



Prep Your RRSP, Because 1 Major Mistake Can Be Penalized by the CRA

Description

The Canada Revenue Agency (CRA) doesn't turn a blind eye when it comes to slapping penalties on the Registered Retirement Savings Plan (RRSP).

Whenever you withdraw funds from your RRSP, you must declare the full amount as income in the year you withdraw. Also, an early RRSP withdrawal is a major mistake that could lead to a hefty tax bill.

Aside from the tax due, you incur other costs because of early withdrawals. You lose the tax-sheltered compounding effect. Keep in mind that RRSP earnings are tax-sheltered until you withdraw. Hence, early withdrawal, big or small, can have a material impact on the long-term value of your savings.

An early withdrawal also reduces the potential value of your RRSP come actual retirement. The moment you withdraw funds from your RRSP, the contribution room is permanently lost. You can continue your maximum contribution in the future, but you can no longer re-contribute the amount you withdrew.

Grow your investment income

You can counter any tax consequence or cushion its effect when maintaining a tax-sheltered account like the RRSP by growing your investment income. Among the reliable income-producing assets is **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) and **Fiera** ([TSX:FSZ](#)).

Evergreen income

RBC is the perennial choice of RRSP users, and not only because it is the largest banking institution in Canada. The dividend history of this \$148 billion bank dates back to 1870. In all likelihood, [your income from the stock is evergreen](#).

This blue-chip company has been through the severest financial storms in the distant and recent past. RBC has billions of dollars in its war chest to pursue strategic acquisitions and invest heavily in the

latest technologies to shore up growth.

Last year, RBC reported profits of \$12.9 billion on \$45.2 billion revenue. The net income was achieved, despite the industry headwinds, notably the low interest rate environment. About 25% of the profits come from its U.S. business segment, which augurs well in the coming years.

The 4.06% dividend it pays today is sustainable. A \$100,000 investment in RBC can produce \$4,060 in annual income.

Financial buffer

The size of investment management firm Fiera is barely 1% of Royal Bank of Canada, but it's one of the financial stocks that pays [a hefty dividend](#). This \$1.2 billion firm currently yields 7.17%. Your \$50,000 savings can earn an annual income of \$3,585.

Fiera is now a thriving global independent asset management company. It has been acquiring or merging with asset management firms since 2003. Clients availing of the company's customized multi-asset solutions come from various parts of the globe. It's a mix of retail, private wealth, and institutional clients.

Today, Fiera boasts of a high-net-worth platform, and there's a lot more to like about the stock. This firm expects sales to increase by 11.7% this year and grow at an annual rate of 14.8% over the next five years. Adding this to your portfolio gives you the financial buffer for the future.

Prep your RRSP

Early RRSP withdrawals merit a tax penalty by the CRA and damage your retirement plan. Why risk it when you can build your investment income instead with RBC and Fiera?

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2. TSX:FSZ (Fiera Capital Corporation)
3. TSX:RY (Royal Bank of Canada)

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