

Do RRSPs Really Help You? Are There Better Strategies?

There are many tax saving strategies that will compliment or replace a standard RRSP approach. Business owners have the broadest range of options on where to invest.

The standard plan has been to maximize your RRSP contributions, save some income tax now and enjoy tax-free growth until later in life when you withdraw the funds during your retirement. The "Goal" of this RRSP plan is to be in a lower tax bracket when you retire. However, this is typically not the goal of a successful business owner. It is preferable to set goals for increasing income even through retirement.

Since the inception of the RRSP there has actually been many changes to the INCOME TAX ACT in favor of Canadian Tax Payers using non-registered investments. For Example:

1. The new TFSA account has many advantages. You will enjoy tax-free growth and tax-free withdrawals. The TFSA is limited to \$5000 per year and is restricted to similar investments as can be held in an RRSP, but the TFSA has one up on the RRSP for its tax-free liquidity. This will help if life brings an opportunity where you will need access to your money. Generally if you are in the same tax bracket when you retire the TFSA will match the RRSP benefit.
2. Canadians now only pay tax on 50% of a capital gain (sale of stocks, funds, real estate, etc) on non-registered investments. In contrast gains in an RRSP are taxed 100% when withdrawn.
3. You can deduct capital losses from capital gains on investments outside of your RRSP. Losses inside your RRSP are just that, *losses*.
4. Dividend income is taxed only at about 2/3 of regular income or RRSP withdrawals. In fact, in BC, if you only earn dividend income, from qualifying companies, you can earn up to \$66,000 tax-free.
5. Universal Life can grow your retirement nest egg tax-free, and provide tax-free funds during retirement, as well it will pass on to your beneficiaries tax-free. An RRSP/RRIF will grow tax-free, but will be taxed as regular income on withdrawal and ultimately upon your death. Properly structured income from universal life

will be larger and last years longer than an equivalent amount put into an RRSP.

6. Corporations can own tax-sheltered investments inside a life insurance policy. Corporations and shareholders can access these funds tax-free thru properly structured loans.

**Corporations and shareholders
can have
tax-free growth and
TAX-FREE INCOME.**

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7. Corporations can set up an Individual Pension Plan (IPP), which is sometimes referred to as a "SUPER-SIZED RRSP". IPP's are age and income dependant. Ideally suited for individuals between 45 and 60 with an annual income of over \$100,000. An IPP's defined

benefit plan can take your retirement plan through the roof in comparison to a RRSP. IPP contributions are deductible against corporate income.

8. Registered Education Saving Plans (RESP) also offer tax-sheltered growth and include up to \$7,200 in Grants. It's hard to beat FREE money with any strategy.

Other Strategies:

Often the simple act of paying down your mortgage and investing the savings will be as beneficial or more than adding to your RRSP. If you borrow the money back from your home to invest outside of your RRSP the interest on the loan can be tax deductible.

A common exit strategy for an RRSP is to fund a Spousal RRSP. You will get the RRSP tax credits, and then after waiting out the Three Year Rule your spouse can withdraw the funds at their lower tax rate.

The fastest growing investment opportunity in Canada is RRSP eligible, and is also very tax efficient as a non-registered investment. The Guaranteed Lifetime Withdraw Benefit (GLWB) is very desirable to investors who do not want to be subject to market risk. Investors are attracted to the 5%-7% notional bonus regardless of investment returns. This bonus is not prorated. Money added in December will get the full bonus. GLWBs provide predictable income for life that is guaranteed never to decrease.

There are many choices in today's sea of financial investments. Do RRSPs ultimately help you? That depends on your personal situation. Focusing on the strategies with Tax Advantages is a good plan. A review with a trusted advisor knowledgeable in alternative strategies will help you determine what will work best for you.

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