

The following educational email is provided as a service by:

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As I do every year I thought it appropriate to start the first email of the year with RRSP information. This month we review the basics. For those of you looking for a quick review the condensed answer has been bolded.

I maximize my contributions to my RRSP, what other tax-deferral options exist?

There is only one other option for tax-deferral and that is a life insurance policy. Section 148 of the Tax Act allows for the **tax-free growth of income inside a tax-exempt life insurance policy**. It's not a concept for everyone but if you are maximizing your RRSP contributions it might very well be the next step in your financial plan.

What is the deadline for having my RRSP deposit in this year?

The deadline for your RRSP deposits is the 60th day of the next year so RRSP deposits for the year 2006 must be deposited by **midnight on Thursday March 1st, 2007**.

Who can contribute to an RRSP?

As long as you have earned income, you can invest in RRSP's at any age, up to the end of the year in which you reach age 69. For children under 18 the RRSP must be set-up in the parent's name 'In Trust For' the child. *Earned Income* generally includes net income from employment, business and property rental, but does not include investment income, capital gains, scholarships or business income earned as a limited partner.

You may also invest in an RRSP for your spouse, up to the end of the year in which your spouse reaches age 69. You may deduct contributions that you make both to your own RRSP and a spousal RRSP, as long as the contributions do not exceed your contribution limits.

What is my RRSP contribution room?

There is a limit to the government's generosity, in that the Income Tax Act limits the amount that you can contribute to your RRSP. The amount that you can contribute to your RRSP in any one year is referred to as your contribution room. Determining your total contribution room can be a complex task, because it depends on whether or not you participated in a registered pension plan, as well as your past RRSP contribution and earnings histories. The best place to look is your Notice of Assessment.

Your current contribution limit is the new contribution room arising in the current year plus amounts you carry forward. **New contribution room is 18% of your earned income** in the previous year up to the maximum shown below:

2005	\$16,500
2006	\$18,000
2007	\$19,000
2008	\$20,000
2009	\$21,000
2010	\$22,000

Can I carry forward unused contribution room?

Prior to 1991, if you did not use your RRSP contribution room in the year it arose, you lost it forever. However, **you are now allowed to carry forward your unused contribution room indefinitely**, to be used in a future calendar year. This is significant because it permits individuals to focus on other financial priorities without forfeiting their ability to invest through RRSP's later on.

To help you keep track of your available contribution room, Canada Revenue Agency, CRA (formerly Revenue Canada) maintains a running total of your contribution room and reports it on the Notice of Assessment that you receive after CRA processes your income tax return.

So your **total contribution room includes the unused amount you carry forward plus the new room** created based on last year's earned income.

Can I carry forward my tax deduction?

In addition to being permitted to carry forward your unused RRSP contribution room, **you can also choose to carry-forward the RRSP tax deduction for a current contribution to some future year**. You might choose to do this if you did not need the deductions this year, or if you expect to be in a higher marginal tax rate in some future year. Even if you do not claim the deduction this year, the funds invested in your RRSP continue to grow on a tax-sheltered basis.

What if I contribute too much?

If you exceed your RRSP contribution limit, you will have no problem as long as the amount of your excess contribution does not exceed \$2000 at any point in time. Not a problem many of us have to worry about but if you contribute more than the permitted amount according to your RRSP contribution room, **you may have to pay a penalty tax of 1% per month on the excess**, until you withdraw the excess contribution.

What is a spousal RRSP?

One of the few income splitting strategies still available to you and your spouse is the use of a spousal RRSP. **A spousal RRSP is an RRSP that you contribute to on behalf of your spouse**, which names your spouse as the annuitant. Provided that you have available contribution room, you can make a contribution to a spousal RRSP and claim the deduction from your own income. When your spouse receives income from the fund during his/her retirement, he/she pays tax on the income at his/her marginal rate. A contribution to a spousal RRSP does not use the receiving spouse's RRSP contribution room.

Spousal RRSP's are appropriate when the contributing spouse currently has a higher marginal tax rate than the other, and when the contributing spouse expects to also have a higher marginal tax rate during retirement, perhaps because he/she expects to receive a company pension.

What is My Foreign Content Limit?

Many investors prefer to diversify their retirement portfolios by including foreign investments. There was a limit on the amount of foreign property that you can hold within your RRSP. That limit was 30% but has since been eliminated.

Why should I contribute, what's in it for me?

There are some who are still not convinced of the benefits of RRSP's. And there is a point where you can have too much but for the rest of us there are three primary benefits to opening and contributing on a regular basis to an RRSP.

1. **You receive a tax deduction.** For every contribution you make the CRA will return to you the tax that was paid on that amount of earned income. The refund can be done immediately by having your tax reduced by your employer for automatic RRSP deposits or you can receive your annual refund upon filing your annual tax return.
2. **The growth is tax-deferred.** All the gains that occur inside the RRSP grow without any taxation. This allows the power of compound investing to work its magic. When the deposits are removed upon retirement the appropriate tax is taken depending on the amount withdrawn. Other than a permanent life insurance policy there is no other investment that allows for tax-deferred growth of capital.
3. **It forces us to save for retirement.** Without the benefits above many of us may not put money away for retirement, so an RRSP gives us added incentive to build our retirement portfolio.

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