UPPER CANADA CAPITAL

PRIVATE WEALTH MANAGEMENT

Welcome to February Strategic Financial Tips from Kurt and Team!

Hello from a chilly February day in Toronto!

From the desk of Kurt Rosentreter, CPA, CA, CFP, Senior Financial Advisor, Manulife Securities

RRSP or Pay down your Mortgage?

There is no best way to determine whether it is better to contribute to an RRSP or your mortgage. When we crunch the numbers to look at optimization strategies we have to build in assumptions about future tax rates, mortgage interest rates, investment returns and what you will do with the tax refund from the RRSP contribution. All of assumptions can vary materially over time making the right mathematical answer elusive.

With that said, and avoiding the "you need to do both" answer, here are some considerations we normally factor in: 1) Rising interest rates – with interest rates rising consistently over the last two years for the first time in a decade while stocks and bonds may offer little return in a slowing economy in 2019 this points to paying down debt that costs more than your rate of return on investments inside the RRSP; 2) Age – anyone over 50 and closing in on retirement needs to get debt free fast so paying down the mortgage starts to take practical priority; 3) Tax bracket – if your taxable income is below $40,000 year it doesn't make much sense to make any RRSP contributions as you are already paying very little income tax; 4) Other income sources – if you or a partner has a defined benefit pension then retirement savings through RRSPs is less of a priority generally; 5) Other factors – other savings, career plans, total debt you have and other factors should be part of a discussion we are happy to have with you about savings strategies. Contact the office and speak to me and the team about what is best for you.

From the desk of Jordan Campbell, CFA, Financial Advisor Associate, Manulife Securities Incorporated, jordan.campbell@manulifesecurities.ca :

RRSP or TFSA?

The first two months of the year are sometime colloquially known as "TFSA and RRSP season" as you can make a new TFSA contribution on January 1st and have until the end of February/beginning of March to make an RRSP contribution.

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While we would all like to make maximum contributions to both types of accounts, we may not have money available to do so. If you can't contribute to both, this article from the Globe and Mail explores which account you should contribute to depending on your current situation. As an additional resource, we are also here to help you decide whether a TFSA or RRSP is best to contribution towards.

From the desk of Mathew Cain, Financial Advisor Associate, Manulife Securities Incorporated, mathew.cain@manulifesecurities.ca :

Overcontributions

Have you ever made an overcontribution to your RRSP or registered account alike? This can happen from time-to-time which is why it is very important to coordinate with your accountant, family CFO, and more.

Generally, you have to pay a tax of one percent per month on the excess contributions, however, the Canada Revenue Agency (CRA) will allow you to exceed your contribution limit up to $2,000 per lifetime. If this is not the case, you can take the necessary measures to remove the excess amount.

Please click this link to read the CRA strategies for withdrawing the excess amount from your RRSP.

From the desk of Frank Valicek, CFP, Financial Advisor, Manulife Securities Incorporated, Certified Financial Planner and Life Insurance Advisor, Manulife Securities Insurance Inc., frank.valicek@manulifesecurities.ca :

RRSP Savings Calculator

Are you unsure of how much to contribute to your RRSP? Would it be helpful to know the tax savings in doing so specific to your income and province of residence? The following link to Ernst & Young's 2018 RRSP savings calculator allows you to enter different income and contribution amounts to provide you with the answers. We're here to help as well of course, so please don't hesitate to contact us with all of your RRSP investing questions!

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From the desk of Monika Kucinskaite, Financial Advisor Associate, Manulife Securities Incorporated, m.kucinskaite@manulifesecurities.ca :

Should you borrow from RRSP to fund a down-payment

The Home Buyers' Plan (HBP) allows a couple of first-time purchasers to withdraw up to combined $50,000 from their RRSPs without paying any of the taxes that would ordinarily be due. However, that money has to be put back into RRSPs within the maximum 15-year timeframe.

Sometimes, when you pay off the HBP (interest-free loan) in your low-income year (maternity or paternity leave or studies), this plan can be advantageous as you will then accumulate RRSP contribution room which you might use in the future higher income years.

Overall, because you can borrow out of your RRSP to buy a house doesn't mean you should. By making a withdrawal early from your RRSP you will be giving up potential growth in your RRSP and on decades of tax-deferred compounding.

From the desk of Gerdi Lito, Financial Advisor Associate, Manulife Securities Incorporated, gerdi.lito@manulifesecurities.ca :

Spousal RRSPs and how they can help you reduce your taxes

What to know about Spousal RRSPs

- A spousal RRSP is an RRSP that is opened by your spouse or common-law partner, but that you contribute to – and you get the tax deduction.
- When your spouse or common-law partner withdraws the money, he or she pays any taxes due, as long as your most recent spousal contribution wasn't made this year or in either of the previous two years.
- This income-splitting strategy can save your household taxes before and after retirement. Consider this strategy if your spouse or common-law partner has a much lower income compared to you.
- Your spouse's contribution limit is not affected by a spousal RRSP.

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Advantages of spousal RRSPs

- Save on taxes now - If you're in a higher tax bracket than your spouse or common-law partner, the spousal RRSP deduction will save you more tax than if your spouse had made the contribution.
- Save taxes after retirement - Spousal RRSPs help to balance your retirement incomes, if you make more money than your spouse, they are a way for couples to split retirement income. If only one spouse has a large amount of money in his/her RRSP, at retirement when he/she starts withdrawing from the RRSP, he or she will pay more income tax than if each spouse has the same amount divided between their RRSPs. Both spouses would then be in a lower tax bracket and pay income tax at the same lower marginal tax rate. Simply put, instead of withdrawing $80,000 each year from your RRSP and be taxed on this amount, you withdraw $40,000 from two RRSPs and pay much less in taxes.
- You cannot put money into your own RRSP after the end of the year in which you turn 71 but you can contribute to a spousal RRSP until the end of the year in which your spouse or common-law partner turns 71.
- Using one spouse's RRSP and the other spouse's spousal RRSP for the Home Buyers' Plan doubles the $25,000 maximum withdrawal.

Final Thoughts

We are pleased to be a resource to you for RRSPs and Tax-Free Accounts at this time of the year – lean on us if we can help with any questions you have.

Warm regards,

- Kurt

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