

Comparing RRSP vs TFSA vs RESP

	Registered Retirement Savings Plan (RRSP)	Tax-Free Savings Account (TFSA)	Registered Education Savings Plan (RESP)
Eligibility	<ul style="list-style-type: none"> No minimum age. Must have earned income from previous year to determine your contribution allowance. Canadian resident with Social Insurance Number. 	<ul style="list-style-type: none"> Must be 18 or older. Canadian resident with Social Insurance Number. 	<ul style="list-style-type: none"> Your child (or grandchild), as the beneficiary of the plan, must be under age 17 and have their own Social Insurance Number. You, as the "subscriber" of the plan, control contributions and withdrawals from the plan.
Contribution Limits	<ul style="list-style-type: none"> Annual limit is 18% of your previous year's earned income, up to annual limits (\$30,780 for 2023). Unused contribution room accrues annually and can be used in future years. 	<ul style="list-style-type: none"> Annual limit is fixed and is currently \$6,500. Contribution room accumulates from 2009, when TFSAs were introduced. Total available room is \$88,000 if you were 18 or more in 2009 and have not yet contributed. 	<ul style="list-style-type: none"> Annual contributions of \$2,500 per child will maximize the standard 20% federal grant of \$500 per year. The lifetime maximum grant amount is \$7,200 per beneficiary. The lifetime contribution limit is \$50,000 per beneficiary.
Contribution Benefits	<ul style="list-style-type: none"> Contributions are a tax deduction against your personal income. Contributions can be deducted in later years if you expect a higher tax bracket in the future. Investment earnings grow & compound tax free. 	<ul style="list-style-type: none"> Contributions are not tax deductible, but all investment earnings grow & compound tax free. Withdrawals from the plan are tax-free. 	<ul style="list-style-type: none"> Contributions are not tax deductible, but you get the grant (see above). Your contributions, plus the grant funds, and the investment earnings grow tax-free. The withdrawal of grant funds & investment earnings are taxed as income in your child's hands, where little or no tax may be owed.
Contribution Period	<ul style="list-style-type: none"> You can contribute to your own RRSP up until the end of the year you turn 71. You must convert your RRSP to a RRIF or an annuity by the end of the year you turn 71. If you have a younger spouse, you can make a spousal contribution to their RRSP to age 71. 	<ul style="list-style-type: none"> You can contribute over your lifetime. There is no requirement to make withdrawals. 	<ul style="list-style-type: none"> You can contribute to the RESP for up to the \$50,000 limit per beneficiary over 31 years, but the grant is capped at \$7,200 per child. Normally, you would use up the value of the plan over the years your child is in their program.

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Withdrawals	<ul style="list-style-type: none"> Normal withdrawals are taxed as regular income, and any amount can be taken out. If you are 65 or older, you can income-split with your spouse to reduce income tax. Tax-free withdrawals are possible under the Home Buyers Plan (for first-time home buyers) and the Lifelong Learning Plan (for education or training for you or your spouse). Once your RRSP has been converted to a RRIF, a federal schedule mandates a minimum annual withdrawal based on your age. 	<ul style="list-style-type: none"> Generally you can withdraw any amount, at any time, on a completely tax-free basis. You can replace withdrawals (in addition to normal annual limits), as long as you do so in the following year. You can leave your account for your estate or name a specific beneficiary, all on a tax-free basis. 	<ul style="list-style-type: none"> You can withdraw any amount of the contributions at any time. However, the maximum EAP amount for a full-time student is limited to \$8,000 during the first 13 consecutive weeks of enrollment (up from \$5,000 as per the 2023 federal budget announcement). Afterwards, almost any amount can be withdrawn, if for costs related to studies. Withdrawals that are comprised of government grant funds and investment returns are taxable income for your child. Your contributions are a tax-free return of capital. If funds can't be used for your child's education, you can transfer accrued plan earnings to your own RRSP, subject to your available contribution room.
Estate Considerations	<ul style="list-style-type: none"> If left to a spouse, or dependent child under 18, the value of your plan passes tax-free to them. If left to your estate or other beneficiary, the entire value of the plan is taxed as income in your final tax return. 	<ul style="list-style-type: none"> You can leave the entire plan to a named beneficiary or your estate, with no tax consequences. 	<ul style="list-style-type: none"> If your spouse is a co-subscriber, the plan ownership passes to them and funds applied to your child's post-secondary costs as normal. If no surviving joint subscriber, the RESP can become part of your general estate, so it is important to name a successor subscriber in your will.
Key Benefit	<ul style="list-style-type: none"> Good strategy for saving for your retirement, especially if your tax bracket is higher now than you expect in retirement. Typically the key vehicle for retirement savings for those without employer-sponsored pensions. 	<ul style="list-style-type: none"> Good strategy to supplement your RRSP, or just save for yourself for a future use, or simply build a tax-free asset for your estate. 	<ul style="list-style-type: none"> An excellent strategy to save for your child's post-secondary education, as you get a 20% increase in contributions due to the federal grant funds. Additional grant or bond funds may be available for low income earners.

Have Questions?

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