RRSPs 101

What is a Registered Retirement Savings Plan (RRSP)?

An RRSP is a retirement savings account available to any Canadian individual taxpayer under the age of 72 and to which they or their spouse/common-law partner can contribute — subject to their respective deduction limits.

At the very least, an RRSP is an income tax deferral tool, and in most instances generates tax savings. It offers these key tax planning opportunities:

- Contributions are deducted from earned income such as employment income, which helps to reduce the amount of tax owing in the near term.
- Investment income and gains generated in the RRSP are tax-deferred as long as they remain in the plan, so they do not have to be reported in one's higher-taxed working years. Contributions are usually withdrawn as Registered Retirement Income Fund (RRIF) payments and reflected as pension income in lower-taxed retirement years.
- When converted to a RRIF or annuity, an RRSP may also generate eligible pension income for income-splitting purposes depending upon the age of the annuitant and may provide further tax savings by supporting pension income-splitting opportunities between spouses/common law partners.

What is the difference between an RRSP contribution and deduction?

An RRSP contribution is the amount invested in an RRSP. An RRSP deduction is any contribution amount reported as a deduction to reduce taxable income on an individual's personal tax return.

> Are spousal RRSPs still useful? Absolutely, as they provide another tool or mechanism to support income splitting and tax savings opportunities for Canadian families.

RRSP contributions do not need to be reported immediately as a deduction. The deduction can be saved for use in a future year when higher income is expected. Individuals are subject to RRSP deduction limits calculated annually and on a cumulative basis.

For a better understanding of the Canada Revenue Agency (CRA) RRSP deduction limit statement — often found on an individual's Notice of Assessment, MyAccount or MyCRA Mobile app, please refer to our "Understanding the RRSP Deduction Limit Statement" article.

Timing considerations

Here is where the RRSP program can be confusing. RRSP deduction limits are calculated based on a calendar year — the same as the Canadian personal Income Tax and Benefit Return (T1). If someone earns $75,000 in 2024 and has no pension adjustments or prior year carryforwards, they can technically contribute $13,500 to their RRSP on January 1, 2025. There's no need to wait to file their 2024 T1 and receive their Notice of Assessment.

Individuals can, however, make RRSP contributions up to and including the first 60 days following the calendar year end. CRA tracks these as well. An RRSP contribution made in the first 60 days of the year can be used as a deduction in the prior year or the current year.

Confusion may also arise where the RRSP Deduction Limit Statement reflects a negative balance of more than $2,000 — highlighting a potential RRSP overcontribution. It's important to identify the date of the carryforward contributions reflected on the statement and if any of the carryforward contributions were made in the first 60 days of the calendar year, as they can be carried forward and deducted appropriately in that year.

While individuals typically deduct their full annual RRSP contributions each year, they also have the option to defer the deduction to a future year. This is beneficial where an individual's future income and marginal tax

rates are anticipated to be higher than the current year, such as when they are expecting a raise or other substantial increase in taxable income. In this instance an individual's RRSP Deduction Limit Statement will reflect two types of carryforwards — the RRSP Deduction Limit and RRSP Contributions Carryforward. All is good in RRSP-land when Contributions Carryforward do not exceed the Deduction Limit by more than $2,000.

Other considerations

While the RRSP primarily serves as a retirement savings vehicle, it also opens access to the Home Buyers Plan (HBP) and the Lifelong Learning Plan (LLP), provided there are funds invested in the RRSP.

- The HBP allows each Canadian to withdraw up to $60,000 from their RRSPs to buy or build a qualifying home, subject to certain conditions. The HBP is essentially a loan from one's RRSP and funds withdrawn must be paid back to the RRSP within a 15-year period (at minimum 1/15th of the original loan amount per year).
- The LLP allows Canadians to withdraw up to $10,000 in a calendar year from their RRSPs to finance full-time training or education up to a total of $20,000. Again, the LLP is a loan from one's RRSP and withdrawn funds must be paid back to the RRSP within a 10-year period (at minimum 1/10th of the original loan amount per year).

Key features of an RRSP

Here are some quick facts about RRSPs to keep in mind when considering RRSP contributions:

- Contributions can be deducted from income in the year of contribution or in a future year.
- The annual RRSP contribution limit is 18% of prior year's earned income to a maximum of the annual limit (2024 - $31,560, 2025 - $32,490), plus unused RRSP contribution room from previous years.
- Watch for overcontributions! A 1% penalty tax will apply monthly to contributions that exceed one's RRSP deduction limit.
- Investment income and gains in the RRSP are not taxed as earned — they are typically taxed as pension income upon withdrawal.
- Withdrawals from an RRSP are taxed at one's marginal tax rates for the year. Withdrawals must begin in the year the annuitant turns 72.
- Though primarily a retirement savings vehicle, the RRSP can also help fund a home purchase via the HBP and education costs with the LLP.

These RRSP fundamentals have been developed to help you plan your contributions appropriately, but you don't have to be the expert. If you have questions, please reach out to your Wellington-Altus advisor.

[1] An RRSP must be converted to a RRIF or an annuity by December 31st of the year the annuitant turns 71, or it can close on a fully taxable basis.

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1/2025