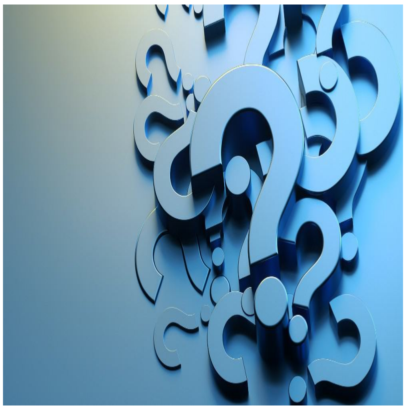

Canada Revenue Agency: How Much Can You Contribute to the RRSP?

Description

A registered retirement savings plan (RRSP) is a retirement savings plan. According to the Canada Revenue Agency, RRSP contributions are tax-deductible. Further, any income earned in the RRSP is exempt from tax as long as they remain in the plan. However, most withdrawals or payments will be taxed by the Canada Revenue Agency.

As these contributions are tax-deductible, you need to calculate the contribution limit. The Canada Revenue Agency calculates the deduction limit as the lesser of the below:

- 18% of your earned income in the previous year
- The annual RRSP limit

The RRSP limit for 2019 stands at $26,500, which means in case you earn $100,000 a year; you are eligible to contribute $18,000 to the RRSP but if you earn over $147,200 then the contribution limit is a maximum of $26,500.

Canadians can also contribute to the unused deduction room at the end of the preceding year. However, if you overcontribute, the Canada Revenue Agency will levy a tax of 1% per month that exceeds the RRSP deduction limit by more than $2,000.

Where to invest your RRSP contributions?

Now that you have contributed to your RRSP, you need to create a portfolio of top-quality dividend-paying stocks. Long-term investors can look to invest in large-cap Canadian companies that will help generate wealth and secure your retirement.

Royal Bank of Canada is the country’s largest bank. With a market cap of $121 billion, this stock has a forward yield of 5.1% and a robust loan book and is well-diversified with operations in 36 countries.

Royal Bank of Canada has a payout ratio of less than 50%, which means its dividends should be sustainable. In the last 10 years, it has increased dividends at an annual rate of 7.4%. The stock has lost momentum in recent times due to fears over high unemployment rates and its exposure to the highly volatile oil industry that might increase default rates and send the stock lower. However, the COVID-19 is expected to be a near-term headwind which makes the pullback attractive.

Canada's largest energy company is **Enbridge** (TSX:ENB)(NYSE:ENB). The stock is trading 20% below its 52-week high. Investors are rightfully wary about falling crude oil prices. But Enbridge is not an oil producer. It has a vast network of pipelines and is immune to low commodity prices. The energy giant generates over 90% of the cash flows from long-term contracts.

The rapid decline in jet fuel and gasoline consumption has driven oil production lower, impacting pipeline volumes for Enbridge. Its throughput fell from a historical average of 2.84 million barrels per day to 400,000 barrels per day in Q1.

But the company is optimistic about 2020 and expects to generate cash flow between $4.5 and $4.8 per share. This indicates its dividend per share of $3.24 remains safe. Enbridge has a dividend yield of 7.3%.

The Foolish takeaway

The stocks mentioned stocks above are just two examples of quality dividend-yielding stocks. You can identify similar companies to diversify your portfolio and mitigate risk in the current environment that is volatile and uncertain.

As interest rates are nearing record lows, public equities remain attractive and investors need to take advantage of the recent weakness in the stock market.

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araghunath