

## **A bigger bang RRSP strategy**

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For a lot of individuals, early in the new year is when they turn their minds to making RRSP contributions. That's because RRSP contributions made in the first 60 days of a particular year can be claimed on the previous year's tax return, however, many Canadians don't have the funds to make the RRSP contribution they would like to make or need to make to meet their retirement goals.

For example, take someone who has 7000 dollars set aside to make an RRSP contribution in the first 60 days but would like to contribute more.

Let's assume that their marginal tax rate is 40% and after making an RRSP contribution and after filing their papers they expect a tax refund of \$2800. Now when they get that, they could spend it or better yet, they can make another RRSP contribution that they can claim on this year's tax return when they file next year.

However, there is another option. By using an RRSP loan, they can increase their total RRSP contributions and use the tax refund to pay off the loan.

The result is they have more money working for them sooner in a tax deferred plan. So how do you calculate an RRSP amount that can be completely repaid by the tax refund? Well there's a formula.

You take the amount of the expected refund before the RRSP loan so in this example \$2,800 dollars and you divide it by 1 minus your marginal tax rate, in this example 40 %. So \$2,800 dollars divided by 60% equals an RRSP loan of \$4,667 dollars. Using the RRSP loan, this individual has increased RRSP contributions to \$11,667 dollars and the cost was minimal. The interest on the loan while it's outstanding. If we assume that the loan is outstanding for 90 days at an interest rate of 4%, the total cost of the interest is still under 50 dollars.

With this strategy, it's important to keep the following in mind, remember the RRSP contribution must be made in the new year before the 60 days prior.

Also, make sure you have sufficient RRSP contribution room.

And finally, remember that the interest on the RRSP loan is not deductible. Maximizing your RRSP contributions every year can make a big difference over the long term. As they say, every little bit counts.

