



Canadian Investors: 2 RRSP Tax Breaks That You Should Know!

Description

An RRSP (Registered Retirement Savings Plan) is a retirement contribution plan. Any income you earn in this plan is exempt from tax as long as these funds remain in the plan. Canadians contributing to this plan have to pay taxes when they receive payments from this account.

Further, RRSP contributions can also be used to reduce your tax. The RRSP contribution limit for 2019 is 18% of your earned income. This means if you earn \$100,000 a year, you can contribute \$18,000 towards this account. The contribution limit is capped at \$27,230 for 2020.

While you need to pay taxes on RRSP withdrawals, there are ways to make these withdrawals tax-free. You can withdraw money from RRSP without paying taxes to the CRA (Canada Revenue Agency) under the Home Buyers Plan (HBP) or the Lifelong Learning Plan (LLP).

Home Buyers' Plan

The Home Buyers' Plan is a program that allows you to make RRSP withdrawals to buy or build a qualifying home. The HBP withdrawal limit made after March 19, 2019, stands at \$35,000.

You need to be a first-time home buyer and a Canadian resident to qualify under the HBP. Further, you must also intend to occupy the qualifying home as your principal place of residence within a year of buying it.

You have 15 years to repay the amount withdrawn from the RRSP. The repayment period starts in the second year after the year when the funds are first withdrawn from the RRSP. For example, if you withdraw funds under the HBP in 2020, your first year of repayment will be 2022.

Lifelong Learning Plan

The LLP allows you to withdraw up to \$10,000 in a calendar year from your RRSP to finance full-time training or education programs for you and your spouse or common-law partner.

The Canada.ca [website states](#), “As long as you meet the LLP conditions every year, you can withdraw amounts from your RRSPs until January of the fourth calendar year after the year you made your first LLP withdrawal. You cannot withdraw more than \$20,000 in total.” You need to repay RRSP withdrawals under the LLP within 10 years.

Leverage your RRSP to create long-term wealth

We can see these RRSP tax breaks will benefit first time home buyers and help finance education programs. Alternatively, the RRSP can also be used to create massive wealth for long-term investors by identifying top-quality stocks.

You can invest in stocks such as **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)) that are recession-proof. Enbridge is an energy infrastructure giant and the recent pullback in share prices due to low crude oil prices and the COVID-19 pandemic has meant the stock has a forward yield of 7.5%.

While energy stocks witnessed one of their worst quarters in several decades, Enbridge came out of it virtually unscathed. In [the second quarter](#), Enbridge's EBITDA rose 3.2% to US\$3.31 billion, while distributable cash flow rose 5.5% to US\$2.43 billion.

Enbridge reaffirmed its guidance for distributable cash flows of between \$4.5 and \$4.8 per share in 2020. Comparatively, its annual dividend per share stands at \$3.24. Enbridge has increased dividends at an annual rate of 11% since 1995 and its stable revenue streams, strong balance sheet, and robust cash flows will help it raise dividends in the upcoming decade as well.

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