



## 2 Ways Canada Revenue Agency Can Tax Your RRSP

### Description

The Registered Retirement Savings Plan (RRSP) is one of the several plans that the Canadian government has put into place to make sure that retired Canadians can enjoy financial security in their best years.

Contributing to your RRSP is critical in ensuring a steady flow of additional income that you can enjoy in your retirement years, completely tax-free!

The RRSP offers tax-free growth and tax deductions for you to capitalize on. By the time you retire, you can save plenty of money through the savings plan.

The only issue is, a lot of Canadians are not aware of some rules and regulations regarding RRSPs that can result in the government taxing your savings plan.

Today I'm going to discuss the two ways which can see the Canada Revenue Agency tax your RRSP. I will also discuss what you should do to avoid them while you use your RRSP to store the **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) stocks.

### Over contribution

Every RRSP has a contribution limit. Generally, the limit is 18% of the earned income, with a maximum standing at \$26,500 in 2019. The maximum limit changes every year.

Your maximum contribution for a year can go beyond the amount if you have unused space from previous years. For instance, if you became eligible to contribute to your RRSP, but did not do it since the past few years, the total amount will be added to the current year's limit.

Your earned income affects the contribution limit you can get in RRSP. If you contribute over the limit for your RRSP, you will be charged a penalty on the amount that is more than \$2,000 of the contribution limit.

The penalty is 1% tax per month on the excess contribution. If you file your taxes late, the penalty will increase.

Make sure you avoid over contributing to your RRSP to avoid the tax penalties.

## Withholding tax during withdrawal

The RRSP is a *retirement* savings plan. Naturally, it means you should not touch the amount in your RRSP until you hit your retirement age.

If, for some unfortunate reason, you find yourself in need of money and you decide to withdraw funds from your RRSP (which you can), you will have to pay a withholding tax.

You are liable to pay the withholding tax at the time of withdrawing funds from the RRSP, before your retirement. The RRSP withholding tax rate is 10% for withdrawals up to \$5,000.

If you withdraw \$15,000, you will incur a 20% tax. If you withdraw more than \$15,000, you will have to pay 30% in taxes.

Additionally, the Canada Revenue Agency doesn't let you get that contribution room back in your RRSP. Once you contribute an amount and withdraw it, your contribution room will effectively decrease.

Make sure you have [alternative savings like a tax-free savings account](#) that can help you out with any excess cash you need. Avoid withdrawing from your RRSP before retirement at all costs.

## Maximize your RRSP savings

Many Canadians over contribute since they want to [maximize the amount](#) they save before retirement. Do you want to reach a certain amount in your RRSP, but you are at the risk of over contributing?

Buying dividend stocks from the Canadian Imperial Bank can keep you from reaching your savings goal without letting the contribution limit affect you.

By holding dividend-paying stocks in your RRSP, the balance can grow through capital gains and dividend payments. As the CRA only counts direct contributions to the RRSP, the earnings through your dividend stocks will not count as part of the total contribution room.

CM is one of the top banks in Canada. All the fundamentals point in the right direction for a good company. The bank's stocks trade for \$108.84 at writing, and it pays shareholders a juicy dividend of 5.29%. Its exposure to international markets means that it's less susceptible to fluctuations in local operations.

## Foolish takeaway

Avoiding the two traps when it comes to RRSP and investing your money in a healthy dividend-paying stock like CM can help set you up for life.

Just make sure that you are wary of the contribution limit and focus on creating an alternative option for savings for a rainy day.

## **CATEGORY**

1. Bank Stocks
2. Investing

## **TICKERS GLOBAL**

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. TSX:CM (Canadian Imperial Bank of Commerce)

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