



How to Save Thousands Per Year With Your RRSP

Description

Canadians are likely already familiar with the [Registered Retirement Savings Plan](#) (RRSP). This plan is a great way to save for your retirement one day. But there are so many benefits you can use the RRSP for even before you retire!

Today, I'm going to go over one of those benefits that could literally save you thousands each and every year. Further, I'll discuss what to do with those savings to create more growth in your RRSP.

Hit your limit

If it's possible, Canadians should be trying to hit their RRSP limit every single year. That limit is how much you can contribute into your RRSP. And while it's a huge number, it can save you thousands each year come tax time.

Whatever you contribute to your RRSP each year is *taken off your income* at tax time. So, if you made \$100,000 and contribute \$20,000, your income is brought down to \$80,000. That means you'll be taxed by the Canada Revenue Agency (CRA) within the \$80,000 tax bracket, *not* the \$100,000 tax bracket.

Let's have an example

In this example, let's say you live in Ontario. Should you contribute \$0 to your RRSP, you would have to pay the tax bracket for a \$100,000 income. That would be the following:

Federal tax bracket		Federal tax rates		Ontario tax bracket		Ontario tax rates	
\$49,020 or less		15%		\$45,142 or less		5.05%	
\$49,021 to \$98,040		20.50%		\$45,143 to \$90,287		9.15%	
\$98,041 to \$151,978		26%		\$90,288 to \$150,000		11.16%	

Therefore, you would end up paying taxes of about \$23,028 for your 2021 taxes. *However*, if you're in

the \$80,000 contribute it suddenly becomes far less. So, let's say you end up making that \$20,000 RRSP contribution. Now your taxes look like this:

Federal tax bracket	Federal tax rates	Ontario tax bracket	Ontario tax rates
\$49,020 or less	15%	\$45,142 or less	5.05%
\$49,021 to \$98,040	20.50%	\$45,143 to \$90,287	9.15%

Suddenly, you're only paying about \$16,273 in taxes, saving you a whopping \$6,755!

What to do with that money

A great habit to get into is taking a return from the government and putting it straight towards your RRSP for the next year. Furthermore, you can calculate your tax savings with online calculators, and put the difference towards the next year as well!

Then I would set up automatic contributions for each month to put away cash in your RRSP. You can make them, so they automatically invest into an investment of your choosing. Since you're in an RRSP, you probably want something safe with dividends, so you can keep your cash climbing higher and higher with few dips.

For that, I would recommend **BMO Covered Call Canadian Banks ETF (TSX:ZWB)**. This [exchange-traded fund](#) (ETF) offers high dividends of 5.31%, while also seeing strong growth thanks to its covered calls.

In fact, just investing that \$6,755 would bring in passive income of \$430 per year! You can use that as even more contributions to your RRSP and hit your limit far sooner.

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