RRSP or TFSA?

Save more, two ways

Both registered retirement savings plans (RRSPs) and tax-free savings accounts (TFSAs) can be used effectively to accumulate more savings for retirement. With its potential for reducing taxes, you might consider how a TFSA could fit into your retirement planning strategy together with RRSPs. They complement each other as savings vehicles. Here's how individual RRSPs and TFSAs stack up.

	RRSP	TFSA
	Used to save for retirement	Used to save for anything (but retirement is a good idea)[1]
You accumulate contribution room:	By having earned income[2]	Automatically, if you're 18 or older, have a valid Canadian social insurance number and are a resident of Canada
Maximum age to contribute:	71 years – you must cash out, convert to a registered retirement income fund (RRIF), or buy an annuity by Dec. 31 in the year you turn 71	None
Contribution deadline:	March 1, 2017 for the 2016 tax year	There is no deadline for TFSA contributions – unused contribution room is carried forward on Jan. 1 each year
Annual contribution limit:	The lesser of 18 per cent of earned income or $25,370 for the 2016 tax year	A maximum of $5,500 for the 2016 tax year
If you over contribute:	You'll have to pay a one per cent tax penalty per month on contributions that exceed your RRSP deduction limit by more than $2,000[3]	You'll have to pay a one per cent tax penalty on the excess TFSA amount per month, for each month that you're in an excess contribution position
You can carry contribution room forward:	Until the maximum age	Indefinitely
If you withdraw money:	Contribution room is permanently lost[4]	Contribution room is not lost and withdrawals will be added back to your contribution room at the beginning of the following year
Upfront tax advantages:	Contributions provide an upfront tax benefit – they lower your taxable income for the current year	None
Future tax advantages:	Tax deferred – every dollar is fully taxable at your marginal tax rate when withdrawn (which may be lower when you're retired); it doesn't matter whether your investment gains came from interest, dividends or capital gains	Tax free – you won't pay any taxes on the money you withdraw, regardless of whether your investment gains came from interest, dividends or capital gains

[1] If you only use a TFSA for short-term investment purposes, the potential for additional growth is lost.

[2] What's earned income? It can be more than just your salary. Your advisor can help you determine what this means for you.

[3] Contribute too much? There is a $2,000 over-contribution grace amount without any penalty, but the contribution doesn't qualify as an income deduction.

[4] There's an exception to that – the RRSP Home Buyers' Plan and the Lifelong Learning Plan allow you to access a portion of your savings without the penalty of withholding tax and repay it within a defined term.

1

Which plan should I contribute to first – RRSP or TFSA?

As a general rule, RRSPs are a good choice for longer-term goals such as retirement, while TFSAs work better for more immediate objectives, such as a home down payment. But because of its tax advantages, TFSAs should not be overlooked as a retirement savings vehicle. If you expect to be in a higher marginal tax rate in the future, it may be a good strategy to contribute to a TFSA now, when you're paying less income tax and an RRSP later, when you'll be subject to a higher marginal tax rate and your RRSP contribution will generate more income tax savings. Your advisor can work with you to help determine an approach that suits your situation best.

2

Where can I find my RRSP and TFSA contribution information?

Your RRSP deduction limit can be found on your notice of (re)assessment from Canada Revenue Agency/Revenu Québec. Your current year's limit will appear on your notice from the previous year.

Your TFSA contribution limit can be obtained by phone via the Tax Information Phone Service (TIPS) at 1-800-267-6999 or online via the Canada Revenue Agency My Account feature (http://www.cra-arc.gc.ca/myaccount/).

3

What is a spousal RRSP and should I take advantage of it?

In a spousal RRSP, the higher income spouse makes an RRSP contribution and claims the tax deduction but the other spouse owns the plan and the money within it. Spousal RRSPs are generally used to equalize income during retirement and, therefore, reduce the overall family tax rate. This is most powerful if one spouse earns significantly more income than the other. Any contributions made by the higher income spouse will reduce their individual RRSP deduction limit for the year, but won't affect how much the lower income spouse can contribute to their individual RRSP.

If money is withdrawn within three years of a contribution to the spousal RRSP, all or part of this amount will be taxed as income to the spouse who made the contribution. Your advisor can address how a spousal RRSP can impact your individual RRSP contributions.

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 the date of publication. 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. For specific situations, you should consult the appropriate legal, accounting or tax advisor.

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

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