

Personal Investor: Four RRSP myths to look out for this season

By Dale Jackson

RRSP season is upon us. It's the investment industry's Christmas shopping season, so get ready for a marketing onslaught ahead of the March 1st contribution deadline. In the rush to make your registered retirement savings plan contribution some facts can get distorted, so here are a few common myths to keep in mind:

- 1. You must invest your contribution by the March 1 deadline:** Wrong. You only have to contribute by the deadline to be able to apply it to your 2016 taxes. You can park in cash and invest it later or use it for your 2017 taxes or beyond. You can invest in just about anything – or keep it in cash for as long as you want.
- 2. Registered retirement savings plans are a tax exemption:** Wrong. RRSPs are tax deferrals and there's a huge difference. An exemption is forever. A deferral means you will have to pay tax at some point in the future. An RRSP is a temporary tax shelter that allows the plan holder to delay paying taxes on contributions until the money is withdrawn. RRSPs are popular because they allow savings to grow tax-free until the plan holder is in a lower tax bracket -- normally retirement.
- 3. You should contribute the maximum allowable amount:** Not always. If the amount is too high it could be taxed in a high bracket when it is withdrawn. If not enough is withdrawn plan holders are forced to make minimum withdrawals when they turn 71. Also, the government could claw back your Old Age Security benefits if your taxable income is too high. Claw-backs can be avoided by income splitting where taxable income is split with a lower-income spouse, or withdrawing from a tax-free savings account (TFSA).

There's a strong argument for young investors to divert RRSP contributions to a TFSA until they are in their higher income years and the tax savings are bigger.

- 4. You must take advantage of your maximum allowable contribution the year it is issued:** Wrong. The difference between the allowable amount and what you contribute can be used in later years. You can carry forward any extra contribution space.