What is an RRSP?

One of the most popular ways to invest money in Canada is through an account called a Registered Retirement Savings Plan (RRSP). This is an account that lets you save money for your retirement and lowers your income taxes.

In Canada, you pay taxes on the money you make, including income tax (tax on your pay from work) and capital gains tax (tax on profits you make from the sale of an asset, such as an investment).

Money that you put into an RRSP reduces your taxable income. This is easy to see in the following example:

> Lets' say someone makes $40,000 per year. The income tax that would be paid on this income is about $6,432. That leaves this worker with $33,568.
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> Now let's say this same worker contributed $5,000 to his RRSP. Now his tax owing would be based on $35,000 because the amount contributed will reduce his taxable income, dollar for dollar. The worker would pay $5,282 in income tax
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> So what has happened? Simply by moving money from his bank account, to his RRSP account, he has reduced his tax bill by $1,150. This is money he can spend!

In addition to not paying tax on the amount you contribute to an RRSP, any gains or income inside your RRSP are also tax sheltered. Tax is paid on withdrawals from the RRSP only.

RRSPs help you save for the long-term, but in an emergency you can withdraw the money. You don't have to wait for retirement to take money out of your RRSP. But, if you do withdraw money from your RRSP before you retire, the amount will be added to your taxable income, and you will have to pay tax on this amount.

The best thing to do is make RRSP contributions while you are working and in a higher tax bracket, and them make withdrawals when you have retired and are in a lower tax bracket. This is exactly the purpose of RRSPs and they work very well when used in this way. *We are here to help. We can advise you on making a smart RRSP investment that will save you taxes and protect your money. Call Clarity Pension Consulting, your CAW financial advisors, at 1-800-581-7211*