RRSP Checklist

It is Registered Retirement Savings Plan (RRSP) season once again. The RRSP is a great way to benefit from tax-deferred growth to save for retirement. In addition, you receive a deduction from the annual taxable income you earn for every dollar you contribute to your RRSP, up to certain limits.

Here is a checklist of things to consider relating to your RRSP:

✓ Contribute!

Don't wait until the last moment. As a reminder, the RRSP contribution deadline for the 2021 tax year is **Tuesday March 1, 2022**. Contributions are limited to 18 percent of the previous year's earned income, to a maximum of $27,830 for the 2021 tax year, less any adjustments[1] and plus any unused contribution room carried forward. For the 2022 tax year, the RRSP contribution limit increases to $29,210. If you are uncertain of your available contribution room, your Canada Revenue Agency (CRA) Notice of Assessment or online "My Account" should provide RRSP deduction limit information.

✓ Review RRSP beneficiaries.

When was the last time you reviewed the beneficiaries on your registered accounts? It may be beneficial to review RRSP beneficiaries on a periodic basis, especially in light of major life changes. For example, in the event of separation or divorce, be aware that a named beneficiary may not be revoked, depending on provincial laws. Therefore, the designation of an ex-spouse may still be in effect. Consider this review to avoid any potential future issues when settling your estate.

✓ Turning 71 this year? Consider options for your maturing RRSP before year end.

Remember that the RRSP will mature by the end of the calendar year in which you turn age 71. Upon maturing, proceeds must be included in income unless converted or transferred to an annuity or Registered Retirement Income Fund (RRIF) by December 31, 2022. Consider catching up on any unused contribution room from previous years before the end of the year. You won't be able to contribute up until the usual RRSP deadline as your plan will need to be collapsed before year end.

✓ Plan the timing of your deduction.

With any RRSP contribution, you're entitled to a tax deduction for the amount contributed so long as it is within the contribution limit. Keep in mind that you don't have to claim the tax deduction in the year that the RRSP contribution is made. You may carry it forward if you expect income to be higher in future years such that you may be put in a higher tax bracket, potentially generating greater tax savings for a future year.

✓ Consolidate multiple RRSP accounts.

For many individuals, holding multiple RRSP accounts isn't uncommon. Scattered accounts can accumulate over time: you may have joined an employer-sponsored account or opened a self-directed RRSP during different points of your life. However, there may be benefits in consolidating these accounts. One reason is to avoid having orphan accounts, such as a lost employer-sponsored account that is forgotten after a move of residence. Multiple accounts can also result in unnecessary complications, such as failing to maintain a productive asset mix. Consolidation has the potential to improve performance, simplify administration and potentially reduce fees.

✓ Teach younger folks to build their RRSP.

If you have teenage children or grandchildren who hold a part-time or summer job, don't overlook the value of an early start with the RRSP. If income earned from a part-time job is less than the basic personal amount for tax purposes, it may be easier not to file an income tax return since there are no taxes owing. However, if this earned income is not reported, the child loses out on the potential RRSP contribution room. If the child reports income but decides not to contribute to the RRSP in the current year, the unused RRSP contribution room will carry forward. This can be used in future years to help reduce taxes when the child is in a higher tax bracket. There may be additional future benefits. The RRSP holder could access up to $35,000 under the Home Buyers' Plan to aid in purchasing a home, or use RRSP savings to help finance training or education under the Lifelong Learning Plan. As long as withdrawn amounts are deposited back to the RRSP within specified time frames, the amounts will not be included in income.

✓ Don't overlook the benefits of investing the tax refund from your RRSP contribution.

For some individuals, the RRSP contribution may result in a tax refund on your annual tax return. If this is the case, don't overlook the opportunity to keep your hard-earned funds working for you. Consider the benefits of reinvesting your refund to make a future RRSP contribution, subject to available contribution room, to help grow funds on a tax-deferred basis. Or, consider the opportunity to invest the refund in a Tax-Free Savings Account (TFSA), subject to available contribution room, to grow funds on a tax-free basis going forward.

✓ Consider the benefits of a spousal RRSP.

For couples in which one spouse will earn a high level of income in retirement while the other may have little retirement income, a spousal RRSP may potentially be a valuable income-splitting tool.[2] A spousal RRSP is a plan that you contribute to based on your available contribution room and for which you receive tax deductions, similar to a traditional RRSP. However, the difference is that a spousal RRSP is owned by your spouse, so any funds withdrawn are considered that spouse's assets and must be included in their income tax return. As such, withdrawn funds will be taxed at a lower rate, should the spouse be in a lower marginal tax bracket. Be aware that income attribution rules generally apply to a spousal RRSP.[3]

1. Less any pension adjustment or past service pension adjustment, and plus any pension adjustment reversal.
2. Given the popularity of pension income splitting, spousal RRSPs may be overlooked. However, there may be situations in which a spousal RRSP should be considered, such as for those who are planning on retiring before the age of 65, or if one partner is working beyond the age of 71 but has a younger spouse and contributes to the spousal RRSP, as examples. Consult a tax specialist regarding your particular situation.
3. If the higher-income spouse has made contributions to the spousal RRSP in the year or in the immediate two preceding years, and if funds are withdrawn from the plan, they may be taxed to the higher-income spouse, as opposed to the lower-income spousal RRSP owner.