RRSP plans: the world's greatest tax break

Canadians rush to take advantage of tax savings on RRSP plans

It's been called the world's greatest tax break -- as well as a great investment opportunity. It's the annual New Year rush by Canadians to take advantage of the fact that money invested in an RRSP up to March 1 can be deducted from the previous year's income in calculating income taxes.

The yearly RRSP "season" accounts for a large share of all monies invested throughout the year, according to Wayne Walker, Sr. Vice President, Marketing, of Investors Group Inc. The Winnipeg-based company is Canada's largest distributor of mutual funds, a favoured RRSP vehicle for many Canadians.

"While we counsel our clients to set up an ongoing investment program through a set monthly amount, there is great appeal in the fact that an investment made in January or February can be deducted from the previous year's earned income," Walker said. "This means either less income tax to pay, or a bigger refund after you've filed your return."

He points out that while you will pay tax when you cash in your RRSP when you retire (you must take out your RRSP no later than the end of the year you reach age 71), you'll likely be in a lower tax bracket than during your income-earning years.

In the long run, you'll enjoy both tax savings and the gain you'll have realized on your investments.

Registered Retirement Savings Plans have become the chief financial instrument by which many Canadians supplement company pension or profit-sharing plans and the government-run Canada or Quebec Pension Plans, and Old Age Security.

For 1990 contributions made up to March 1, 1991, the federal government has set a contribution limit of $7,500 or 20 per cent of earned income (whichever is less). If you are in a registered pension plan where you work, or a deferred profit sharing plan, the maximum contribution is $3,500, or 20 percent of earned income (whichever is less), minus any contributions to the employer's pension plan.

The contributions have been raised in the past to reflect inflation, and in future years Ottawa will permit even larger tax-deductible contributions. For this year, the rules mean that if you're not in a company plan, but have an 1990 earned income of, say, $45,000, you can put up to $7,500 in an RRSP. that's because 20 percent of $45,000 would be $9,000, which would put you over the maximum.

Assuming your family exemptions put you in the 35 percent tax bracket, a $7,500 contribution would actually cost you only 65 per cent of that amount -- $4,875 -- with $2,625 provided through the tax deferral.

What's "earned income"? It's the amount of income on which the government calculates your taxes -- your net salary or net business income, minus any alimony or maintenance payments or business and rental losses.

There are many types of investments which qualify as an RRSP, but the favorite of many Canadians is a mutual fund. A mutual fund is a fund in which the deposits of a large number of people are put into a variety of investments and managed by professionals.

One of the main ideas behind a mutual fund is that there's less risk in diversifying your investment, which can be hard for individuals on their own.

Wayne Walker said mutual says equity-based mutual funds are popular even though the stock market has been lacklustre for the past year.

"The recession depressed stock prices in 1990, lowering the cost of the average share," he said. "As long-term trends have always led to higher prices over time, the chance to build up investments when shares are relatively cheap is a very appealing one."

Mainstream Canada

Taxes, training and too much red tape

By Terry O'Shaughnessy

As the country lurches through the first stages of the recession, the faltering Canadian economy needs small business more than ever. During the last recession in the early 1980's-the worst economic slump to hit the country in more than half a decade-small business proved its mettle by recording the only positive job creation record of any sector. And now that small firms are again faced with picking up the slack left by the large corporate sector (which is currently laying off thousands of employees), the needs and concerns of small business are of paramount importance for the economic recovery expected later next year.

A recent survey conducted by the Canadian Federation of Independent Business addresses these concerns. Entitled "National Business Watch", the survey of 22,000 small-and-medium-sized operations regularly explores the key problems facing the independent business community. The results of the most recent survey are proof that the stormy business climate created by worsening economic conditions is not being seriously addressed by government at any level.

According to the survey, the number one concern of survey respondents is the high level of taxation, with 65 per cent citing the overall tax burden as a major obstacle to further expansion. The report concludes: "Firms have understood the need to control public sector deficits but have been frustrated by the sense that governments are not treating seriously the need to match tax increases with spending cutbacks."

As in previous surveys, red tape overload took second spot with 55 per cent of survey respondents stating that the current levels of paperburden imposed by all threee layers of government are of major concern. "Governments have a persistent bias toward over-regulating the economy. In their zeal to survey, control and forbid specific business activities, governments often reach beyond what is necessary with wide ranging or overly complex rules and regulation", the report says.

And a shortage of qualified labor continues to be a major concern for 40 per cent of survey respondents. In spite of the fact that more and more Canadians are looking for work, small business owners still spend a great deal of time training employees to meet a broad range of job requirements. The study adds that 80 per cent of CFIB members conduct employee training-most of it on an informal basis utilizing on-the-job sessions, private sector specialists and equipment vendors. But unfortunately small firms are seldom given the credit they deserve for workers' advancing skills.

Dissatisfaction with provincial workers' compensation boards was of concern to 34 per cent of survey respondents while the cost of municipal government was an issue for 31 per cent of those surveyed. Unavailability of financing (19 per cent) and overly complex and expensive labor laws (12 per cent) completed the list of small business concerns.

As the overwhelming job creators, small businesses have made a vital contribution to the Canadian economy and will undoubtly play a leading role in its eventual rebound. Now more than ever governments at all levels must be more sensitive to the concerns of this sector. The recovery of our failing economy is counting on it.