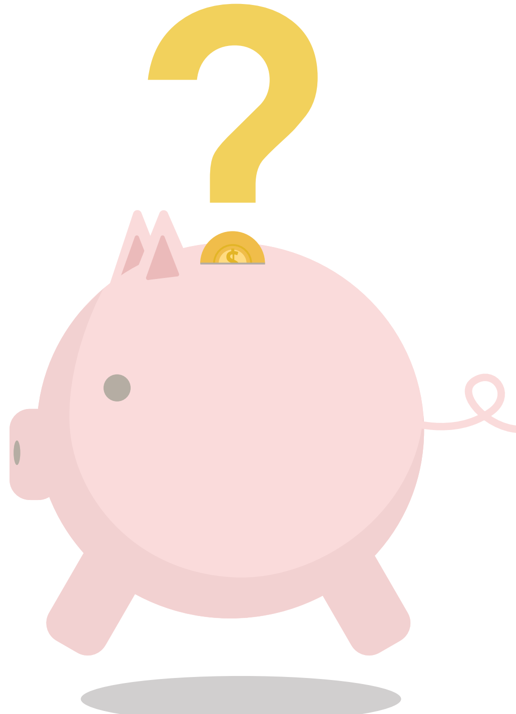
5 things you should know about your RRSP

With the 2022 RRSP deadline coming up on March 1st, here are five lesser-known facts about the account to keep in mind.



The Registered Retirement Savings Plan (RRSP) has long been the go-to retirement account for Canadian savers. While you're probably familiar with the basics—you can contribute anytime during a calendar year plus 60 days into the following year, for instance—there are a lot of aspects to this 65-year-old investment vehicle that you may not be familiar with.

1. Money you take out of an RRSP is subject to withholding taxes

Since everyone is happy to claim a tax deduction when they contribute to an RRSP, it's easy to forget that it's really a tax deferral. At some point in the future—hopefully after you're retired, but it could be sooner—you'll draw on that money. And when you do, those withdrawals are considered part of your annual income, and you'll pay taxes on them at your marginal rate.

As such, when you withdraw money from an RRSP, your financial institution takes a portion right off the top that goes directly to the government, similar to the taxes that are deducted from a salaried paycheque. This is called a withholding tax, and the percentage withheld depends on the amount you withdraw from your RRSP. For Canadian residents, the rates are:

- 10% (5% in Quebec) on amounts up to $5,000
- 20% (10% in Quebec) on amounts over $5,000 up to and including $15,000
- 30% (15% in Quebec) on amounts over $15,000

Quebec residents also pay a provincial withholding tax, while the rate for non-residents of Canada is 25%.

It's important to note, however, that these withholding taxes may not be enough to cover the full amount of tax you owe on your RRSP withdrawals. If your total annual income puts you in a high tax bracket, you could still owe more money come tax time. Similarly, if you're in a low bracket, you could get some of the withholding taxes back when you file your return.

2. When you withdraw funds from an RRSP, you lose the contribution room

One of the more misunderstood aspects of the RRSP is what happens when you remove money

3. There are two exceptions to #1 and #2: The Home Buyers' Plan and Lifelong Learning Plan

The government has two federal programs that let you withdraw money from your RRSP without paying withholding taxes or annual income taxes on those withdrawals, and you don't lose any contribution room.

- **Home Buyers' Plan:** First-time home buyers can withdraw up to $35,000 from an RRSP account tax free to finance their purchase. (If you're buying that home with a partner or spouse, each of you can withdraw $35,000 from your respective RRSPs, for a total of $70,000.) You must repay the full amount to your RRSPs within 15 years (and a minimum amount annually) or you'll pay income taxes on the outstanding balance.

- **Lifelong Learning Plan:** If you or your spouse is in an eligible full-time training or education program, you can each withdraw up to $10,000 annually (and up to $20,000 in total) from an RRSP tax free. You can spend the money on anything you like, but you must repay the total amount to your RRSPs within 10 years (usually 10% per year), or you'll pay income taxes on the outstanding amounts.

You can participate in both programs concurrently. Be aware, however, that RRSP contributions must be made at least 90 days prior to withdrawal to be eligible for the Home Buyers' Plan or the Lifelong Learning Plan.

4. You can defer your tax deduction to a future year, which could save you money

The government lets you carry forward RRSP tax deductions to future tax years, which means you can be strategic about when you claim them. If you expect to be in a higher tax bracket next year, for example, you may save more money by waiting until then to take your deduction. Similarly, you might want to delay claiming your RRSP contributions for several years prior to receiving Old Age Security at age 65, if you expect your total income in retirement to be above the OAS clawback threshold. By doing so, you can use the deductions to lower your taxable income after you start receiving OAS and hopefully avoid the benefit clawbacks. Remember, you can have what are called "unused contributions." You can wait to deduct contributions from your income at a later time, sheltering any growth in your RRSP in the meanwhile.

5. You can transfer some investments directly from a non-registered account to your RRSP

If you don't have enough cash on hand to max out your RRSP, you might be able to transfer some of your non-registered investments to your RRSP "in-kind." In other words, you transfer the investment itself, rather than liquidating it and then contributing the money to your registered account. Qualified investments include GICs, government and corporate bonds, mutual funds, securities listed on a designated stock exchange, and certain private Canadian corporate shares. The contribution amount (and allowable deduction) is the fair market value of the investment on the date of transfer. Take note, however, that the taxman views such transfers as if you've disposed of the investment, so you'll have to pay income taxes on any gains. Investment losses on in-kind transfers, unfortunately, cannot be claimed.