

*As the deadline for RRSP contributions looms ahead, I have noticed more advertisements around local banks marketing RRSP loans. In theory, it sounds like a good idea to use a loan to contribute to your RRSP, thus triggering a tax deduction while enabling you to save for retirement. However, there are a few things to keep in mind when considering a decision like this.*

### IS THE LOAN TAX-DEDUCTIBLE?

Although the interest you pay on a loan used for investment returns is normally tax-deductible, this is not the case for a loan used to fund an RRSP. Similarly, any investment fees paid to a financial institution which are normally tax-deductible for non-registered accounts, would not be deductible for an RRSP. The bottom line being that if the income is not taxable, as in the case of any registered vehicles, costs associated with growing the income are also not deductible.

### AM I RELYING ON A TAX REFUND?

If you know for certain that you will be receiving a tax refund with the added help of the deduction through an RRSP contribution, a case could be made for using a loan to finance your RRSP contribution. However, you would need to be disciplined in earmarking this refund so that it does go towards paying down the loan. If you are unsure of the numbers, avail yourself of one of the many RRSP loan calculators found online.

### WHAT ABOUT THE INTEREST RATE OF THE LOAN?

If you achieve a high enough return on your investment, it can offset the cost of borrowing. This consideration is very much based upon knowing what rate of return you will achieve on your investment, which is not always possible to know in advance. Also, if you are in the position of needing to refinance your RRSP loan, there is the possibility that you will be doing so at a higher interest rate.

### IS THERE AN ALTERNATIVE TO AN RRSP LOAN?

If you find it difficult to come up with a lump sum contribution every year, consider making smaller monthly contributions which can be much more manageable. Other strategies include designating the money from your income tax refund as well as using any bonus monies for your RRSP.

Borrowing to invest is a loaded topic and although we at Capstone do not encourage the use of debt to invest, everyone's situation is different. Our counsel is that before you decide to use an RRSP loan, you make sure you have thought through whether the benefits outweigh the costs.

