CRA to Canadians: This RRSP Trick Could Save You Thousands in Taxes

Description

The Registered Retirement Savings Plan (RRSP) is an excellent way to save money for retirement. Each year, Canadians are given a notice of assessment by the Canada Revenue Agency (CRA) stating the limit you can contribute. As long as you stay within that limit, you can put that tax-free cash aside for years!

Here's the issue, it's when you take out the cash that's the problem. You hit 65, and suddenly you have potentially over $1 million sitting there to take out. If you take it out all at once, that's income you have to report to the CRA. But there is something you can do to bring down that potential tax bill if you have the time.

If you're years away from retirement, this is simple. If you're about to hit retirement, don't worry. Canadians live to an average of about 85 years old, and that's taking into consideration those who have passed away well before that age. So that number due to old age issues is likely even higher. So if you're 65, don't sweat it. There are years you can still take out this cash.

Scenario 1: Before retirement

So if you're well before retirement, there are a few times you can take out RRSP funds. After all, there isn't any rule stating you have to wait until 65 to start taking out those funds. You could want to retire at 40 for all the CRA cares!

So let's say you have a lean year at work, or you're on parental leave, or you go back to school. Your income will be much lower than usual. This is an ideal time to take out some RRSP cash to keep taxes down. Let's say you take out cash to report income of $30,000, you'll only have taxes of $3,700!

If you're able to do this a few times before retirement, putting your cash aside in your Tax-Free Savings Account (TFSA), you'll save thousands in taxes before you're ready to retire. There's also the option to take out cash if you go back to school. You can take out cash from your RRSP as a "loan" to pay for school. But there is no obligation to pay it back! So you could just take the cash and run!

Scenario 2: at retirement

If you're about to retire, there's also the option of pushing back your Old Age Security (OAS) and Canada Pension Plan (CPP). So, you retire and start using your RRSP funds first. If you keeps the funds low, and especially while you're not making any income, the taxes will be next to nothing! Not only that, you'll receive far more from OAS and CPP the longer you wait!

Of course, no matter what you have to pay taxes. That's a given. But by waiting and withdrawing little bits at a time, you'll be able to keep your taxes far lower. And if you don't need that cash right away, simply put it into a TFSA! Investing in a stock like **Royal Bank of Canada** (TSX:RY)(NYSE:RY) is the perfect option.

Royal Bank is the largest Canadian bank by market capitalization with over a trillion in assets to fall back on during any downturn. Meanwhile, it's currently expanding into emerging markets to bring even more money in for shareholders. You'll also receive a 4.45% dividend yield as of writing, and look forward to a 10% CAGR from the last decade!

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