Tax Advantages to Savings and Investment, RRSP's, RESP's and TFSA's

Or:

When do I let them Bite My Cookie?

BEFORE YOU CAN INVEST:

- You have a Financial Plan with Goals (September 28)
- You need to earn something.
- You need to spend less than you earn to have something to invest (Budgeting and Personal Financial Statements – October 5)
- Now, you can purchase Bonds, Mutual funds and stocks according to your Retirement Planning. (November 9th, 16th, and 23rd)

TODAY IS ABOUT THE "COOKIE JAR" YOU PUT THE SAVINGS IN – YOU WILL LEARN ABOUT THE COOKIES SOON!

THREE CHOICES:

#1 Bite my cookie now and forever more. (Just investing in bonds, mutual funds, and stocks)

#2 Bite my cookie today, and never again. (The Tax Free Savings Account – TFSA)

#3 Bite my cookie later! (The Registered Retirement Savings Plan – RRSP)

And a Hybrid: (The Registered Education Savings Plan – RESP)

Bite my cookie today, but give some of it back and take a smaller bite out of my kid's cookie later.

Choice #1: Bite my cookie now and forever more. (Just investing in bonds, mutual funds, and stocks)

You pay tax before you invest.

You pay tax on interest and dividends and rental income annually.

You pay tax on capital gains later – when you sell.

Choice #2: Bite my cookie today, but never again. (The Tax Free Savings Account – TFSA)

You pay tax before you invest.

You never pay tax again on this investment.

TAX FREE SAVINGS ACCOUNTS

What is a Tax Free Savings Account?

- Registered with the government so qualifying items contributed can grow tax free and are tax free when withdrawn.

Starting in 2009 for Canadians 18 years of age or older.

Started at $5,000 per year the year you turn 18 from 2009.

This will be indexed to inflation so expect the contribution limit to grow in the future – it is at $6,000 today

Withdrawls from the account in a current year will be added to the contribution room of the future years.

Trevor's thoughts: May be a great place to put our retirement funds if our income is in the lower income tax brackets because when we draw on it under today's rules we would not affect the government social support payments.

Choice #3: Bite my cookie later! (The Registered Retirement Savings Plan – RRSP)

You do not pay tax before you invest.

You pay tax when you spend it later.

REGISTERED RETIREMENT SAVINGS PLAN

What is a RRSP?

- Registered with the government so qualifying items contributed can be used as a tax deduction, grow tax free, and become income when drawn.
- Retirement – primarily an incentive to save for retirement
- Funds can be borrowed from the savings plan to purchase a home or pay for an education.

Contribution Limits: 18% of earned income from the previous year to a maximum of $27,230 for 2020 (You needed $151,277.78 of earned income in 2019 to achieve this maximum) The limit can be used in 2020 until the year of death and accumulates over your lifetime. Maximum for 2021 is probably $27,830.

Home Buyers Plan – Withdraw up to $35,000 for the purchase of your first home, repay over fifteen years interest free back to your plan.

Life Long Learning Plan – Withdraw up to $10,000 per year for a total of $20,000. Enroll you or your spouse in a qualifying educational program, at a designated educational institution, for full time education. Repay after you complete the program over ten years.

Spousal RRSP's – Splitting retirement income in the future, you get the taxable contribution, and the spouse gets the pension on retirement. (New tax rules for 2007 – people over 65 can split this income whether it is in the name of the spouse or the taxpayer anyway). I recommend splitting with your spouse in case you want to retire before 65.

Over-contribution limits – Can accidentally put $2,000 too much into an RRSP.

WHAT TO DO AT AGE 71:

Last calendar year to make a contribution to your RRSP (Your deadline is December 31, not February 28 of the next year.)

Cash it in and pay the tax.

Buy an annuity for life.

Buy a registered retirement income fund.

REGISTERED EDUCATION SAVINGS PLAN

Bite my Cookie now but get a matching grant! And then take a smaller bite out of my kid's cookie.

The government matches the first $2,500 each year with a grant of $500. (Canada Education Savings Grant – maximum lifetime of $7,200. You need to contribute $36,000.)

Maximum amount you can put into an RESP lifetime is $50,000.

Make sure you spread out the first $36,000 of contributions to get the full government match.

Start before the child is 16 or the receipt of the Canada Education Savings Grant gets more complicated.

Extra grants if your family net income is lower.

The investments grow tax free.

To get the amounts out:

Child goes to school:

- Contributions can be paid to the child tax free.
- The income and grants earned over the years can be paid to the student and this will be income to the student.

If the child does not go to school:

- Contributions can be repaid to subscribers tax free, lose all grants.
- Income MAY be able to be repaid to your RRSP, or taxable to the subscriber at the regular rates plus an additional 20% for any amounts not put into the RRSP.

BONUS #1:

REGISTERED DISABILITY SAVINGS PLAN: Complicated but works a bit like a RESP. If you have a disabled person in your life go research this because it may become part of your care plan for them.

BONUS #2:

CHARITABLE GIVING

First $200 – a tax credit of 15% federal and 10% provincial for a total of 25%
Thereafter – a tax credit of 29% and 21% provincial for a total of 50%.

In Alberta, donating $10,000 means you won't pay tax on $21,000 of income.
Federally, donating $10,000 means you won't pay tax on $19,333 of income.

Here's how it works:

Earn $21,000 of income in Alberta you pay $2,100 in taxes.
Donating $10,000 of it, you receive a credit of $2,100 against your taxes.

Earn $19,333 of income in Canada, you pay $2,900 in federal taxes. (at 15%)
Donating $10,000 of it, you receive a credit of $2,900 against your taxes.