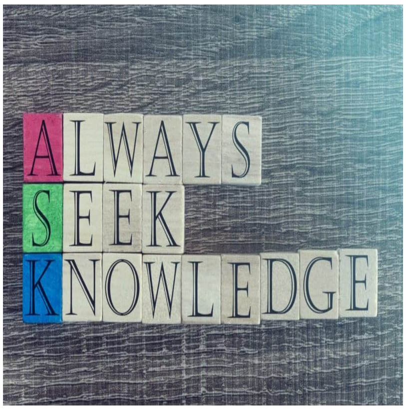

Hate Taxes? Here’s How to Unlock Your RRSP to its Full Potential

Description

It’s easy to simply contribute to an RRSP, reduce your taxable income for the year, and be done with it.

The goal is not to simply cut your taxes for a particular year but to cut the maximum taxes you can during your life. This means that you need to make the best estimate on how your income will change over time.

Contribute to your RRSP when your tax bracket is high

When is your tax bracket considered high? It’s unique for everyone. Additionally, every province and territory has different tax brackets.

For example, if you’re in Ontario, for the 2019 tax year, at the $91,101-$95,259 tax bracket, the marginal tax rate for your job’s income starts getting pricey at 37.91%. Therefore, you might start contributing to your RRSP at this tax bracket.

However, if you know that you will reach an income of more than $150,000 in the future, you should hold off on the RRSP contributions until then to avoid crazy-high marginal tax rates of 47.97-53.53%.

In summary, if you know you'll be subject to a much higher marginal tax rate in the future, you should accumulate RRSP contribution room so that you can save huge amounts of taxes in the future. In the meantime, maximize your TFSA and then invest excess savings in the non-registered account.

Maximize your RRSP returns

Once you've made contributions to your retirement account, the goal is to maximize your returns, because any withdrawals made down the road are counted as taxable income.

Historically, stocks have delivered the greatest long-term returns compared to most other asset classes. If you invest in great businesses, such as **Royal Bank of Canada**, **TC Energy**, **Open Text**, and **Shopify** when they're attractively priced, you should do very well in the long run.

Pay the least taxes on withdrawals

By the time you are close to retirement, you should take advantage of huge drawdowns in the market. Presumably, even in the face of a market crash and if the stock market falls 30-60%, your stocks should still be up considerably from your average costs after many years of owning wonderful businesses.

By withdrawing as much as you can from your RRSP/RRIF during market crashes, you can save tremendously on taxes. Remember that you don't have to sell your stocks to withdraw the money, as you can transfer in kind to your other accounts, including your TFSA.

Lastly…

Taxes and financial planning are complex matters. If you're not sure about the best course of action to save the most taxes throughout your life, don't hesitate to seek advice from a tax professional, accountant, or financial planner.

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