Canada Revenue Agency 2020: Avoid Painful RRSP Taxes From Early Withdrawal

Description

One investment account Canadians use when saving for retirement is the Registered Retirement Savings Plan (RRSP). Contributions to the RRSP, including any investment income, earn money over the long term. However, you should be aware of the RRSP penalties in case of early withdrawal.

Eligible investments

Dividend stocks like **Pembina** (TSX:PPL)(NYSE:PBA) and **Capital Power** (TSX:CPX) are qualified investments in the RRSP. Both companies are known for providing passive income in the form of dividends and capital gains from time to time. Your RRSP can grow through the power of compounding.

Many regard Pembina as a dividend beast in the energy sector. This energy stock currently pays nearly 5% dividends. If you invest $50,000 today in Pembina, you can generate a $205.83 monthly passive income. Since the stock is also ideal for a long-term hold, your money can grow to as much as $131,156.92 in 20 years.

This $24.9 billion company transports approximately three million barrels of oil equivalent in its system of pipelines. Besides energy transporting energy, the company also provides midstream services in the energy industry.

Towards the end of 2019, Pembina can boast of a 25.5% gain. Based on analysts' preview for 2020, the stock has a potential upside of 23.4% in the coming months. Over the last 21 years, this energy stock has paid a total of $6 billion to loyal stockholders.

With the recent acquisition of Kinder Morgan Canada, Pembina has cemented its industry-leading position in integrated infrastructure solutions worldwide.

RRSP users aiming for a specific amount of retirement savings should consider investing in a well-established utility company. Aside from paying a dividend of 5.5%, Capital Power offers investment protection and safety of dividends.

Assuming you have investable funds of $500,000, it can double to $1 million in only 13 years. Likewise, the same investment amount can generate annual passive income of $27,500 if the company maintains the current yield.

This multi-billion independent power producer and wholesale power generator produce future-focused energy in North American communities. It also invests mostly in efficient natural gas and renewable generation.

The company is actively supporting the advancement of carbon capture. Its end goal is to achieve near-zero emissions from natural gas in power generation and broader industrial processes.

Capital Power generates stable and increasing cash flows from long-term contracts with investment-grade clients. Would-be investors should anticipate dividend increases since the company has annual growth guidance of 7% through 2021 and a succeeding 5% growth in 2022.

Avoid the RRSP penalties

Retirees should be aware that all earnings within the RRSP are tax-sheltered until withdrawal. If you withdraw early from your RRSP, you pay a withholding tax corresponding to the amount withdrawn. However, the tax could be higher when you include the withdrawal on your income tax and benefit return for that particular year.

More importantly, you lose the compounding effect of the earnings from stock investments like Pembina and Capital Power. Early withdrawal can diminish the potential value of your RRSP at retirement because you lose the contribution room permanently.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:PBA (Pembina Pipeline Corporation)
2. TSX:CPX (Capital Power Corporation)
3. TSX:PPL (Pembina Pipeline Corporation)

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cliew