



Canada Revenue Agency: This RRSP Mistake Could Cost You Dearly

Description

The Registered Retirement Savings Plan (RRSP) is a retirement savings plan. It is tax-deductible and any income earned in this account is tax-exempt as long as they remain in the plan. Canadians need to pay tax when they receive payments from the plan.

The RRSP contribution limit is [determined on the basis of](#) your unused deduction at the end of the preceding year. Further, you need to calculate the lesser of the below items:

- 18% of your earned income in the previous year
- The annual RRSP limit (this figure stands at \$26,500 for 2019)

For example, if you had an unused RRSP deduction of \$5,000 for 2019 and you earned \$100,000 last year, the RRSP contribution limit for 2020 will be \$5,000 + 18% of \$100,000 which adds up to \$23,000.

The RRSP contribution limit is important as the Canada Revenue Agency levies taxes on excess contributions. In case you exceed the RRSP contribution limit by \$2,000, you have to pay a tax of 1% per month to the Canada Revenue Agency on the excess contributions. The tax has to be paid within 90 days of the time it's issued.

In case you over-contributed to your RRSP by \$10,000, the [annual taxes you need to pay](#) is close to \$1,200. So, how do you avoid these taxes? One easy way is to look at the RRSP limit given in your CRA account.

Include dividend stocks in your RRSP account

Canadians might want to reach a certain RRSP balance to secure their future. But it should be done without over-contributing to this account. Investors with a long-term horizon can consider top-quality dividend stocks such as **Bank of Montreal** ([TSX:BMO](#))([TSX:BMO](#)) for their RRSP. The stable payouts from dividend stocks can add cash to your RRSP, which will help you reach financial targets sooner.

BMO stock is trading on the **TSX** at a price of \$65.2, which is 38% below its 52-week high. The recent

pullback in BMO stock price has meant its forward yield is now a tasty 6.5%. So, if you invest \$5,000 in BMO, you can generate \$325 in annual dividends. With a payout ratio of less than 50%, BMO's dividends are safe.

Bank of Montreal is one of the top five banks in Canada, with a market cap of \$41.7 billion. Due to its recent decline, BMO stock is trading at a forward price-to-earnings multiple of 7.4 and a price-to-sales multiple of 1.6.

It has a low price-to-book ratio of 0.85 as well, making it one of the top stocks for value, income, and contrarian investors.

BMO has a high exposure to oil and energy stocks, a sector that has been decimated due to low oil prices. The country's rising unemployment rate might also deter investors as banks might be exposed to mortgage defaults.

While no one knows how the pandemic will pan out, when businesses reopen, employment will rise and so too will demand for oil, pushing shares of BMO and peers higher, making it a winning bet for your RRSP.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. TSX:BMO (Bank Of Montreal)

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