

# Perspective



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## Utilize RRSP Tax Advantages to Reach New Heights

One simple change that could mean earlier retirement - Investing your tax refunds.

Since 1957 the RRSP has been a preferred and efficient savings vehicle for Canadians to focus on long-term retirement savings. The chart below demonstrates the value of a savings account compared to a taxable investment account, an RRSP and an RRSP with the additional benefit of reinvesting associated potential tax refunds.



Example: Invest \$12,000 annually from age 30 to 71 at 6% return.\*

In our example, if you save \$12,000 a year between the ages of 30 and 71, you will accumulate **\$504,000** (see the grey bar). Alternatively, by investing \$12,000 annually at a 6% return, the savings will grow to nearly **\$1.5 million** after taxes\* (see the orange bar). Using an RRSP provides greater advantages, including the following:

- Lower taxes
- Tax-free investment growth
- Greater retirement savings

The first significant RRSP benefit is the ability to **shelter investments from taxes** (on capital gains, interest, dividends,

etc.). Since you don't pay tax inside an RRSP, this leaves **more money to compound returns**. Over time, this tax benefit creates **larger account balances** (see the green bar).

Another meaningful advantage of an RRSP contribution is a tax-deduction, reducing taxes you pay. For example, if you earn \$120,000 and contribute \$12,000 to an RRSP, your taxable income will decline to \$108,000. This **lowers your taxes** and potentially results in a **tax refund**.

Many people see their tax refund as a windfall or "found money", leading to things like a shopping spree or travel. Sometimes we should indulge, but informed choices can help balance splurges with opportunities.

The teal bar in our example shows the impact of adding annual tax refunds to your RRSP. There is no additional cash outlay, only the annual contributions plus tax refunds. As you can see, adding the refunds has the potential to **double your retirement savings** (see the teal bar).

While everyone's circumstances are different, this example demonstrates the value that can be derived from using an RRSP. And since knowledge is power, we want you to be informed to make decisions that are right for you.

**March 1, 2022 is the deadline to make an RRSP contribution for a deduction against your 2021 taxable income.** If it's available to you, we recommend taking advantage of the opportunity. Of course, there are some nuances to maximizing the value of an RRSP, and Thornmark is available to help maximize your planning.

**We look forward to helping you achieve more with your investments. Please reach out to Thornmark at:**

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