

# Registered Savings **VS** Tax Free Savings

# RRSP

## WHAT IS AN RRSP?

A Registered Retirement Savings Plan (RRSP) is a personal savings plan registered with the Canada Revenue Agency (CRA) that is designed to help you save for the future on a tax-sheltered basis.

An RRSP can contain different kinds of investments, such as cash (savings deposits), term deposits, treasury bills, bonds, mutual funds, and certain kinds of equities.\*

\*Certain types of investments (e.g. treasury bills, bonds, mutual funds, and equities) are only available through our financial planning partners.

## WHAT ARE THE BENEFITS OF AN RRSP?

### **Immediate tax benefits**

Any money you contribute to your RRSP can be deducted from your gross income and can reduce the amount of income tax you need to pay that year.

### **Tax-sheltered growth**

Any returns on your investments within your RRSP are tax-sheltered, meaning your investment may grow faster.

### **RRSP savings are not taxed until withdrawn**

While you do pay taxes on any money withdrawn from an RRSP, if you wait until you have a lower income (e.g. retirement), you will likely be in a lower tax bracket and may pay less tax on your savings than you would have when you made your original RRSP contributions.

### **RRSP savings can help you achieve goals other than retirement**

RRSP savings can be used to help purchase your first home through the Homebuyer's Program or can help finance your own education through the Lifelong Learning Plan.

## WHAT TYPE OF RRSPS ARE THERE?

### **Individual RRSP**

An RRSP account registered in your own name that you contribute to.

### **Spousal RRSP**

An RRSP that is owned by your spouse, but you are the contributor. Contributions to a spousal RRSP affect your RRSP contribution limits and not those of your spouse.

### **Group RRSP**

A collection of individual RRSPs that are offered to employees by an employer. Employers often have arrangements in place to match a percentage of RRSP contributions that employees make.

### **Self-directed RRSP**

Any individual or spousal RRSP where the investments held inside are self-managed.

## HOW OFTEN SHOULD I CONTRIBUTE?

- This will depend on your individual saving and investing goals. However, putting your money to work sooner is better.
- Setting up regular, pre-authorized contributions can be an easy way to make saving manageable and to grow your investment sooner.

## HOW MUCH CAN I CONTRIBUTE?

- Your allowable RRSP contribution room for the current year is either 18 per cent of your earned income from the previous year or the maximum contribution limit for the tax year (maximum 2018 RRSP limit is \$26,230)—whichever is less. Your contribution room will also include any unused room from previous years.
- There are a few things that can affect your RRSP contribution room, such as unused contributions from the previous year or your pension through your employer. You can find your available contribution room on your most recent Notice of Assessment or you can contact the CRA.

# TFSA

## WHAT IS A TFSA?

A Tax-Free Savings Account (TFSA) is a flexible, registered savings plan that can help you save for short, medium, or long term goals. While your contributions are not tax deductible, unlike regular savings accounts, a TFSA allows you to earn investment income tax-free.

## WHAT ARE THE BENEFITS OF A TFSA?

You do not pay tax on the income your investment earns, even after you withdraw your money. You don't need to earn an income to contribute to a TFSA. If you are 18 years old and have a SIN, you will begin to accumulate TFSA contribution room. You must be 19 years old to open a TFSA in certain provinces. However, your contribution room will still begin to accumulate once you turn 18.

## HOW WILL I SAVE ON TAXES WITH A TFSA?

Even though your TFSA contributions are not tax deductible, you don't pay taxes on investment income you make within your TFSA, even after you withdraw your money.

## WHAT TYPES OF TFSAs ARE THERE?

There is only one kind of TFSA. However, your TFSA can contain different kinds of investments, which are generally the same as those permitted in an RRSP.

*These can include cash (savings deposits, term deposits), treasury bills, bonds, mutual funds, and certain kinds of equities.*

## WILL MY BENEFITS BE AFFECTED?

Your eligibility for federal income-tested benefits, such as Old Age Security, the Guaranteed Income Supplement, or Employment Insurance, will not be affected by the income you earn in your TFSA or any money you withdraw from it.

## HOW OFTEN SHOULD I CONTRIBUTE?

- This will depend on your individual saving and investing goals. However, putting your money to work sooner is better.
- Setting up regular, pre-authorized contributions can be an easy way to make saving manageable and can help your investments grow sooner.

## HOW MUCH CAN I CONTRIBUTE?

- Your TFSA contribution limit for 2018 is \$5,500, plus any unused contribution room from previous years. The annual limit is set by the government each year.
- You never lose your contribution room, even after you make a withdrawal. Any amount you withdraw from your TFSA can be re-contributed the following year along with the new annual maximum.
- Unused contribution room and withdrawals can be difficult to track over time. You can find your available contribution room on your Notice of Assessment from the previous tax year or you can contact the CRA.

## Other Registered Savings Options

### RESP – WHAT IS A REGISTERED EDUCATION SAVINGS PLAN?

A Registered Education Savings Plan (RESP) is a savings plan registered with the CRA that is designed to help you save for a child's post-secondary education on a tax-sheltered basis.

### RRIF – WHAT IS A REGISTERED RETIREMENT INCOME FUND?

A Registered Retirement Income Fund (RRIF) is an option available to use your RRSP to provide an income (by way of payments) after retirement. You can convert your RRSP to a RRIF at any time, but you must convert by December 31 of the year you turn 71 years old. While you cannot make new contributions to a RRIF, the money that stays within the plan will continue to grow on a tax-sheltered basis. You must make a minimum withdrawal from your RRIF each year, following the year the RRIF is opened.

# Quick Comparison

TYPES	RRSP	TFSA
<b>Annual Contribution</b>	<p>2018 contribution limit is \$26,230 or 18 per cent of your previous year's earned income, whichever is less, plus any unused contribution room carried forward from previous years.</p> <p>Contributions can be made until December 31 of the year you turn 71.</p>	<p>2018 contribution limit is \$5,500, plus any unused contribution room from previous years. This also includes any amounts you have withdrawn in the previous calendar year. If a member would like to get an accurate balance, they can call the CRA TIPS (Tax information phone service) line: 1-800-267-6999</p> <p>You must be 18 (19 in certain provinces) to open a TFSA. Outside of that, there are no age restrictions on contributions.</p>
<b>Company Pension or Deferred Profit Sharing Plan (DPSP)</b>	<p>The amount you can contribute to your RRSP will be reduced by the total value of any pension amounts earned for the year.</p>	<p>Not applicable.</p>

## Quick Comparison (continued)

TYPES	RRSP	TFSA
<b>Making Withdrawals</b>	<p>Outside of certain kinds of fixed-term investments, you can withdraw from your RRSP at any time. However, you will be issued a tax slip and must claim any withdrawal you make as income on your taxes.</p> <p>Money withdrawn from an RRSP is subject to a withholding tax between 10–30 per cent depending on the amount taken out.</p> <p>The only exceptions are the Homebuyer’s Plan and the Lifelong Learning Plan, which are not subject to withholding tax. There are maximum amounts that you can withdraw under these programs and any money taken out will need to be paid back over a set period of time (typically 10–15 year period, depending on the program) in order to avoid having the funds becoming taxable income.</p>	<p>Outside of certain kinds of fixed term investments, you can withdraw from your TFSA at any time, without tax consequences.</p> <p>Any amounts withdrawn cannot be re-contributed to your TFSA until the following year.</p>

## Quick Comparison (continued)

TYPES	RRSP	TFSA
<b>Replacing Withdrawals</b>	Once you make a withdrawal from your RRSP, you will never be able to re-contribute that amount. It is not recommended to withdraw from your RRSP until you retire.	<p>Unlike an RRSP, amounts withdrawn from your TFSA will only be added back to your TFSA contribution room at the beginning of the following calendar year.</p> <p>If you have available contribution room outside of the amount you've withdrawn, you can contribute to a TFSA in the same year you make a withdrawal.</p>
<b>Withholding Taxes</b>	<p>A portion of tax, based on CRA designated rates, will be withheld at the source on amounts withdrawn from an RRSP.</p> <p>Your T4RSP will reflect the tax withheld at the source.</p>	Stocks held inside of your TFSA that pay foreign dividends may be subject to withholding taxes on foreign dividends.
<b>Contribution Deadline</b>	<p>Contributions towards the previous tax year can be made up to 60 days into the new calendar year.</p> <p>2018 contribution deadline is March 1, 2019.</p> <p>Contributions made after the deadline are eligible to be deducted from your income the following tax year.</p>	<p>None. Contributions to a TFSA are not tax-deductible.</p> <p>New maximum contribution room (along with room created from the previous year's withdrawals) begin on January 1 and follow the calendar year.</p>



## Quick Comparison (continued)

TYPES	RRSP	TFSA
<b>Carry-Forward Amounts</b>	<p>You can carry forward all unused contribution room.</p> <p>Your available RRSP contribution room is shown on your Notice of Assessment.</p>	<p>You can carry forward unused contribution room from previous years.</p> <p>Any withdrawals you made will be added back to your TFSA contribution room at the beginning of the following year.</p> <p>Your available TFSA contribution room is shown on your Notice of Assessment.</p>
<b>Over Contributing to Your Plan</b>	<p>Though it is not recommended to over-contribute to your RRSP, there is a \$2,000 lifetime allowance for over-contributions.</p>	<p>Any over-contributions to your TFSA will result in a penalty until they are removed or more contribution room becomes available.</p> <p>Charges are 1 per cent per month of the amount you over-contributed by (e.g. if you over-contributed by \$1,000, you would be charged a penalty of \$10 per month).</p>
<b>Transfers</b>	<p>Transfers between financial institutions or changes to your investments within your RRSP are not subject to tax and are not considered withdrawals.</p>	<p>Transfers between financial institutions or changes to your investments within your TFSA are not considered withdrawals.</p>