

Canada Revenue Agency: Get a Fat 18% Tax Refund With Your RRSP in 2020

Description

With the tax season nearly upon us, it is time that all working Canadians start to prepare their tax returns in the coming weeks. The Canadian government has introduced several methods for Canadians to save more money so they can enjoy a comfortable life in retirement. One of the best ways is the Registered Retirement Savings Plan (RRSP).

You can start contributing to your RRSP as soon as you turn 18. By starting early, you can receive plenty of benefits in both the short- and long-term. I am going to discuss how you can leverage your [RRSP's tax-sheltering qualities](#) to save a significant amount of money.

Additionally, I will discuss how you can maximize the benefits of those tax savings by investing in stocks like **BCE Inc.** ([TSX:BCE](#))([NYSE:BCE](#)).

Impact of RRSP on your income taxes

The most immediate benefit of starting your contributions to the RRSP is that it gives you a deduction. It saves you money on your income taxes, and if you play your cards right, it can even result in you receiving a tax refund.

The maximum cash you can add to your RRSP is 18% of your income in the previous year or a specified amount for the year, depending on whichever of the two is less. If you have any cumulative contribution room in your RRSP from previous years, it will be carried forward.

You can use the amount you contribute to your RRSP to reduce your taxable income. This is where the tax benefits of the RRSP come in. To illustrate, let's say you are making \$50,000 and you have contributed \$4,000 to your RRSP. Let's also assume is that you live in British Columbia and pay 28.2% in combined provincial and federal tax.

When you file your taxes, you can claim your \$4,000 RRSP contribution. It will keep you in the same tax bracket but reduce your taxable income by the \$4,000 you contributed. You will end up saving \$1,128 on your income tax.

Using the tax refunds

As you file your tax returns for the year, contributing to your RRSP can effectively allow you to save 18% on total income tax. You can use that significant amount to invest in a stock like BCE Inc., and boost your wealth by holding the shares in your Tax-Free Savings Account.

BCE is one of the largest telecommunications companies in Canada. [Shares from the company dropped](#) by more than 5% in the past few months. At this writing, the BCE stock is trading for \$61.11 per share, down 5.3% from its December highs. The drop in BCE stock might seem alarming, but I

think it could be a fantastic buying opportunity for investors.

Foolish takeaway

BCE is generally defensive, stable, and predictable. It has been a top holding stock for wealthy investors for decades. The stock has risen by around 500% since the 1990s. BCE has also become one of the premier telecom companies in the country. I think the short-term weakness offers investors an opportunity to buy the stock when it is cheap before it comes back up stronger.

If you want to utilize the 18% income tax savings from your RRSP, you should invest the cash somewhere you can grow it in stocks like BCE.

CATEGORY

1. Dividend Stocks
2. Investing

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1. NYSE:BCE (BCE Inc.)
2. TSX:BCE (BCE Inc.)

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Date

2025/08/25

Date Created

2020/01/21

Author

adamohtman

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