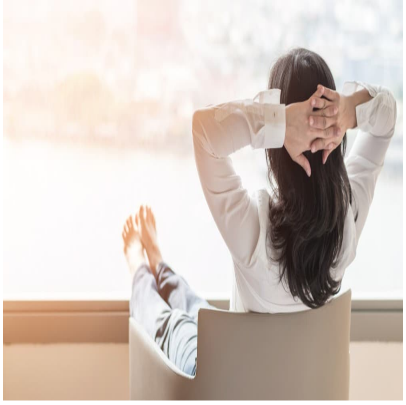

Canada Revenue Agency: Important RRSP Rules You Need to Know

Description

The deadline to contribute to an RRSP to receive a tax deduction for 2019 is March 2, 2020. Before contributing to your RRSP, however, you should know the rules of how it work in order to benefit the most from your RRSP and avoid paying additional taxes.

Below you'll find below important rules about RRSPs.

Contribution rules

Anyone who has earned income, has a social insurance number and has filed a tax return can contribute to an RRSP until December 31 of the year in which they turn 71. However, there is a limit on how much you can contribute each year, which is the lower of:

-18% of your previous year's earned income, or
-The maximum annual contribution limit ($26,500 for 2019, $27,230 for 2020) for the taxation year.

Note that if you participate in a pension plan, your pension adjustment will reduce the amount you can contribute to your RRSP.

After processing your tax return, Canada Revenue Agency (CRA) sends a notice of assessment, which includes the contribution limit for the year. This document also shows your unused contribution rights.

RRSP contribution room accumulated after 1990 can be carried over to subsequent years. If you don't maximize your RRSP contributions in a year, you can carry forward your unused contributions in the following years.

If you are at least 18 years old, you can over-contribute $2,000, but only once in your life. Any amount greater than $2,000 will be charged a penalty of 1% per month.

Withdrawal rules

You can withdraw money from your RRSP before you retire, but you will pay an immediate tax on the money you withdraw, and possibly more when you file your tax return. And you will permanently lose the contribution rights that you originally used to make the contribution.

Your financial institution will withhold tax from the amount you withdraw and pay it directly to the government on your behalf.

The withholding tax rate is between 10% and 30%, depending on the amount you withdraw from your RRSP. In Quebec, the rate is between 5% and 15% and there will also be provincial withholding tax.

You have to report the amount you withdraw on your tax return as income. At that time, you may have to pay more tax on the money in addition to the withholding tax. It depends on your total income and your tax situation.

The only time you can withdraw money from your RRSP before you retire without paying taxes is when you withdraw money to buy your first home or to pay for education. For more information about RRSP, visit CRA's website or consult a financial advisor.

Investment rules

Investments that can be held in an RRSP are called qualified investments. Here's a list of investments you can hold in your RRSP:

-Cash
-GICs and term deposits
-Savings bonds
-Treasury bills
-Bonds (including government bonds, corporate bonds, and strip bonds)
-Mutual funds (only those eligible for RRSPs)
-ETFs
-Public stocks (Canadian and foreign stocks)
-Put and call options
-Canadian mortgages
-Gold and silver
-Mortgage-backed securities
-Income trusts

Here's a list of investments you can't hold in your RRSP:

-Commodity futures
-Personal assets such as art, antiques, and jewelry
-Land
-Stocks or investments in a private company where you are a designated shareholder
-Employee stock options

-Bonds issued by a wholly-owned subsidiary whose shares are not publicly traded

If you buy these investments in your RRSP, you will have to pay a tax equal to 50% of their fair market value. You can request a refund if you dispose of the investment from your RRSP before the end of the year following the year in which the tax was applied.

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