



RRSP 2020 Deadline: 3 Big Mistakes to Avoid This Year!

Description

A Registered Retired Savings Plan (RRSP) is one of the most popular retirement plans for Canadians. There are several benefits to opening an RRSP account. These contributions are tax deductible. In case you earn \$100,000 a year, you can max out your RRSP contributions and allocate \$18,000 a year to this account. This means investors will be taxed on an income of \$82,000 and not the entire \$100,000.

These savings grow tax-free as long as you don't make any withdrawals. Investors can benefit from the power of compounding over the long term, and these investments can create substantial wealth.

The deadline to contribute towards your RRSP for 2019 is March 2, 2020. According to the Canada Revenue Agency, Canadians [can contribute up to](#) 18% of their income earned in the previous year or the annual limit of \$26,500 (whichever is lower) for 2019.

RRSP accounts are somewhat flexible. You can withdraw up to \$25,000 from this account to make a down payment for your first home. Alternatively, you can also withdraw up to \$20,000 for education purposes. These withdrawals are tax-free provided you pay back these amounts within a certain time period.

In case you are nearing retirement, you would ideally prefer getting a regular income stream from the RRSP. You can transfer the funds in your RRSP to a Registered Retirement Income Fund (RRIF). The RRIF amount received each year is calculated using a predetermined formula and depends on variables such as your age and the value of the RRIF.

The RRSP funds can also be used to purchase an annuity, which ensures guaranteed income for a specified time period.

Finally, when you withdraw your RRSP funds during retirement they will mostly be taxed at a lower tax bracket, as you will earn significantly less during retirement compared to your regular earning time span.

Now that we have seen several benefits of contributing to the RRSP, Canadians need to ensure they

avoid simple mistakes that can attract fines or penalties.

Making RRSP contributions for the wrong year

One of the most common mistakes that Canadians make is contributing to the RRSP after the deadline. For 2019 contributions, March 2, 2020, is the deadline, and in case you contribute after this date, they will go towards your 2020 taxes.

No focus on diversification

You need to have a well-diversified portfolio to protect yourself from a bear market or a sell-off. It is really important to have a well-diversified portfolio to generate consistent returns. Investors need to have a detailed plan and allocate funds to various investment options such as stocks, bonds, gold, and REITs.

Investors with large risk appetites can invest in high-growth stocks or have a large exposure to global equity markets. Conversely, risk-averse investors may invest in bonds and blue-chip dividend stocks to ensure a steady stream of recurring income. To ensure diversification of funds, investors can also purchase ETFs across asset classes and geographies.

Do not overcontribute

Overcontribution is another common mistake that impacts Canadians. As stated earlier, you can contribute up to 18% of your total income or \$26,500 to your RRSP in 2019. For 2020, this limit has increased to \$27,230.

In case your contributions exceed these limits by more than \$2,000, the Canada Revenue Agency will levy a tax of 1% per month on the excess contribution, which may hamper your wealth creation in the long term.

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