Save on Taxes: Buy These 2 RRSP Stocks Before March 1

Description

The tax season is approaching, and May 1 is the filing deadline. It is better to start preparing for your 2022 tax filings now. You can still reduce your taxable income by investing some amount in the Registered Retirement Savings Plan (RRSP). The Canada Revenue Agency (CRA) has set the contribution room for RRSP as $29,100 for 2022. You have until March 1 to avail of the tax deduction, but remember that RRSP withdrawals are taxable, unless it is for education or buying a house.

Is it a good option to invest in an RRSP to save on taxes?

You often ignore retirement saving, thinking there is still time and that you have many pressing financial needs. But the truth is the earlier you start saving the better. Retirement is expensive, and the Canada Pension Plan and Old Age Security are not sufficient.

If you are confused about choosing whether to invest in RRSP or pay tax, the former is a better option, as it can give you more returns. Suppose your taxable income is $120,000. As per the 2022 tax bracket, you would pay $22,917 in federal tax (19% of your annual income). This tax is not coming back to you. But a $20,000 investment in an RRSP, can help you reduce your federal tax bill by $5,178. (The calculation excludes provincial tax).

Income tax brackets*	**Income tax rates**	**Before RRSP Taxable Income**	**Before RRSP `Tax**	**After RRSP Taxable Income**	**After RRSP Tax**
$50,197 or less	15%	$50,197.00	$7,529.55	$50,197.00	$7,529.55
$50,197 to $100,392	20.50%	$50,195.00	$10,289.98	$49,803.00	$10,209.62
$100,392 to $155,625	26%	$19,608.00	$5,098.08		
Total		$120,000.00	$22,917.61	$100,000.00	$17,739.17
				Tax Savings	**$5,178.44**

How RRSP contribution brings tax savings

If your $20,000 investment gives you a 10% average annual return, your RRSP could grow to $51,874 after 10 years. If you retire in 10 years and withdraw RRSP money, you'll pay lower taxes. It is because you withdraw when your overall taxable income is low (post-retirement) and the tax brackets have increased.

An RRSP helps you defer your taxes, thereby giving you tax savings at the peak of your income while you save for your retirement.

Two RRSP stocks to buy before March 1

When you invest in RRSP, look for companies that can give good returns in the long term, even if they fall in the short term. Here are two stocks where you can invest your RRSP contributions before March 1.

TransAlta Renewables stock

TransAlta Renewables (TSX:RNW) earns revenue primarily from wind energy. It is facing short-term weakness due to rising financing costs from growing interest rates. High financing costs and growing competition in renewables have made it challenging to profit from the acquisition of wind and solar plants. Hence, it has taken a break from new acquisitions till the financing cost eases. In the meantime, it is focusing on existing projects and organic growth.

Moreover, some of the company's projects are expiring in the near to mid-term, which could impact its cash flows. New projects coming up in 2023 might not be able to offset the cash flows from the expiring projects. Because of this, the company has lowered its earnings guidance for 2023. It is channeling all its cash flows towards sustaining its dividends. This use of cash flow is not sustainable in the long term, and a dividend cut is likely if the interest rate remains high for a longer term.

But wind energy is a long-term secular trend that will benefit from energy transition and government support. When the renewable energy wave came in November 2020 when Joe Biden was elected U.S. president, RNW stock jumped 90% from its pandemic low. More opportunities would come as economic growth rebounds. Hence, TransAlta Renewables is a buy, while the stock trades closer to its pandemic lows.

Descartes Systems stock

Descartes Systems (TSX:DSG) is a long-term growth stock, as it is a beneficiary of the changing phase of supply chain management. From trade war to e-commerce, Descartes's solutions help companies tackle all challenges while improving efficiency. While it falls in a weak economy, it grows in a strong economy and has delivered a 20% average annual return in the long term.

Bottom line

These stocks will give you a mix of resilient growth stock and dividend stock.

CATEGORY

1. Investing

TICKERS GLOBAL

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2. TSX:RNW (TransAlta Renewables)

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