THE GLOBE AND MAIL

CESTNICK

TAX MATTERS

Consider new ideas coming from greater RRSP savings

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Over the years I've learned some hard life lessons. Most notably, Carolyn has told me that I have two major faults: I don't listen, and then there was, I don't know, some other thing she was rambling on about. Another important lesson I've learned is that the best time to save money is when you have some.

Many Canadians have taken this second lesson to heart and have saved more in RRSPs recently. According to a Statistics Canada report released April 1, Canadians spent less than normal in 2020 because of the pandemic yet had average incomes that were 6 per cent higher than the prior year, partly because of government support programs.

Contributions to RRSPs increased 13.1 per cent in 2020 over the prior year, and the number of contributors increased 4.9 per cent. A total of $50.1-billion was contributed to RRSPs by more than 6.2 million Canadians. The question: What should Canadians do next, now that they've given their RRSPs a shot in the arm? Here are some ideas to consider.

1. Revisit your asset allocation. Now is a good time to reconsider what your portfolio looks like. In a landmark paper, researcher Gary Brinson and his colleagues concluded that a portfolio's asset allocation (the decision to allocate portfolio dollars to specific asset classes, such as cash, stocks and bonds, and more) explained more than 90 per cent of a portfolio's total return and volatility over time. Specific security selection (say, choosing Coke over Pepsi, for example) and market timing played only minor roles in performance. Do some research or work with a trusted adviser to establish a strategic asset allocation that will result in good returns over time at an appropriate level of risk for you.

2. Make wise use of your refund. If you've made larger contributions to your RRSP and expect to receive a refund when you file your tax return this year, what are you going to do with that refund? Consider these priorities, possibly in this order: 1) pay down debt (as interest rates rise this becomes even more valuable); 2) invest some (put more back into an RRSP, TFSA, RESP or non-registered account); 3) give some away (create even more tax savings and make a difference by helping charities); and 4) spend some (go ahead and treat yourself if you've looked after other priorities).

3. Reduce tax deductions at source. If you've contributed to your RRSP in 2022, then apply to reduce the tax deducted from your pay at work. This will provide you with more take-home pay throughout the year. Just file form T1213 and provide evidence of your RRSP, charitable donations or other deductions you'll be claiming. If the Canada Revenue Agency approves your request, you'll receive a confirmation letter that you can then provide to your employer, who will reduce the taxes deducted from each pay.

4. Use RRSP assets for a home purchase. Given the cost of buying a home today, using RRSP assets might be helpful. You can do this under the Home Buyers' Plan (HBP). You can withdraw up to $35,000 tax-free from your RRSP to buy or build a home provided that neither you nor your spouse or common-law partner have, in the past five years, owned a home that you lived in. If you and your spouse both make a withdrawal, that would be as much as $70,000 to help with a home purchase. You'll have to repay the amount withdrawn over 15 years. If you miss a payment in a year, you'll face tax on the amount. The rules around the HBP are a little complicated, so speak to a tax pro for more details.

5. Use your RRSP to further your education. Similar to the HBP, you can withdraw funds tax-free from your RRSP under the Lifelong Learning Plan (LLP). You can withdraw up to $10,000 per year, or $20,000 in total, to pay for full-time education at a qualifying institution for you or your spouse or common-law partner. You'll have to repay the amount withdrawn over 10 years, starting five years after the first withdrawal or two years after finishing your studies, whichever comes first.

6. Hold a mortgage in your RRSP. It's possible to borrow funds from your RRSP if you use Canadian real estate, such as your home, as collateral for the loan. You can use the borrowed funds for any purpose, and if you use them for an income-generating purpose (such as investing in a business or a non-registered investment portfolio), you'll be able to deduct the interest you pay. The interest charged on the loan (and paid to your RRSP) will have to reflect normal interest rates and terms, and the mortgage will generally have to be insured by the Canada Mortgage and Housing Corp.

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