Have You Made Your 2022 RRSP Contribution?

Since 1957, the Registered Retirement Savings Plan (RRSP) has helped millions of Canadians save for the future in a tax-efficient way. When combined with workplace pension plans and government benefits like the Canada Pension Plan and Old Age Security, the RRSP can be a valuable source of cash flow in retirement.

March 1, 2023 is the deadline to make RRSP contributions for the 2022 tax year. Keep that date in mind as you read about the benefits of an RRSP, so you don't miss out on this tax-sheltering opportunity.

How it works

If you're a resident of Canada with a valid Social Insurance Number, and you have earned income and also file a Canadian tax return, you can open an RRSP account.

Once you've opened an account at a qualifying financial institution, you can begin making contributions to your RRSP. The maximum contribution amount is 18% of your previous year's earned income (e.g., if you earned $100,000 in 2021, you can contribute up to $18,000 for the 2022 income tax return that you file by May 1, 2023). Certain factors, such as contributions made to your workplace pension plan (known as a pension adjustment) will reduce the amount you can contribute to an RRSP.

Each year, the federal government sets the RRSP contribution limit. For instance, the limit for the 2022 tax year is $29,210, while the maximum jumps to $30,780 for the 2023 tax year. If you don't make the maximum contribution in any given year, you're able to carry forward the unused contribution room to future tax years and claim the tax break at that time.

Speaking of tax breaks, that's the primary benefit of RRSPs. The contributions you make each year will reduce your taxable income, which means your overall tax obligation will be lower. On top of that, any growth you achieve from the investments held in your account – such as capital gains, eligible dividends and interest income – will be tax deferred until you withdraw any funds.

You have until December 31 of the year you turn 71 to close your RRSP. You can either collapse the plan and pay income tax on the entire balance (not recommended unless you need to!), or convert your RRSP into a vehicle like the Registered Retirement Income Fund and start making taxable withdrawals according to a specific schedule.

If you must dip into your RRSP savings to help purchase a home (Home Buyers' Plan) or cover your educational expenses (Lifelong Learning Plan), those withdrawals are not taxable as long as you re-contribute the withdrawn amount to your RRSP following the prescribed schedule. Ask your advisor for more details about these two plans to see if they might be suitable for you.

What can RRSPs invest in?

Another attractive benefit of RRSPs is their flexibility. You can invest in many different types of securities, such as stocks, bonds, mutual funds, exchange-traded funds, GICs and more. Your advisor can work with you to determine an appropriate mix of investments to hold in your portfolio based on your time horizon, risk tolerance and financial objectives. If there's a significant income difference between spouses/common-law partners, consider looking into a spousal RRSP that can help lower your overall combined tax burden.

Your advisor can also help you stay disciplined with your RRSP contributions, so you maximize the tax benefits each year. An easy way to contribute is through pre-authorized contributions. You'll set up a plan where you automatically contribute a set amount of money (e.g., $500) at a set interval (e.g., monthly), so you don't need to worry about forgetting to make a contribution or having to find the money to make a large lump-sum contribution each year.

Get in touch with us today to learn more about how an RRSP can help you achieve your retirement goals.

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