The RRSP Meltdown Game:

How to Invest the Tax Department's Money and Make 50% or better Return on Your Investment.

*** This information is not to be considered investment advice, which should only come from licenses financial planners. This is for educational purposes and is to be used for you to ask your financial planner questions.

1. Deposit $10,000 in your RRSP. Ideally you have some tax free money, (Tax refund, gift, etc.) otherwise consider using borrowed money rather than taking your after tax money that you had to pay tax on.

2. You will get a refund based on your tax rate. Say 40% tax rate would give a refund of $4,000.00 (If you are at a higher or lower tax rate, just adjust your numbers.)

3. Treat the tax refund that resulted as tax free income on your investment. So now you go and make a $4,000.00 payment off your RRSP loan, reducing the balance to $6,000.00

4. Let's assume you made 5% on your RRSP investment, that would mean that your RRSP is now worth $10,500.00

5. At this point you have $10,500 in your RRSP and an outstanding loan of $6,000.00 so you are effectively up $4,500.00 on an initial investment of $10,000.00 This is a 45% return on your money in one year. This is better than any conventional investment and has extremely low risk.

6. Because loans can only be paid off with after tax dollars, you carefully weigh how you are going to pay off the RRSP Loan.

7. So… a good strategy is to pay off the $6,000 bank loan in one year as your $10,500 RRSP grows another 5% to become $11,025.00 by the end of year two.

8. By paying off your loan in one year, while making payments of $525.00 per month, you have an asset value in your RRSP of about $11,500.00

9. So at the beginning of year 3, you borrow $10,000.00 to invest in an out of your RRSP investment.

10. If you match the income growth inside your RRSP to pay the interest in your outside your RRSP, you can use your RRSP as a tax neutral way of paying off your interest on out of RRSP loans.

11. You continue to make deposits to your RRSP while you continue to match withdrawals to investment interests and other related business costs.

12. Having a rental income property is an excellent way to melt down your RRSP… Take the tax deductions by making the RRSP contributions while making the withdrawals to match business expenses.

13. Consider paying investing RRSP money into your business on tax discretionary deductible expenses. For example, paying for an advertising campaign that you know for sure will work to generate more sales for your business.

14. The interest withdrawals from your RRSP are taxable income; however the interest payments and direct business expenses are tax deductible, so the end result is that you are now tax neutral on your loan interest payments and you can stimulate business growth in your business.

15. You are levering your RRSP money to build your investments outside of your RRSP or to build your business.

16. You continue to put money into your RRSP in this manner, using your tax neutral withdrawals to service your investment loans and business costs.

17. The government holds 10% of your RRSP withdrawal, which will be refunded to you when you get your annual tax refund. (To net a hundred you withdraw about $110.) So long as you don't withdraw more than $5,000.00 the withholding tax is only 10%... The more you withdraw the higher the withholding amount.

18. If you lose money in your business, in any given year, then that is a business loss and you can write it off. (It is not a capital gain or loss. It is a business loss.)

General Information on: RRSPs

An RRSP is a registered Retirement Savings Plan (RRSP) is an investment account designed primarily for saving toward your retirement years. As a retirement savings vehicle, regulated by the Canadian government, RRSPs have specific tax benefits.

Your annual RRSP contribution can greatly reduce the amount of income tax you pay in that year, and the money you put away can have years of tax-deferred growth potential.

You only pay tax on the amounts you withdraw. RRSPs are available through chartered banks, trust companies and other financial institutions.

Contributions to an RRSP can only be made by individuals with "earned income" taxable in Canada, which includes salaries, self-employment income, maintenance and alimony payments, and net rental income (but does not include income from pensions or investments).

CRA issues statements to individual taxpayers with their "Notice of Assessment" informing them of their RRSP contribution limit for the following year.

A spousal RRSP is a plan where you can make contributions for your spouse. The more taxable income you have, the higher your tax bracket. You can consider allocating future taxable income as evenly as possible between you and your spouse or common- law partner. This is an example of "income-splitting."

You are entitled to put all or part of any allowable RRSP contribution into an RRSP in the name of your spouse or common-law partner. When you both withdraw your RRSP savings during retirement, the combined income tax you pay as a couple may be lower than what you would pay if all your savings were in a single RRSP.

As the contributor to a spousal RRSP, you benefit from the tax deduction while building a retirement nest egg for your spouse or partner. Amounts withdrawn from a spousal RRSP will be considered part of the taxable income of your spouse or partner, to the extent that you have not contributed any amount to a spousal plan in the current year or the two preceding years. A spousal RRSP is most beneficial in a situation where the spouse would otherwise have little retirement income while the contributor would have a significant amount of income.

Although an RRSP is considered more effective as a long-term investment, you may withdraw all or part of it at any time. RRSP withdrawals are subject to tax and the terms of the investment you choose. But the important part is that your money is available if you need it. Withholding taxes apply on funds withdrawn from an RRSP except when funds are transferred from one RRSP to another, or when funds are transferred to a retirement income option such as a Retirement Income Fund (RIF).

Please note that locked-in RRSP plans are subject to withdrawal restrictions.

When you reach the age of 71 you are required by law to convert the plan to a RIF. The plan must be converted to a form of retirement income by the end of the calendar year in which you turn 71. With a RIF, your investments can continue to grow on a tax-deferred basis while you withdraw the income you need.

When you die the value of your RRSP is paid to the beneficiary you have designated. If you have not designated a beneficiary, it is paid to your estate. In certain cases, including if your beneficiary is your surviving spouse or common-law partner, your RRSP may be transferred to them on a tax-deferred basis. What that means is that paying the taxes is deferred until you withdraw the money from the RRSP, as is normal on all withdrawals.

You can deposit up $22,000 or up to 18% or a maximum of your net income to your RRSPs each year. For your current year's limit, you will find that amount on your Notice of Assessment that you receive after filing your tax return. This Notice sets out the maximum amount you may contribute in the current year, including any unused contribution room carried forward from previous years. If you have not received this notice or need to double check the amount, simply call CRA. For service in English, call 1-800-959-8281.

You have until March 1 (or February 29 in a leap year) to contribute to your RRSP. Once this date has passed, RRSP contributions are only deductible against your taxable income for the following years.

As in all matters in life, it is important that you take ownership of all the decisions you make. Don't trust anyone to tell you where to invest your money. Instead ask what your options are and pick the best one, based on what you hear, read, and know…

Remember picking an investment because you don't know what else to pick, is getting pretty close to being brain dead. It is better to do nothing than it is to make a bad decision.

Consider a self-directed RRSP… That way you are empowering yourself to make informed decisions about your investments. If you don't want to take ownership of your decisions then take minimal risks… as in Bonds. Don't think for one second that mutual funds are not risky… They are!

Investing via an RRSP is quite limited, for a number of reasons that I won't mention here.

Things you can invest in via a Self-Directed RRSP are;

- Mutual funds
- Common and preferred shares of Canadian corporations listed on any Canadian and many foreign stock exchanges
- Fixed income securities including bonds, debentures, strip bonds and notes --
- issued by a corporation that has shares listed on a Canadian stock exchange
- issued by a Canadian government (federal, provincial or municipal)
- guaranteed by the Government of Canada
- Many foreign shares and fixed income securities
- Canadian and Provincial Treasury Bills (T-bills), Canada Savings Bonds and Provincial Savings Bonds
- Term Deposits, GICs and cash in Canadian currency
- Options to purchase eligible securities
- Mortgages

So if you are going to play the RRSP game, get out of the thinking box and get into the way of thinking…. How to I use the rules to my own best interest? Money is not made where the masses go, it is made where the masses did not go.