Wealth Management

the Navigator

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC FAMILY OFFICE SERVICES

Aaron Fennell, MBA, CFA
Portfolio Manager & Investment Advisor
Tel: 416-313-6397
aaron.fennell@rbc.com

RBC Dominion Securities
181 Bay Street, Suite 2350
Toronto, ON M5J 2T3
www.aaronwfennell.com

Create RRSP contribution room for a minor

If your minor child or children have earned income, consider filing tax returns for them. This will enable them to generate registered retirement savings plan (RRSP) contribution room and open RRSPs. Opening and contributing to an RRSP may help your child learn the benefits of saving and may also reduce their taxes.

File a tax return

Many teenagers start working part-time after school or on weekends to earn pocket money. Having a job can give them some freedom, a sense of purpose and duty, and an appreciation for the value of money.

If your child earns an annual income below the basic personal exemption, they may not need to file a tax return but there may be benefits to doing so. Filing a tax return allows them to accumulate RRSP contribution room by having "earned income" documented with the Canada Revenue Agency. Some examples of earned income include salary, wages or tips from employment or net income from a business carried on by a self-employed individual.

By filing a return, your minor child will accumulate RRSP contribution room at the rate of 18% of earned income subject to the annual maximum.

Contributing to an RRSP and earning room at an early age

The following example illustrates how contributing early to an RRSP may increase the tax-deferred growth that occurs over the lifetime of the RRSP.

Assume two Ontario schoolmates, Bob and Joe, each get summer jobs at age 13. They continue working and each earns $4,000 every summer. At age 22, they both get full-time jobs after graduating from university.

Bob's parents file a tax return each year on Bob's behalf, while Joe's parents do not. This extra effort made by Bob's parents generates $6,480 (($4,000 x 18%) x 9 years) of RRSP contribution room for Bob by the time he graduates from university. The tax rules allow for an indefinite carry-forward of unused RRSP contribution room, so this RRSP contribution room accumulates for Bob from age 13.

If Bob's marginal tax rate is 29.7%[1] when he starts working full-time, Bob will be able to reduce his tax liability by approximately $1,925 ($6,480 x 29.7%) if he contributes the full amount of his carry-forward room to his RRSP in his first year of employment. Bob could invest these additional funds or use them to supplement his cash flow. If Bob is age 22 when he makes this contribution, and he leaves the funds in his RRSP until age 60, that extra $6,480 in his RRSP will grow to nearly $60,000 (assuming a growth rate of 6% per year).

By filing a tax return at a younger age, Bob will be able to build savings earlier, and the savings will compound on a tax-deferred basis for a longer period. This will potentially provide a larger nest egg at retirement.

When Bob eventually makes withdrawals from the RRSP, they will be taxable at his marginal tax rate for the year in which he makes the withdrawal. Bob may be able to time his withdrawals so the RRSP income is taxed at a lower rate. This may be possible during retirement when he may be earning less income and be in a lower marginal tax bracket.

Other potential benefits

Educational: Consider getting your children involved in preparing their tax returns. This may help them develop an understanding of Canada's tax system and may be useful in teaching them effective financial management habits.

Income splitting: If you own a business, there may be benefits to hiring your children and paying them a salary. There's no attribution if your child earns employment income from your business. Keep in mind that the salary you pay them must be "reasonable" for the services they provide. Generally, if you're trying to determine what's considered reasonable, ask yourself what you'd pay an unrelated individual to do the same work.

Tax-deferred compounding: Referring to the earlier example, to take advantage of additional years of tax-deferred compounding, Bob could make the contributions to his RRSP annually ($4,000 x 18% = $720 per year), as he earns RRSP contribution room, so the funds are invested as soon as possible in his RRSP. By getting the funds into the account sooner, the value at age 60 could be even higher than the $60,000 noted in the example.

Bob can claim the deduction when his income increases and he's subject to tax at higher rates in order to maximize the value of the RRSP deduction. The tax rules allow you to carry forward your undeducted RRSP contributions indefinitely.

Home Buyers' Plan: If your child builds up their RRSP early, they could use the funds to take advantage of the Home Buyers' Plan (HBP). The HBP allows your child to borrow up to $60,000 from their RRSP with no immediate tax consequences to purchase their first home.

1 The exact rate of tax savings will depend on the individual's actual income for the year and their province or territory of residence.

your child will need access to their earnings in the short term (for example, to pay for post-secondary education), an RRSP may not be the best savings vehicle. Funds withdrawn from an RRSP are fully taxable to your child and they will not regain their RRSP contribution room.

Other considerations

Additional costs: You may incur additional tax advisor fees or have to dedicate additional time and resources to file a tax return for your child. Keep this cost in mind when determining whether it makes sense to use this strategy.

Ability to work: Refer to federal and provincial/territorial laws for information on the type of part-time employment available to minors. This particularly relates to industrial settings. You should keep this in mind if you plan to employ your minor child in your business.

Ability to open an RRSP account: Although the tax rules allow minors to open and contribute to their RRSP, as long as they have the contribution room, not all financial institutions may accommodate opening RRSPs for minors. Speak with your financial institution to ensure they can open an RRSP for your minor child.

$2,000 over-contribution: Generally, an individual can over-contribute a cumulative lifetime total of $2,000 to their RRSP without incurring a penalty. Minors do not qualify for the lifetime over-contribution. The additional $2,000 over-contribution amount is available to them only when they're 18 years old or over at any time in the taxation year.

Social Insurance Number (SIN): Your minor child must have a SIN to file their tax return and open an RRSP account. You may apply for their SIN at any time after birth.

When your child will need access to their funds: If your child will need access to their earnings in the short term (for example, to pay for post-secondary education), an RRSP may not be the best savings vehicle. Funds withdrawn from an RRSP are fully taxable to your child and they will not regain their RRSP contribution room. It may make more sense to invest their earnings in a non-registered account. If your child does need the funds to finance post-secondary education, they may be able to borrow up to $10,000 in a calendar year (to a total of $20,000) from their RRSP to fund post-secondary

education or training under the Lifelong Learning Plan (LLP). For more information on the LLP, please ask your RBC advisor for an article on that topic.

Summary

If your minor child or children have earned income, consider helping them file a tax return, even if they don't have to pay any taxes and are not required to file a tax return. This process will allow them to create RRSP contribution room, and it's providing a great opportunity to help them get into the habit of saving and learning about the benefits of compound growth.

This article may contain strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal, tax or insurance advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax, legal and/or insurance advisor before acting on any of the information in this article.



This document has been prepared for use by the RBC Wealth Management member companies, RBC Dominion Securities Inc. (RBC DS)*, RBC Phillips, Hager & North Investment Counsel Inc. (RBC PH&N IC), RBC Wealth Management Financial Services Inc. (RBC WMFS), Royal Trust Corporation of Canada and The Royal Trust Company (collectively, the "Companies") and their affiliates, RBC Direct Investing Inc. (RBC DI)* and Royal Mutual Funds Inc. (RMFI). *Member – Canadian Investor Protection Fund. Each of the Companies, their affiliates and the Royal Bank of Canada are separate corporate entities which are affiliated. "RBC advisor" refers to Private Bankers who are employees of Royal Bank of Canada and mutual fund representatives of RMFI, Investment Counsellors who are employees of RBC PH&N IC, Senior Trust Advisors and Trust Officers who are employees of The Royal Trust Company or Royal Trust Corporation of Canada, or Investment Advisors who are employees of RBC DS. In Quebec, financial planning services are provided by RMFI or RBC WMFS and each is licensed as a financial services firm in that province. In the rest of Canada, financial planning services are available through RMFI or RBC DS. Estate and trust services are provided by Royal Trust Corporation of Canada and The Royal Trust Company. If specific products or services are not offered by one of the Companies, RBC DI or RMFI, clients may request a referral to another RBC partner. Insurance products are offered through RBC Wealth Management Financial Services Inc., a subsidiary of RBC Dominion Securities Inc. When providing life insurance products in all provinces except Quebec, Investment Advisors are acting as Insurance Representatives of RBC Wealth Management Financial Services Inc. In Quebec, Investment Advisors are acting as Financial Security Advisors of RBC Wealth Management Financial Services Inc. RBC Wealth Management Financial Services Inc. is licensed as a financial services firm in the province of Quebec. The strategies, advice and technical content in this publication are provided for the general guidance and benefit of our clients, based on information believed to be accurate and complete, but we cannot guarantee its accuracy or completeness. This publication is not intended as nor does it constitute tax or legal advice. Readers should consult a qualified legal, tax or other professional advisor when planning to implement a strategy. This will ensure that their individual circumstances have been considered properly and that action is taken on the latest available information. Interest rates, market conditions, tax rules, and other investment factors are subject to change. This information is not investment advice and should only be used in conjunction with a discussion with your RBC advisor. None of the Companies, RMFI, RBC WMFS, RBC DI, Royal Bank of Canada or any of its affiliates or any other person accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. In certain branch locations, one or more of the Companies may carry on business from premises shared with other Royal Bank of Canada affiliates. Notwithstanding this fact, each of the Companies is a separate business and personal information and confidential information relating to client accounts can only be disclosed to other RBC affiliates if required to service your needs, by law or with your consent. Under the RBC Code of Conduct, RBC Privacy Principles and RBC Conflict of Interest Policy confidential information may not be shared between RBC affiliates without a valid reason. ®/™ Trademark(s) of Royal Bank of Canada. Used under licence. © Royal Bank of Canada 2026. All rights reserved.

NAV0188 (05/2026)