



## Canada Revenue Agency: 1 Simple RRSP Mistake Could Land You in Hot Water

### Description

The Registered Retirement Savings Plan (RRSP) has been around for more than five decades. Despite its lengthy existence, however, many Canadians need a refresher to understand its very purpose. One simple mistake that could result in a [tax bite](#) by the Canada Revenue Agency (CRA) is random withdrawal.

The CRA treats all RRSP withdrawals as taxable, regular income. The tax rate can range from 5% to 30%, depending on the amount of withdrawal and province. Let's say you withdraw for a big-ticket purchase or vacation money. You could end up with an unexpected tax bill in the next tax filing season.

### Only two exceptions

The CRA will not bother if you're availing of the first-time home buyers' plan and lifelong learning plan. These are the only two things that are tax free in your RRSP. Although both purposes count as income, you must repay the money within a specified period.

### Maximize the RRSP contribution room

The RRSP is a retirement savings tool that enables you to grow a rich retirement fund. You also don't need large sums to invest. Even if you start investing at 40, you have a 25-year investment window before reaching the [ripe retirement age](#) of 65.

Your contribution room in 2020 is 18% of your income the previous year, and up to a maximum of \$27,230. The amount can be higher if you have a carry-forward contribution room.

The best way to maximize your RRSP is through dividend investing. An energy stock like **Inter Pipeline** (TSX:IPL) is an investment option because of its high dividend yield. This energy stock pays a hefty 7.93% dividend.

## Potential earnings

Assuming you have \$150,000, you can lock in for 25 years, the value of your investment could be \$1,010,754.50. It's also on the assumption that Inter Pipeline maintains the yield during the time frame. The point is here is that if you have time on your hands, use the tax-deferred benefits of the RRSP.

Apart from the incredible yield and track record of 11 straight years of dividend increases, Inter Pipeline appeals to RRSP users because it pays dividends monthly. At the same investment amount above, your potential monthly income is \$11.895.

This \$8.46 billion energy infrastructure company is into the transportation, storage, and processing of energy products in Western Canada and Europe. Its most potent contributor to revenue is Oil Sands transportation. This segment accounts for nearly 50%, while natural gas liquid (NGL) follows with 34%.

Inter Pipeline expects to spend around \$1.1 billion this year for organic growth initiatives. But the real excitement building around the company is the completion of the Heartland Petrochemical Complex.

The one-of-a-kind project will convert locally sourced, low-cost propane into polypropylene, which is a high-value plastic that manufacturers can use to produce a wide range of products.

There are fewer than 700 days before this complex opens for business. Inter Pipeline should be producing an annual volume of 525,000 tonnes.

## Avoid a tax bite

Once your savings and investing activities within the RRSP are underway, don't dip into or withdraw from the fund to avoid a costly tax bite. All it takes is the discipline to keep your nest egg growing.

### CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

### PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

### Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

**Date**

2025/09/19

**Date Created**

2020/03/02

**Author**

cliew

default watermark

default watermark