

Halton Hills
WEEKEND

Money Matters.....

RRSPs - A savings plan with special privileges

By **GEORGE PERDUE**

Since most Canadians do not own a Registered Retirement Savings Plan, (RRSP), all the activity at this time of year is quite a mystery.

RRSPs are a savings plan that is given special privileges by the government.

These plans are said to be registered by the government. The special privileges are tax incentives. Those people putting money into these plans get a tax refund from their income tax. The amount that can be put into an

RRSP each year is limited to a portion of a person's earned income. While the money is in the RRSP any gain made is tax free.

These plans were initiated in 1957. At that time the government could see that it would not be able to afford to keep people in their retirement years. After all, fewer people were getting lucrative pensions and the life expectancy was rising.

What can be used for this savings plan?

Qualifying Canadian investments can be sheltered from tax

in an RRSP. This includes guaranteed investment certificates, government bonds, stocks, mutual funds, your mortgage and even the labor-sponsored funds such as Working Ventures. These funds offer much higher tax refunds since they are high risk speculative investments. You should work with a financial advisor to help you determine the content of your RRSP.

When you retire and begin to withdraw money from your RRSP what happens? Surprise, surprise you pay income tax on the money

withdrawn!

In February the federal budget will be introduced. How will this affect Canadians and their RRSPs? Nobody knows, however, we can expect the government to act like they cannot pay the bills under the current conditions. If you were in this situation you would move to increase income, decrease expenses, or declare bankruptcy. So some options could be: decrease the limit of the RRSP investment; tax the profits inside the RRSP; eliminate the extra tax incentives associated

with labour sponsored funds; increase the personal income tax rate; decrease the size of government; force the provincial government to decrease spending by decreasing the transfer payments.

What should you do? Since the RRSP is the last great tax shelter for most Canadians you should move to put money into an RRSP.

At the least this allows you to keep more of what you make.

George Perdue is a BSc. P.Eng Business and Financial Consultant.

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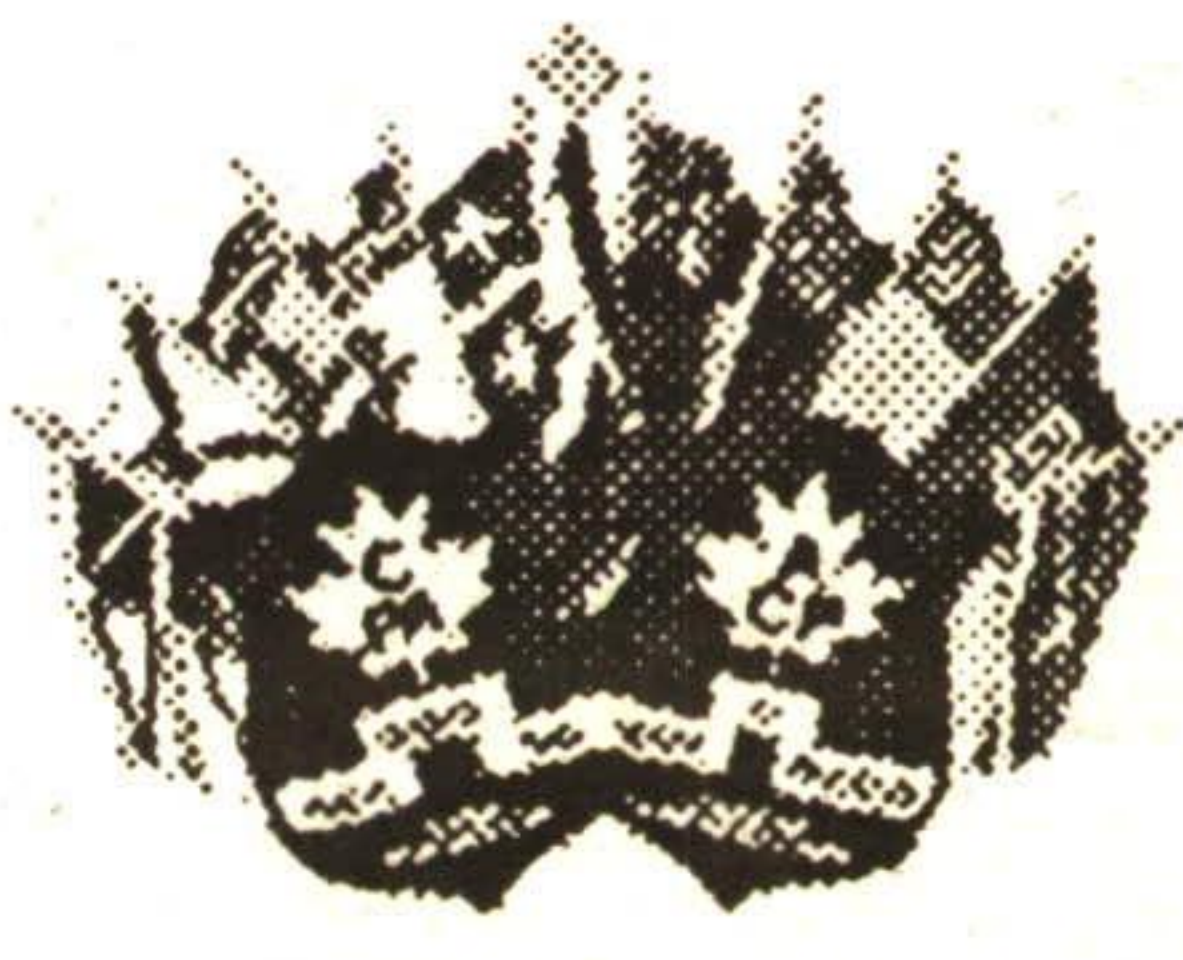
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