



## 1 RRSP Formula to Pay Fewer Taxes if You Make Over \$100,000/Year

### Description

The Canadian government has taken several steps to help Canadians make the most of their finances to enjoy financial security as they grow older. Young Canadians now realize the importance of preparing for their retirement years from an early age.

The Registered Retirement Savings Plan (RRSP), for instance, is an ideal way to accumulate wealth to give you a comfortable cushion for your retirement. The RRSP is a retirement saving and investing vehicle, which allows you to place your money into an account to grow tax-free until you withdraw it. Retirees hold RRSPs very close to their hearts.

The RRSP is not a guarantee that you will enjoy a comfortable life in retirement. It does, however, guarantee that the earnings from your [investments stored in RRSPs](#) will compound without being subjected to tax as long as you do not withdraw them.

Making the most of your RRSP is a matter of following a disciplined approach. I will discuss a couple of things you should do to ensure you get the most out of this excellent retirement savings vehicle.

### Contribute to a spousal RRSP if possible

If it is possible, you should take advantage of a spousal RRSP. This is a retirement savings plan for your spouse or your partner's retirement that offers benefits over your RRSP. Let's suppose one of you earns \$50,000 per year and the other earns \$100,000 a year. The individual limit you can contribute is 18% of your income from last year to the very last dollar amount.

If both of you had an RRSP where only the owner can contribute, the person earning \$100,000 could contribute \$18,000 to their account. The person earning \$50,000 can contribute \$9,000.

In a spousal RRSP, you can create a better balance. In a spousal RRSP, the person earning more can contribute a total of \$18,000 — part of it in their account and the rest in their partner's account. They take the tax deduction on the \$18,000 on their income tax. The other person can contribute their \$9,000 and take the tax deduction on that amount as well.

Taking advantage of a spousal RRSP, both partners can collectively accumulate more wealth for retirement than they could through individual RRSPs. There should be fewer taxes once you start withdrawing the RRSPs out in retirement.

## Utilize dividend-paying stocks

RRSPs do not allow you to store just cash and earn from the growth of your money during that time. The best way to make use of your RRSP is to buy and hold dividend-paying stocks from reliable companies. Companies that have a long history of paying shareholders dividends by increasing revenue and earnings can help you to create an RRSP that's worth a lot.

Take **Bank of Montreal**, for instance. It is [one of the best banks](#) in the banking sector of a country with a great history of top performers. BMO has a stable stream of revenue coming from commercial and personal banking operations. The bank also earns significant money through wealth management products and capital market activities.

BMO has built a substantial presence in the U.S. to bolster its growth and mitigate any effects of downturns in domestic operations. The company has a massive \$64.76 billion market capitalization and a dividend yield of 4.07%. The company has gained over 20% over the past five years to trade for \$101.34 per share at writing. It is safe to say that BMO is likely to continue its growth moving forward.

All of these are positive signs.

## Foolish takeaway

Storing shares from BMO means you can enjoy the growth of the stocks due to its share prices and additionally benefit from dividend payouts. The earnings from dividend-paying stocks through capital gains and dividends do not affect your contribution limit. This means you can buy more shares through your profits and add them to your account to further maximize your RRSP.

### CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

### TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. TSX:BMO (Bank Of Montreal)

### PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
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