



Canada Revenue Agency: Convert the Extra \$600 in Your RRSP Into \$2,500

Description

Have you thought about your retirement? When will you retire, and how much money would you need to live a comfortable life? It's ok if you haven't. Millions of Canadians have no plans to even retire before 70. The Canada Revenue Agency (CRA) offers many tools to encourage people to save for retirement and get tax benefits in return. Tax savings is one of the key reasons why Canadians invest in the Registered Retirement Savings Plan (RRSP). The CRA is bringing changes to RRSP in 2021.

The CRA has increased the [maximum RRSP contribution](#) for 2021 by \$600 to \$27,830. How will this \$600 RRSP enhancement impact you?

You can contribute \$600 more to RRSP in 2021

RRSP is a voluntary retirement savings plan in which you can contribute 18% of your annual income or the maximum contribution amount whichever is lower. The CRA sets the maximum RRSP contribution amount. The CRA allows you to deduct the contribution you make to RRSP from your taxable income.

You can contribute more than \$27,830 in 2021, but then you won't get the tax benefit on the surplus contribution. In fact, the CRA will deduct 1% tax on the surplus contribution above \$2,000. The \$600 increase in RRSP contribution limit therefore means you can get a higher tax deduction for the 2021 taxable income.

For instance, Wayne earns \$160,000 in 2021 taxable income, and 18% of his income comes to \$28,800, which he can invest in an RRSP. But he can only deduct \$27,830 in RRSP contribution deduction and reduce his taxable income to \$132,170.

Make the most of this extra \$600 in your RRSP

You can almost quadruple the \$600 extra in your RRSP to \$2,500 – and here's how. The RRSP is designed for long-term investments. As these are your retirement savings and the RRSP withdrawals will be taxed, it is better to invest in low-risk stable stocks.

One such stock is **Descartes Systems** ([TSX:DSG](#))([NASDAQ:DSGX](#)). It has been growing steadily for the last 10 years as global trade grew. Descartes provides a supply chain management system to enterprises. It has a diverse customer base by size, geography, and industry.

Any weakness in one industry is offset by strength in other industry. For instance, Descartes's revenue from the airline and retail segment plunged in the pandemic — a decline that was more than offset by strength in e-commerce and healthcare. This customer diversity renders Descartes resilient to the economic crisis.

In the last 11 years, Descartes's stock has surged at a compound annual growth rate (CAGR) of 25%. There wasn't a single year when the stock fell. Either it rose or was flat. I understand the company's growth has slowed as its size increased, but it is still growing. Even if you discount its CAGR for the next 10 years at 15%, your extra \$600 RRSP contribution will become \$2,500 by 2031.

Like Descartes make your make pension resilient to crisis

Don't put all your money in one stock. Similar to the way Descartes diversifies its customer base to get several revenue streams, you should also diversify your portfolio. A good way to diversify is to invest in dividend and growth stocks, mid-cap and large-cap stocks, low risk, and high-risk stocks from different sectors. You can invest a third of your \$27,830 RRSP contribution, or \$9,300, in **Enbridge**, **Lightspeed POS**, and **RioCan**.

Enbridge is a good low-risk, high dividend, large-cap stock in the energy sector with a 25-year history of [paying incremental dividends](#). While the stock price doesn't grow much, it can give you \$790 in annual dividends on the \$9,300 investment.

You can use the dividend money to invest in a high-growth, high-risk stock like Lightspeed POS. Lightspeed stock has surged over 90% last year and over 60% this year. The stock has the potential to grow more than 30% in the next two years as it expands its market share organically and through acquisitions. Your \$790 investment can convert to more than \$1,000 in a year. Your returns will depend on the way you blend the stocks.

So wear your investing apron and start cooking. Learn from the taste of returns and improve your dish.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:DSGX (Descartes Systems Group)

2. TSX:DSG (The Descartes Systems Group Inc)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Tech Stocks

Date

2025/08/22

Date Created

2020/11/23

Author

pujatayal

default watermark

default watermark