3 Mistakes to Avoid in Your RRSP

Description

The RRSP deadline of March 1 is coming up soon for those of you who want to make contributions and reduce your income taxes for 2017. I've listed some big benefits of using RRSPs. Here are some mistakes that investors make with regards to their RRSPs. Since you're reading this, you'll be able to avoid them.

Earning largely interest income in RRSPs

Some investors earn interest from bonds or even high-interest savings accounts in RRSPs because interest income is taxed at the marginal income tax rate in taxable non-registered accounts.

However, between bonds, savings accounts, and stocks, stocks tend to outperform in the long term. So, if you're saving for your retirement, which is what RRSPs are designed for, you should consider holding a bigger portion of stocks, including **Royal Bank of Canada** (TSX:RY)(NYSE:RY), for stable growth.

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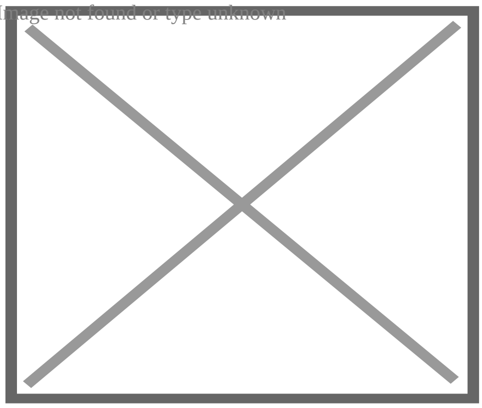

Not earning U.S. dividends in RRSPs

Similar to interest income, U.S. dividends received are taxed at your marginal income tax rate intaxable accounts.

However, if you receive U.S. dividends in RRSPs, you'll get the entire dividend. So, you can grow your U.S. stock portfolio without the hindrance of taxes in RRSPs until you withdraw from the accounts.

Some popular U.S. dividend stocks include **The Coca-Cola Co.** (NYSE:KO) and **Procter & Gamble Co.** (NYSE:PG), which offer yields of 3.3% or higher at their recent quotations.

Withdrawing from your RRSPs before you retire

It defeats the purpose of saving for your retirement when you withdraw from your RRSPs before you retire. Moreover, when you make withdrawals before you retire, you'll have to pay 10-30% of withholding taxes depending on the amount you withdraw (unless you live in Quebec where the withholding tax rate is 5-15%).

What's worse is that the withdrawal amount is counted as taxable income, and you will lose the contribution room that you used to make the original contribution.

It's true that you can withdraw certain amounts for the Home Buyers' Plan and the Lifelong Learning Plan without penalties and be able to contribute back the withdrawn amount over a number of years. However, you'll essentially be borrowing from your retirement fund and slowing the compound growth of your investments.

Investor takeaway

Investors should strive to reduce their income taxes and maximize their after-tax income. Contributing to RRSPs helps, especially if you're in a high tax bracket. Investing in quality stocks and earning U.S. dividends in RRSPs is a good way to invest for your retirement.

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1. Dividend Stocks
2. Investing

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2. NYSE:PG (The Procter & Gamble Company)
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