



SHOULD YOU INVEST IN A TAX FREE SAVINGS ACCOUNT (TFSA) OR A REGISTERED RETIREMENT SAVINGS PLAN (RRSP)?

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 and pros and cons of each below:

What are the key differences?

REGISTERED RETIREMENT SAVINGS PLAN (RRSP)	TAX FREE SAVINGS ACCOUNT (TFSA)
<ul style="list-style-type: none"> Plan inception: 1957 Grows Tax Sheltered – until withdrawn Based on earned income 	<ul style="list-style-type: none"> Plan inception: 2009 Grows Tax Free – withdrawals untaxed Not based on earned income
MINIMUM AGE	MINIMUM AGE
<ul style="list-style-type: none"> No minimum age; requires earned income 	<ul style="list-style-type: none"> Must be 18 years of age
CONTRIBUTION LIMITS	CONTRIBUTION LIMITS
<ul style="list-style-type: none"> Based on previous year’s earned income Maximum Limits: 18% of previous years income; less pension adjustment to annual maximum established by Canada Revenue Agency Undeducted contributions carry forward 	<ul style="list-style-type: none"> Annual limits set by Canada Revenue Agency No earned income required \$6,000 per year [periodic indexing] Unused amounts carry forward
MAXIMUM AGE – RRSP MATURITY	MAXIMUM AGE – NO MATURITY
<ul style="list-style-type: none"> RRSP must be converted to RRIF at age 71 	<ul style="list-style-type: none"> No age limit
CONTRIBUTIONS	CONTRIBUTIONS
<ul style="list-style-type: none"> Tax deductible Unused contributions accrue to 71 1% Penalty per month on overcontributions 	<ul style="list-style-type: none"> Not tax deductible Unused contributions accumulate 1% Penalty per month on overcontributions
INVESTMENT HOLDINGS	INVESTMENT HOLDINGS
<ul style="list-style-type: none"> There are a wide variety of investment options available that include but not limited to Stocks, Bonds, GICs, Mutual Funds 	<ul style="list-style-type: none"> There are a wide variety of investment options available that include but are not limited to Stocks, Bonds, GICs, Mutual Funds
BENEFICIARY DESIGNATIONS	BENEFICIARY DESIGNATIONS
<ul style="list-style-type: none"> Tax free rollover to spouse’s RRSP May designate a named Beneficiary or your Estate 	<ul style="list-style-type: none"> Rollover transfer to spouse’s TFSA May designate a named Beneficiary or your Estate
CONTRIBUTION ROOM INFORMATION	CONTRIBUTION ROOM INFORMATION
<ul style="list-style-type: none"> Available on Notice Of Assessment or Canada Revenue Agency website (registration required for access) 	<ul style="list-style-type: none"> Available on Canada Revenue Agency website (registration required for access)
WITHDRAWALS	WITHDRAWALS
<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Not taxed as income Withdrawals: will not impact Old Age Security No mandatory withdrawals
TAX IMPLICATIONS ON WITHDRAWALS	TAX IMPLICATIONS ON WITHDRAWALS
<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> No taxation on withdrawals No increase in taxable income No taxation at death

WHAT ARE THE PROS AND CONS

REGISTERED RETIREMENT SAVINGS PLAN (RRSP)

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

CONS

- The investor will have to pay tax upon withdrawal, and a minimum, ten percent withholding at source is required with a maximum thirty percent 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 significant tax liability for the heirs.

TAX FREE SAVINGS ACCOUNT (TFSA)

PROS

- 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

- 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.

If you would like to discuss your options further, or if you have questions contact our office. We are ready to help you make the right decision.



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GOT QUESTIONS?

Contact DJB Wealth Management Inc. today - we can help you stay on the right path!

Connect with a Certified Financial Planner™ professional by phone at 905.684.9221 or email wealth@djb.com.