Tonin&Co.
CHARTERED PROFESSIONAL ACCOUNTANTS
WEALTH MANAGEMENT

TFSA or RRSP? Take Your Pick

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)
• Plan inception: 1957 • Grows Tax Sheltered – until withdrawn • Based on earned income	• Plan inception: 2009 • Grows Tax Free – withdrawals untaxed • Not based on earned income
Minimum Age • No minimum age; requires earned income	**Minimum Age** • Must be 18 years of age
Contribution Limits • 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	**Contribution Limits** • 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 • RRSP must be converted to RRIF at age 71	**Maximum Age – No maturity** • No age limit
Contributions • Tax deductible • Unused contributions accrue to 71 • 1% Penalty per month on overcontributions	**Contributions** • Not tax deductible • Unused contributions accumulate • 1% Penalty per month on overcontributions
Investment Holdings • Stocks, Bonds, GICs, Mutual Funds	**Investment Holdings** • There are a wide variety of investment options available that include but are not limited to Stocks, Bonds, GICs, Mutual Funds
Beneficiary Designations • Tax free rollover to spouse's RRSP • May designate a named Beneficiary or your Estate	**Beneficiary Designations** • Rollover transfer to spouse's TFSA • May designate a named Beneficiary or your Estate
Contribution Room information • Available on Notice Of Assessment or Canada Revenue Agency website (registration required for access)	**Contribution Room information** • 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	**Withdrawals** • 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	**Tax Implications on Withdrawals** • 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	CONS
• 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	• 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	CONS
• 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	• 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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TAKE YOUR PICK!

Contact a Tonin Wealth Management representative today at 519-822-5307, or by email general@tonin.ca, to discuss your options or to learn more!