



1 RRSP Mistake That Can Land You in Trouble With the CRA

Description

The [Registered Retirement Savings Plan](#) (RRSP) has been around for over 50 years, and Canadians have been using it to save money for retirement. Although it has been around for so long, some people do not fully understand how to maximize their use of the account.

The RRSP is one of the best ways for Canadians to grow their wealth. However, there is one critical mistake that Canadians can make that can cost them down the road: overcontribution.

I am going to discuss this mistake and talk about the **Fortis** ([TSX:FTS](#))([NYSE:FTS](#)) stock, so you can properly utilize the contribution room in your RRSP.

Going over the limit

While trying to push yourself past your limits can be a good thing in general, you cannot say the same about breaking the boundaries of the rules and regulations. One such limit that investors often forget about is the contribution limit in their RRSPs.

The [Canada Revenue Agency](#) (CRA) has assigned a limit to how much you can contribute to your RRSP each year. The limit is quite simple. It is either 18% of your total income in the year or the maximum contribution limit for that year. For 2020, the maximum contribution limit is \$27,230. Whichever is lower from the two is your RRSP contribution limit.

For instance, if you'd earned \$200,000 in a year, 18% of that amount would be \$36,000. Since that is over the maximum contribution you can make to your RRSP, your limit is \$27,230 for 2020. If you'd earned \$100,000, your limit is 18% of your annual income, which comes down to \$18,000.

The cost of overcontribution

There is a penalty to pay for not staying within the contribution limit. If you overcontribute to your RRSP by \$30,000, the excess amount will be taxable minus \$2,000. You will have to pay your taxes on the

\$28,000. The \$2,000 is a cushion that the CRA provides to investors for overcontribution.

The tax penalty is 1% each month that the exceeded amount exists in your RRSP. Taking out the extra amount will make the penalties stop. If you do not take out the amount, the CRA will keep taxing the excess amount, and that will compromise the tax-sheltered status of your RRSP.

How to maximize returns

Many people overcontribute to their RRSP due to the account's tax-sheltered status, so they can maximize returns. The tax penalties take away from the overall benefit you can enjoy. Instead of trying to contribute too much to your account, you can try and invest in an income-generating asset that will make more money for you without affecting your contribution room.

Consider investing in the stock of a company like Fortis. Fortis is a defensive stock that is one of the top utilities operating in Canada. Almost the entire revenue of this company is regulated, and the company has an extensive history of dividend growth. Utility stocks like Fortis have immense long-term potential due to the reliability of its revenue.

At writing, the Fortis stock is trading for \$51.53 per share, and it has a juicy 3.71% dividend yield. The stock saw a sudden dip in its price due to the COVID-19 pullback, but it has gained 22.11% since March 23, 2020, to come close to its price at the start of the year. Despite the lockdown, Fortis is a company that will continue to perform well due to the essential nature of its service.

Foolish takeaway

Consider your RRSP like a tree that you need to nurture and grow eventually to increase your overall wealth. You need to take care of it by watering it, but if you water it too much, you risk damaging it. Instead of going over the contribution limit, you should make regular contributions to your RRSP with high-quality dividend-paying stocks with long-term potential.

To this end, I think Fortis could be an excellent addition to your RRSP.

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2. Investing

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