# RRSP and TFSA

**Deciding which you should contribute to first, a registered retirement savings plan (RRSP) or a tax-free savings account (TFSA), depends on your needs as well as your current and future tax rate.**

**Scenario one:**
Tax rate when withdrawing **is lower** than it was when contributing

| **40% tax** bracket on initial value | |
|---|---|
| TFSA $600 | RRSP $1,000 |
| grows to | grows to |
| $1,592 | $2,653 |
| **30% tax** on withdrawal at 20 years | |
| after tax | after tax |
| $1,592 | $1,857 |

**Recommendation:** RRSP first, then TFSA

**Scenario two:**
The tax rate when withdrawing **is higher** than it was when contributing

| **30% tax** bracket on initial value | |
|---|---|
| TFSA $700 | RRSP $1,000 |
| grows to | grows to |
| $1,857 | $2,653 |
| **40% tax** on withdrawal at 20 years | |
| after tax | after tax |
| $1,857 | $1,592 |

**Recommendation:** TFSA first, then RRSP

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The TFSA provides more tax benefits if the tax rate is expected to be higher at the time of withdrawal compared to the tax rate when the contribution is made. This makes the TFSA suitable for investors in a lower income bracket.

Conversely, an RRSP is more beneficial for high income earners as it will allow the investor to defer their taxes until later in life. Your advisor* can help you decide whether it could be more beneficial to pay taxes on your income now or in the future, based on your situation.

Assumptions: $1,000 pre-tax income in an RRSP, an equivalent after-tax amount contributed to TFSA based on 30 and 40 per cent tax rates. Growth assumes a five per cent annual rate of return for 20 years.

The above examples are for illustrative purposes only. Situations will vary according to specific circumstances.

The information provided is based on current tax legislation and interpretations for Canadian residents and is accurate to the best of our knowledge as of October 2015. Future changes to tax legislation and interpretations may affect this information. This information is general in nature, and is not intended to be legal or tax advice.

*In Quebec, advisor refers to a financial security advisor for individual insurance and segregated funds policies; and to an advisor in group insurance/annuity plans for group products.

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