

# RRSP Q&A

## *Frequently-asked questions on RRSPs*

### **Q: When is the RRSP contribution deadline? And how much can I contribute?**

A: For the 2007 taxation year, the RRSP contribution deadline is February 29, 2008. Any contributions received after this date will apply to your 2008 tax return, not your 2007 return. As for how much you can contribute, that depends on your earned income in 2006. At the present time, Canadians can contribute up to 18% of their earned income in the previous taxation year, up to a pre-defined limit. For the 2007 taxation year, that limit is \$19,000. The limit will increase by \$1,000 every year until 2010.

### **Q: Why not leave my RRSP contribution until next year—after all, I can use it next year, right?**

Carrying forward can be a good idea, providing you are moving into a higher tax bracket in the near future. Otherwise, you may be passing up on a significant tax break. First, you sacrifice immediate tax savings in the form of a large tax deduction. Second, you lose the tax-deferred growth within the plan; in just five years, this amount can be significant. And third, carrying-forward indefinitely is certain to make it financially difficult to “catch up” in the long run—many people never do.

### **Q: I usually wait until the end of February to make my RRSP contribution—is this a good idea?**

A: While waiting until the end of February appears to be a tradition among many people, it certainly isn't the best way to go. For starters, you lose the benefit of up to 14 months of tax-free compounding. Second, you must make your investment decisions in a rush, rather than taking the time to consider the most prudent alternative.

### **Q: What if I'm short on cash? Is there another way I can contribute to my RRSP?**

A: Well, if you have a non-registered investment account, you can contribute securities you already own—GICs, treasury bills, qualifying stocks or bonds. This will allow you a deduction equivalent to the value of the securities at the time of contribution. Keep in mind that capital gains from this transaction are taxable, but capital losses won't be recognized.

## **Q: If I need money for some emergency, can I withdraw it from my RRSP?**

A: Yes, you can withdraw money from your RRSP at any time. Such withdrawals must be reported on your tax return for the following year. Unless you withdraw your RRSP funds under a federally-sponsored program (for example, the Home Buyers' plan), you will be unable to pay the withdrawal back to your RRSP. That means your retirement funds will be permanently depleted, sacrificing the opportunity for compound tax-deferred growth. In the long run, taking out a loan can often be a less expensive option.

## **Q: Is it a good idea to borrow for an RRSP?**

A: It can be, particularly when you have many years' worth of unused contribution room that you'd like to catch up on. RRSP loans are often available at the prime lending rate (or very close to it), which makes them very affordable. And while you can't write off the interest incurred on an RRSP loan, a large contribution will generate substantial tax savings, which you can then use to pay down your loan.

## **Q: When do I have to collapse my RRSP?**

A: Under federal regulations, all RRSPs must be "collapsed" at the end of the year in which you turn 71. At that time, you'll have three options: (a) cash out your RRSP in its entirety (and pay all appropriate taxes); (b) buy an annuity; or (c) roll over your RRSP into a Registered Retirement Income Fund (RRIF). For most Canadians, a combination of options (b) and (c) usually makes the most sense. Make sure to talk to your financial professional to find out which option is right for you.

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