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Money Matters

Tax benefits await

Investing in RRSPs

Canadians who invest in registered retirement savings plans by Feb. 29 will save about $5 billion in 1995 tax payments — but their savings could be far greater if they took more advantage of the current $154 billion contribution ceiling.

Although Canadians invested a record $20.9 billion in RRSP's in the 1994 tax year, taxfilers are using less than 15% of their contribution limit, according to Statistics Canada.

The government allows RRSP buyers until Feb. 29 to make a contribution that can be deducted from last year's earned income, resulting in a deduction of tax payable. While financial planners urge taxpayers to contribute on a monthly basis throughout the year, many defer their purchase until the last minute. For the 1995 tax year, the maximum contribution is the lesser of $14,500 or 18% of earned income, minus pension adjustments.

The $154 billion contribution ceiling — representing potential tax deferments of some $35 billion (equal to this year's federal government deficit) - is arrived at by combining current deduction entitlements with unused deductions carried forward from previous years.

"There's absolutely no chance of Canadians getting anywhere near their limit", says Janice Penner of Investors Group Inc., one of Canada' s leading financial planning companies.

"It's in the interests of every taxpayer to use as much of their contribution limit as they can even if it is only a small portion of what they're entitled to," says Penner, who is Director of Marketing of the Winnipeg-based financial planning organization and mutual fund distributor.

Statistics Canada reports that the number of Canadians contributing to RRSPs is growing — up by four per cent in 1994 from 1993, with 5.3 million people, or nearly one in three taxpayers, investing at least part of their contribution limit. While women made up half of all taxfilers, only 43% made RRSP contributions.

RRSPs are offered by all types of financial institutions. They provide for investments to be made in different types of mutual funds or such vehicles as guaranteed investment certificates or term deposits. If a taxpayer wishes, a self-directed plan can be set up in which the individual selects stocks, bonds or other types of investments.

Mutual funds appear to be the most popular type of RRSP investment, says Penner. She cites the growing number and wider variety of mutual funds. Her own company, Investors Group, is nearly doubling the number of mutual funds its offers, including new funds managed by such global names as Merrill Lynch and Rothschild.

Whatever one's situation, Penner has two recommendations for all RRSP buyers. "First, contribute as much as you can by Feb. 29 to take advantage of the 1995 tax deferral. Second, try to start contributing on a monthly basis from now on so that your new investment is working for you cn a year-round basis."

Provided by The Investors Group Inc.