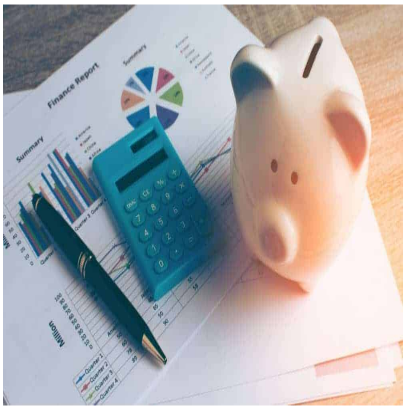

Investors: Keep the Canada Revenue Agency at Bay With Your Final 2019 RRSP Contributions!

Description

2020 is here, but you still have a few months left to make your final RRSP contributions for 2019.

Thanks to Canada's tax scheduling, you can make RRSP contributions for the prior year up until March 1 of the current year.

So, you still have plenty of time to get your RRSP contributions in. And if you're looking to minimize your tax burden for 2019, that would be a very wise thing to do.

Here's why.

The extremely generous RRSP tax deduction

RRSPs offer a generous tax deduction on contributions up to a certain limit.

The limit is 18% up to a maximum of $26,500.

For most Canadians, the RRSP limit is beyond the amount of money they have left after taking care of rent, groceries, and other daily expenses. So, unless you're an extremely high earner, the deduction is only limited by the amount of money you can commit to it.

RRSP deductions reduce the amount of income you have to pay tax on, thereby reducing your taxes. The effect is particularly powerful if it puts you into a lower tax bracket than you'd otherwise be in. This provides a strong incentive to get as much money as you possibly can into your RRSP.

Don't just let cash sit in your RRSP

With all the above said, you shouldn't just put cash into an RRSP and sit on it.

An RRSP actually provides you with two big tax benefits: the aforementioned tax deduction, *and* tax-free growth/dividends*.*

Investments held in an RRSP are tax-free until you withdraw the funds (or transfer to them to a RRIF and make withdrawals from that).

This means that you can watch your investments rack up decades of gains and dividends without having to pay a penny in tax on them until mandatory withdrawals hit at age 71. At that point, if you're not earning much income outside your RRSP, the eventual tax will be low.

So, to really get the full benefit of your RRSP, you need to hold investments in it — preferably investments with solid prospects of long-term gains and dividends, such as stocks and ETFs.

What to buy

Picking stocks is far too broad a topic for this article. Fortunately, you don't need to know anything about it to make wise investing decisions. By buying index ETFs, you are guaranteed to get market-average returns without any need to perform research on specific stocks. This lets you jump into investing as an amateur and get "average" returns without the need for any expertise.

Two great ETFs to consider buying are **Vanguard S&P 500 Index ETF** (TSX:VFV) and **iShares S&P/TSX 60 Index Fund** (TSX:XIU).

VFV is the Canadian-listed version of Vanguard's famous S&P 500 Index Fund. As a Canadian, you can easily buy it with Canadian dollars on a Canadian exchange. It replicates the S&P 500, a collection of the 500 largest publicly traded companies in the U.S. by market cap.

Most investors have a "home field preference," meaning they like investing in stocks in their home country. Indeed, there are advantages to this — not the least of which being familiarity with the stocks in question and avoiding withholding taxes — but the S&P 500 generally outperforms Canadian indices, so you should probably get some exposure to it. Speaking of which, if you buy the U.S.-listed version of the Vanguard S&P 500 fund in an RRSP, you avoid the dreaded U.S. withholding tax.

As for XIU, it's a **Blackrock**-operated ETF based on the TSX 60, the largest 60 publicly traded companies in Canada. This is my personal choice among all Canadian ETFs, as it enjoys a slight performance advantage over the TSX Composite and has a decent dividend yield of around 2.8%.

Even with the TSX 60's edge over the TSX Composite, XIU still can't match the S&P 500's gains, but it has a much higher dividend yield, so it's good for adding income potential to your portfolio.

Particularly for investors nearing retirement who have income as a top investing priority, XIU can be a great pick, as it has fairly solid dividend yield without the outrageous fees you'll find with some actively managed dividend ETFs.

CATEGORY

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