RRSP or TFSA? Take Your Pick

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Should you invest in a Registered Retirement Savings Plan (RRSP) or a Tax-Free Savings Account (TFSA)?

For most, the answer is 'a bit of both.' Both plans are registered and provide a way to save for your retirement and other future lifestyle expenses. Current income levels play a large role in answering the question and both plans allow for your savings to remain tax-sheltered while inside the plan. It's also a good idea to ask yourself if you have a known short or medium-term need (under five years), or long-term retirement needs. **For more details, review the key differences, pros and cons of each below.**

Key differences	Registered Retirement Savings Plan (RRSP)	Tax-Free Savings Account (TFSA)
The basics	• Inception: 1957 • Grows tax-sheltered - until withdrawn • Based on earned income	• Inception: 2009 • Grows tax-free - withdrawals untaxed • Not based on earned income
Minimum age	No minimum age; requires earned income	Must be 18 years of age or older
Contribution limits	• Based on previous year's earned income • Maximum limits: 18% of previous year's earned income less pension adjustment to annual maximum established by Canada Revenue Agency • Undeducted contributions carry forward	• Annual limits set by Canada Revenue Agency • No earned income required • $6,000 per year (periodic indexing) • Unused amounts carry forward
Maximum age (maturity)	RRSP must be converted to RRIF at age 71	No age / maturity limit
Contributions	• Tax deductible • Unused contributions accrue to 71 • 1% penalty per month on overcontributions	• Not tax deductible • Unused contributions accummulate • 1% penalty per month on overcontributions
Investment holdings	Many investment options available that include but not limited to Stocks, Bonds, GICs, Mutual Funds	Many investment options available that include but not limited to Stocks, Bonds, GICs, Mutual Funds
Beneficiary designation	• Tax-free rollover to spouse's RRSP • May designate a named Beneficiary of your estate	• Rollover to spouse's TFSA • May designate a named Beneficiary of your estate
Contribution room	Available on Notice of Assessment or Canada Revenue Agency website (registration required for access)	Available on Canada Revenue Agency website (registration required for access)
Withdrawals	• Taxed as income • Withdrawals may impact Old Age Security or supplements • RRIF mandatory withdrawals at 72 • Can withdraw up to $35,000 tax-free under Home Buyer's Plan (HBP) for first-time buyers, but must be paid back over 15 years • Can withdraw up to $10,000 per year for education. Costs under the Lifelong Learning Plan (LLP), up to $20,000, but must be paid back over 10 years	• Not taxed as income • Withdrawals will not impact Old Age Security • No mandatory withdrawals
Tax implications on Withdrawals	• Withdrawals are taxed as income • Increases taxable income at retirement • No preferential tax treatment of dividends or capital gains • Fully taxed as income at death unless transferred to spouse or minor child	• No taxation on withdrawals • No increase in taxable income • No taxation at death • If there is no named beneficiary, or the beneficiary is Estate, than the TFSA would be subject to probate fees.

	Registered Retirement Savings Plan (RRSP)	Tax-Free Savings Account (TFSA)
PROS	• Immediate tax benefit on contribution • Funds can be deposited into a spousal RRSP to help split income and thereby lower taxes in retirement • Enforces savings discipline because of the tax implications on withdrawals • At death, RRSPs can be transferred to the surviving spouse tax-free	• Funds can be withdrawn from a TFSA at any time without any tax penalties • TFSA spans a lifetime, does not present any tax liability at death unlike an RRSP
CONS	• The investor will have to pay tax upon withdrawal, and a minimum, 10% withholding at source is required with a maximum 30% for larger amounts • Withdrawals are subject to your marginal tax bracket at any time (other than for a first-time Home Buyer Plan or you or your spouse are attending school) • Withdrawals result in permanent loss of contribution room • Unless there is a surviving spouse, or dependant minor child, the entire balance of an RRSP, valued on the date of death, is taxed as income on the deceased's terminal return. If the balance is large enough, it can generate a significant tax liability for the heirs	• Funds can be withdrawn from a TFSA at any time making withdrawals tempting; investors must rely on self-discipline • Repayments of withdrawals that put an individual over the maximum contribution are subject to severe penalties; investors must self-monitor and wait until the following year

Bottom Line

With so many different options available, choosing where to invest your savings can be confusing. Just as diversity is key for a successful investment portfolio, the same holds true for investment vehicles like RRSPs and TFSAs.

Both have important functions within an overall savings strategy. In an ideal situation, you'll want to utilize both within your portfolio.

Take Your Pick!

Contact us at 905-632-6134 to discuss your options or to learn more. We are ready to help you make the right decision.

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