RRSP Deadline Approaching!

Feb 13 2023

Once again, it is that time of year when Canadians turn their attention to make their tax-deductible pension contributions to their RRSP. The word “pension” is used deliberately to emphasize that the whole point of RRSPs and other savings methods is to build savings over time to replace earned income with passive or pension income when retirement arrives.

For Canadians earning taxable income and who are between the ages of 18 and 71 before December 31st of this year, RRSP are often the most tax efficient savings method. The key is that all income, dividends, interest, and capital gains earned in your RRSP is tax deferred – that is no tax is payable until a future date when you start to withdraw an income from your accumulated capital.

The current maximum contribution for 2022 is $29,210 and for 2023 it is $30,780 based upon 18% of your earned income from the previous year. If you have an employer pension, then this amount is reduced by the PA or pension adjustment. Check your most recent CRA Notice of Assessment for your total eligible contribution amount for the 2022 tax year. Or check your MyCRA account online for the correct maximum contribution amount.

The contribution deadline for the 2022 tax year is March 1, 2023.

Earned income includes employment salary (including taxable benefits), self-employed income, rental and royalty income, taxable child and spousal support payments, research grants, CPP disability payments, employee profit sharing plans and supplementary unemployment benefits (not regular EI benefits).

You do not have to wait until the New Year to make an RRSP contribution! A great option is to make **pre-authorized monthly contributions** and take advantage of Dollar-Cost-Averaging to somewhat offset market volatility such as we saw in 2022.

Other considerations include making a **Spousal RRSP contribution**, where the higher income spouse gets the tax deduction while the lower income partner gets the capital. This results in income splitting in retirement to reduce overall taxes for the household, per today’s rules. You can also income split by sharing CPP benefits as another method to reduce taxes in retirement.

There is an ongoing debate in the media and financial planning community about whether it is better to do an RRSP or contribute to a TFSA instead. The advantage of TFSAs is that all capital and/or income withdrawn is always tax free and grows tax-free - but there is no tax deduction for contributions.

The answer, like many things in life is - it depends. If your earned income is less than about $50,000 then **it may be best** to contribute to a TFSA and earn tax free income while still allowing you to qualify for various Government entitlement programs like the Guaranteed Income Supplement for Seniors.

Earnings above $50,000 puts you into a higher marginal tax rate and will make the RRSP more attractive from a savings and tax reduction perspective.

A key to RRSPs is to grow a substantial capital pool from which to draw a regular income in

retirement. It is best to avoid completely collapsing an RRSP in retirement and paying a large tax bill at once. The recommended method is to roll the RRSP over into a RRIF or similar account (LIF or annuity for example) payout vehicle.

Every person's situation is different, and we recommend **calling us to review your financial goals** [1] and get the best advice on how to maximize the tax benefits of RRSPs for you.

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