

Tax Advisory Bulletin

Date: January 2009

Re: 9 Tips for Optimizing Your RRSP

The March 1, 2009 deadline for a 2008 tax deductible RRSP contribution is fast approaching. Here are some simple RRSP strategies that will help you get the most out of your RRSP.

- Maximize your 2008 contribution – the 2008 limit is 18% of your earned income from 2007, to a maximum of \$20,000. If you are a member of a pension plan, the limit may be reduced by your “pension adjustment”, in which case you need to obtain that information from your employer.
- Hold dividend-paying and growth securities outside your RRSP because of their preferred tax status and the lower tax rates associated with dividends and capital gains.
- Consider contributing to a spousal RRSP in order to income split in retirement years.
- Make your RRSP contribution as early in the year as possible in order to benefit from more tax-free compounding. You can contribute now for your 2009 RRSP. The 2009 limit is \$21,000 based on 18% of your 2008 earned income.
- If you don't have the cash for an RRSP contribution, you might want to transfer securities to your RRSP. You will get an RRSP deduction equal to the value of the transferred securities. Unrealized gains will have to be recognized and you will have to pay tax. Losses cannot be claimed.
- Review your CCRA “RRSP Contribution Limit” statement to ensure that you don't over-contribute to your RRSP. Too much excess may result in penalties.
- Review your CCRA “RRSP Contribution Limit” statement and determine if you can make a large “catch-up” contribution. If so, you also need to plan whether it's beneficial to deduct the whole amount in one year or save some of the deduction until the following year in order to optimize the tax savings.
- If you are turning 71 in 2009, you can make an extra tax-deductible contribution essentially without penalty. You also need to collapse your RRSP by December 31, 2009 and consider the options.
- If your young children earn employment income, make sure to file a tax return for them each year, even if they aren't taxable. By doing so, they will accumulate RRSP contribution room for use later on. They will then be able to make a large tax-deductible “catch-up” payment when it makes sense.