Ford Keast
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Registered Retirement Savings Plan (RRSP) & Tax-Free Savings Account (TFSA)

What are the key differences?

RRSP	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❖ Plan inception: 1957 ❖ Grows Tax Sheltered – until withdrawn ❖ Based on earned income	❖ Plan inception: 2009 ❖ Grows Tax Free – withdrawals untaxed ❖ Not based on earned income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 ❖ Un-deducted 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 ❖ 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/month on overcontributions	**Contributions** ❖ Not tax deductible ❖ Unused contributions accumulate ❖ 1% penalty/month on overcontributions
Investment Holdings ❖ There are a wide variety of investment options available that include but are not limited to 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 for first-time buyers - 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 - 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

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What are the Pros and Cons?

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, 10% withholding at source is required with a maximum 30% for larger amounts ❖ Withdrawals are subject to your marginal tax bracket at any time (other than for a first-time home buyer plan or if 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 of the heirs

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