PINNACLE SOVEREIGN

FREQUENTLY ASKED QUESTIONS (FAQ)

REGISTERED RETIREMENT SAVINGS PLAN (RRSP)

Q: What is a Registered Retirement Savings Plan?

A: It is a registered investment account that defers income tax by allowing you to save a portion of your income for retirement during your prime earning years.

Q: What are the benefits of an RRSP?

A: (1) Contributions are tax-deductible (you may receive a tax-break via refund)
(2) All growth accumulates inside the plan tax-deferred until retirement.

Q: Who can contribute to an RRSP?

A: Any Canadian taxpayer with "earned income" in the previous year or with unused contribution room from previous years may make contributions.

Q: How much can be contributed in a given year?

A: Each person's contribution room is related to their earned income. You can contribute up to 18% of your previous year's earned income plus any unused RRSP room carried over from previous years minus any pension adjustments. There's a maximum dollar limit each year, which is $29,210 for 2022.

Q: Is it possible to make up missed contributions from previous years?

A: Yes, you can carry forward any unused contribution room indefinitely. However, all contribution room calculations can only go back to start in 1991.

Q: Can I have more than one RRSP?

A: Yes. You can have as many as you wish, given the total contributed amounts across all plans do not exceed your total accumulated contribution room to date.

Q: Is my contribution tax-deductible?

A: Yes. You can deduct your contribution from your previous year's income or hold it to deduct in from future income, thus reducing your tax liability.

Q: When must my RRSP contributions cease?

A: You can contribute until December 31st of the year you turn 71 years of age.

Q: What happens to my RRSP at age 71?

A: By December 31st of your 71st birthday, you must choose any combination of:

(1) Cash in your RRSP (be cautious of the tax implications);
(2) Convert your RRSP to a Registered Retirement Income Fund (RRIF), providing you with a regular stream of income from investments;
(3) Buy a registered annuity that will pay a regular pre-determined income;

Q: Can I withdraw money from my RRSP?

A: Yes, but know the tax consequences of doing so before proceeding.

Q: What investment choices are available for RRSPs?

A: Generally, savings deposits, Guaranteed Investment Certificates (GICs), exchanged-traded funds (ETFs), stocks, mutual funds, among other holdings.

Q: What tax consequences should I be worried about?

A: Remember that when you contribute to an RRSP, that amount is deducted from your income, which may result in a tax refund. So, when you take money out of an RRSP, that withdrawn amount becomes taxable income in the year you take it out. At the point of withdrawal, your financial institution will hold back some tax, which you will claim as a credit when filing your taxes.

Q: What is withholding tax?

A: It is the amount your financial institution is required to hold back and forward to CRA on your behalf when you withdraw money from an RRSP. The total amount will be reported on a T4RSP slip, which you will then claim on your tax return. The mandated withholding amounts are:

- 10% withheld for withdrawals up to $5,000
- 20% withheld for withdrawals between $5,001 and $15,000
- 30% withheld for withdrawals over $15,000

Q: I have over-contributed to my RRSP. What happens now?

A: You can over-contribute a maximum of $2,000 during your lifetime, without penalty. The over-contribution can be deducted in future years, as long as you have sufficient contribution room against which to apply the deductions. Any amount exceeding the $2,000 maximum over-contribution is charged a penalty of 1%/month until corrected.

Q: What is the First Time Home Buyers Plan?

A: It's a withdrawal program for a first-time home buyer to assist with the transition from being a renter to a homeowner. It enables the withdrawal of up to $25,000 from an RRSP to buy or build a qualifying home for oneself or for a related person with a disability. Such a withdrawal is not subject to any tax, as long as all conditions are met. The withdrawn amount must be repaid back into your RRSP across the following 15 years.

Q: What is the Lifelong Learning Plan?

A: As a means to assist with paying for further higher education, it allows you to withdraw up to $10,000/year, or a total of $20,000, without being subjected to tax. You are required to repay at least 10% of the total amount owning for up to 10 years. Repayments are delayed until after 5 years from the initial withdrawal.

Q: Can contributions be done on an "in-kind" basis?

A: Yes. You can transfer most investments from a non-registered account to an RRSP without selling the investment first. However, be forewarned that you will may face tax consequences with such a move so be sure to know the impact such a decision will have on your financial portfolio.

Q: Can I transfer cash and/or assets between two RRSPs in my name?

A: Yes. As long as the transfer is processed correctly, your contribution room will not be impacted nor will you face contribution penalties or tax implications.