FINANCIAL POST

Can I put my mortgage in my RRSP and other burning questions as the deadline looms

To give you that extra motivation to contribute to an RRSP, here's a few lesser-known tips and tricks to consider

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There are just three weeks left of "RRSP season," meaning that if you want to be eligible to claim a deduction on your 2017 tax return, you need to make your contribution by the March 1, 2018 midnight deadline.

To give you that extra motivation to contribute, here's a few lesser-known tips and tricks that you may wish to consider.

Should I even bother with RRSPs?

In a previous column, I make the case that unless you are in the lowest tax bracket (roughly income under $45,000, depending on your province of residence), then you probably should be saving for retirement using an RRSP. If your tax rate is the same in the year of contribution that it is in the year of withdrawal, an RRSP effectively provides a completely tax-free rate of return on your net contribution. And, if your tax rate is lower in the year of withdrawal, you'll get an even better after-tax rate of return on your RRSP investment. Even if your

tax rate is higher in the year of withdrawal, you are still likely better off with an RRSP than non-registered investments due to the long-term compounding that is effectively tax-free.
On the other hand, for those currently in the lowest tax bracket, your tax bracket could only remain the same or be higher in retirement, making a TFSA the better choice than an RRSP, especially if you will face an income-test clawback (repayment) of tax credits or government benefits.

Of course, the numbers don't always tell the full story since TFSAs are much more flexible than RRSPs. TFSA withdrawals can be re-contributed in a future year, while RRSP withdrawals cannot, without using additional RRSP contribution room.

Are spousal RRSPs still relevant given we can pension split via a RRIF?
If you're married or living common-law, you may want to consider making this year's RRSP contribution to a spousal RRSP. That is, an RRSP that belongs to your spouse but to which you contribute.

My view is that if you predict that, upon retirement, you will have either a higher projected retirement income than your spouse or partner or you will have accumulated more retirement assets, it may be more beneficial to contribute to a spousal RRSP than an RRSP in your own name. Here's why.

A spousal RRSP strategy is often used to accomplish post-retirement income splitting since withdrawn funds are generally taxable in the hands of the RRSP owner instead of in the hands of the contributor spouse. If the owner spouse is in a lower tax bracket than the contributor spouse in the year of withdrawal, there may be an absolute and permanent tax savings.

But, even without a spousal RRSP, you have the option of splitting pension income, which is defined to include RRIF withdrawals after age 65, with your spouse or partner. So, why bother with a spousal RRSP?

For two reasons: first of all, spousal RRSPs allow an individual to split more than 50 per cent of your pension income. With a spousal RRSP, one could theoretically "split" up to 100 per cent of RRSP or RRIF income with a lower-income spouse as all the withdrawals would generally be taxed in the hands of the withdrawing spouse.

Secondly, if an individual is under 65, you can't income split RRIF withdrawals. On the other hand, if you had a spousal RRSP, the owner spouse can generally withdraw the funds prior to age 65 and have such withdrawals taxed in the hands of that lower-income spouse.

I've heard I can use my RRSP to help me buy a home, including even holding my own mortgage! But, does it make sense?

Maybe.

You may have heard someone say that they used their RRSP to buy their home. While an RRSP can't actually own real estate, there are two other ways it can be used to facilitate home ownership.

The first is the Home Buyers' Plan (HBP) which allows you to withdraw up to $25,000 tax-free from your RRSP. Your spouse (or partner) may also be able to withdraw $25,000, for a combined total of $50,000 per couple. You generally won't qualify for an HBP withdrawal if either you or your spouse has owned a home in the past five years and occupied it as a principal residence. Amounts withdrawn under the HBP must be repaid over a maximum of 15 years or the amount not repaid in a year is added to your income for that year.

But beyond the HBP is the possibility of using your RRSP to obtain what's known as a "non-arm's length mortgage," which must be administered by an approved lender under the National Housing Act. The interest rate and other terms and conditions must reflect normal commercial practices and you must purchase private or CMHC mortgage insurance.

The advantage of investing in a mortgage through your RRSP is that you are making principal and interest payments regularly to yourself instead of to a third-party lender. But this should be weighed against the costs and risks involved. In addition to the typical one-time mortgage expenses, such as set up costs and legal fees, most approved lenders charge a mortgage administration fee each year. But by far the biggest upfront cost is the mortgage-insurance premium, which can typically range from 0.6 per cent to 4.5 per cent of the amount of the mortgage.

Keep in mind that if you use your RRSP to invest in your own mortgage, your repayments are restricted under the terms of the mortgage, including being liable for early pre-payment penalties.

Be sure to seek financial advice before walking down this route.

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