

Knowing the ground rules for RRSPs

Although most people know what an RRSP is, when it comes time to making a contribution, many have trouble with the financial aspects. The following information will help you make the most of your RRSP investment.

Tax deferral strategy

Although many investors take out RRSPs to plan their retirement and pay less income tax, it is interesting to know that you can also use an RRSP to reduce tax payments over the long term. The tax rate at retirement, when people cash in their RRSPs, is generally lower than the rate during the contribution period because their taxable income is lower.

When to contribute

The earlier you contribute, the more time your capital has to earn tax-sheltered interest. It is important, therefore, to contribute as early as possible in the year and to start contributing to an RRSP at as young an age as possible.

Contribution amount

After you filed your last income tax return, you received a Notice of Assessment from the federal government. "Your RRSP deduction limit for 200x" is indicated on the second-to-last line of the notice. This is the amount you are advised to contribute by March 1 (or day 60) of the following year in order to qualify for an income tax deduction. Note that your unused RRSP contributions since 1991 are carried forward indefinitely; this amount is indicated under "Unused RRSP deduction limit at the end of 200x" and is included in the calculation of your maximum deductible amount.

Carrying forward deductions

If you think you will be in a higher tax bracket in the future (because of increased income, for example), you can contribute to an RRSP and claim a tax deduction in a future taxation year. On your federal Notice of Assessment, the amount contributed but not deducted will be indicated on the last line under "Your unused RRSP contributions available for 200x".

Borrowing to contribute

If you are short on cash and want to capitalize on the many benefits of taking out an RRSP, it may be to your advantage to borrow in order to make a contribution. We recommend, however, that you make sure you can repay the loan within about a year.

If you would like more information on RRSP ground rules, your National Bank investment advisor can help you. Stop by one of our branches or call the National Bank Securities Advisory Service at 1-888-270-3941 or (514) 871-2082 between 8:00 a.m. and 8:00 p.m., Monday through Friday.