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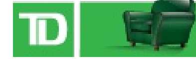
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2 options when cash is scarce for an RRSP contribution

Loans, contributions in-kind are alternatives when cash isn't immediately available

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It may not have been the kind of year when you could save for an RRSP investment. Do you borrow, transfer in another asset or wait until next year when you have some money saved? (Reuters)

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If your bank account is tapped out with the RRSP deadline looming, you do have some options to explore if you still want to make a contribution to your plan.

Option 1: Take out an RRSP loan

Financial institutions are often more than happy to loan you the money for your RRSP contribution. They charge you interest and can steer you into some of their products.

Consider the case of a $3,000 RRSP loan taken out for one year, with the first payment deferred for 90 days and interest rate at 2.7 per cent, by somebody in the 40 per cent marginal tax bracket

According to one loan calculator, the loan would generate a $1,200 refund. If that refund was all applied to the loan, which was repaid over nine months after the 90-day deferral, it would result in $339.37 in monthly payments, and $36.16 in total interest.

If your RRSP gained more than the interest cost, you would be ahead.

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Accounting firm Raymond Chabot Grant Thornton says in its 2015/16 tax guide: "In general, if borrowing costs over the loan repayment period are higher than the return earned, systematic saving would be a better alternative."

Instead of opting for a loan, Rose Raimondo, a certified financial planner

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and the founder of Raimondo & Associates Ltd. in Calgary, prefers people get in the habit of making monthly contributions — to their own RRSP or via payroll deductions to a group RRSP.

That also allows you to take advantage of dollar-cost averaging in buying your RRSP investment.

"In my view, if you can afford to be paying the loan, then just get started with the contribution with that amount that you'd be prepared to pay in a loan payment and make it an RRSP payment," she said.

Opting for a big catch-up loan to take advantage of unused contribution room may not be the best idea when it comes to tax planning.

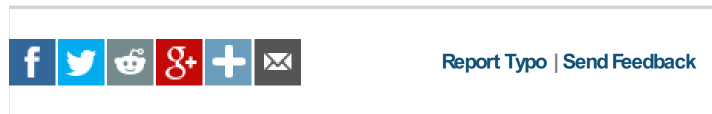
"We're better off taking a deduction at higher marginal rates of tax, and when you do a big catch-up contribution sometimes you can knock yourself down one, possibly two, tax brackets," Raimondo says."So the tax relief you're getting isn't even optimized."

Option 2: The in-kind contribution

Your second option for making a deductible contribution when you're faced with a cash flow crunch is to consider transferring an existing investment into your self-directed RRSP. You can shift investments such as stocks, mutual funds, or GICs from non-registered accounts into a registered account.

One important consideration to keep in mind is that transfers of assets into an RRSP are made at fair market value. If fair market value exceeds your cost, any capital gains will be taxable. However, if the opposite is true — your cost exceeds FMV — you won't be able to claim the capital loss because the investment is in an RRSP.

Unless the loss is very small, experts advise selling the shares and contributing the cash to the registered account.



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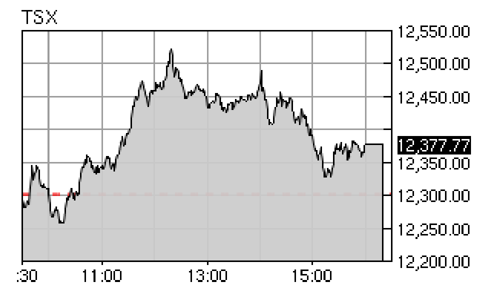

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