribution beyond your maximum allowable amount, it is considered an over-contribution. You are allowed to over-contribute up to \$2,000 beyond your maximum allowable limit at any given time. Although you will not receive a tax deduction for the over-contribution, the money will eventually be taxed when withdrawn, just like other RRSP funds. However, the potential benefit is that the over-contribution can grow tax-sheltered within your RRSP and may be deducted in a future

year as new contribution room is created.

Home Buyer's Plan

The Home Buyer's Plan allows you to borrow funds from your RRSP to purchase your first home. Here are some of the key facts:

- **You and your spouse can each borrow up to \$25,000.**
- **The funds must have been deposited to your RRSP at least 90 days before you withdrew them.**
- **At least one-fifteenth of the funds must be repaid each year, beginning second year following the year you made your withdrawals.**
- **A signed agreement to buy or build a qualifying home is required.**

Lifelong Learning Plan

The Lifelong Learning Plan allows you to pay for training or education with RRSP funds. Key facts include:

- **You can withdraw up to \$10,000 per calendar year to finance full-time training or post-secondary education.**
- **The student can be you or your spouse, but not your children.**
- **If the student meets disability requirements, then the training/education can be on a part-time basis.**
- **The total amount that can be withdrawn is \$20,000 over a maximum of four consecutive calendar years.**
- **Amounts that are withdrawn are not subject to taxes on withdrawal.**
- **At least one-tenth of the amount borrowed must be repaid each year, over a maximum period of 10 years.**

Death of a Plan Holder

In the event of death, the proceeds of your RRSP are distributed to whoever was named as your beneficiary, or to your estate if no beneficiary has been designated. This designation can be specified in either your RRSP or in your will. Quebec residents must make the designation by will or marriage contract for most plans.

The proceeds of the RRSP will remain fully or partially tax-sheltered if one of these situations applies:

- Your surviving spouse is the beneficiary, and the proceeds are transferred into an RRSP or a Registered Retirement Income Fund (RRIF) in his/her name. Subsequent withdrawals will be taxed in the surviving spouse's hands.
- You have children or grandchildren who are minors named as beneficiaries of your RRSP and who are dependent on your estate for financial support. In this case, the RRSP proceeds can be taxed in their hands in the year of your death or transferred to a term annuity to age 18 that is registered in their names, with tax payable only on annuity payments received each year.
- Your beneficiary is a child or grandchild, regardless of age, who is financially dependent on your estate because of physical or mental infirmity. Similar to the option for a surviving spouse, the RRSP proceeds can be transferred to an RRSP or RRIF

registered in the child's name, without immediate tax implications, or used to purchase an annuity. Withdrawals will be taxed at the beneficiary's rates.

- In all other situations, the balance of the RRSP at the date of death is included as income on the plan holder's final tax return.

Making RRSP contributions and managing the investments properly is a very important aspect of your financial plan. Great care and attention should be made to how your RRSP is invested based on your tolerance for risk and time horizon.

This year, we are offering to review all of our clients' RRSP portfolios and to make recommendations to ensure you remain on track to living your dream. We will also show you how a Tax-Free Savings Account, can be an excellent complement to any investment strategy. See below to learn more. If you would like an RRSP profile done for your situation, please contact our office for a consultation.

RRSPs are a *powerful tool* for achieving your goals. To learn more about how we can *help you save tax and boost your savings*, please call our office to arrange an appointment.

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RRSP DEADLINE MARCH 2, 2015