



RRSPs and TFSAs

Two ways to save

Both registered retirement savings plans (RRSPs) and tax-free savings accounts (TFSAs) have tax advantages and can be used to help you save for retirement and other financial goals.

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

Generally, RRSPs are a good choice for longer term goals like retirement, while TFSAs work better for more immediate ones because you can access your savings for things like vacations or renovations. But TFSAs also offer tax advantages, so don't overlook yours as a vehicle for your retirement savings.

If you expect to be in a higher marginal tax rate in the future, it might be a good idea to contribute to your 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 a strategy tailored to your needs and circumstances.

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

Usually, in a spousal RRSP, the spouse who earns more money 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, reducing the family's overall tax rate. This is particularly powerful if one spouse earns a lot more than the other. Any contributions made by the spouse who earns more will reduce their individual RRSP contribution room for the year, but won't affect how much the other spouse can contribute to their individual RRSP.

The spouse who made the contribution will be taxed on all or part of this amount if the money is withdrawn within three years of being contributed to the spousal RRSP.

Your advisor can help you understand how a spousal RRSP can impact your individual RRSP contributions.

Here's a
snapshot
of the
basics:

Combined, RRSPs and TFSAs can really complement each other in your financial plan. Not sure what the difference is or what to use each one for? **We can help.**

RRSP

Used to save for retirement

TFSA

Used to save for anything (including retirement)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 – you'll have to cash out, convert to a registered retirement income fund (RRIF), or buy an annuity by Dec. 31 of the year you turn 71.

None – you can contribute for as long as you want.

Contribution deadline:

Contributions are tracked on a calendar year basis – Jan. 1 to Dec. 31 – but you also have the first 60 days of the new year to contribute to your RRSP and have it count for the previous tax year.

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Contribution limit:

You can contribute a set percentage of your previous year's income up to a maximum amount for the previous tax year, plus any unused RRSP carry-forward contribution room.

You can contribute the annual TFSA dollar limit, plus any withdrawals and unused contribution room carried forward from the previous tax year.

If you over contribute:

You'll have to pay a 1% tax penalty per month on contributions that exceed your RRSP deduction limit by more than \$2,000, until it's removed from the plan.³

You'll have to pay a 1% tax penalty on the excess TFSA amount per month, for each month that you're in an excess contribution position, until it's removed from the plan.

You can carry contribution room forward:

Until the maximum age of 71.

Indefinitely – for as long as you need to.

If you withdraw money:

Contribution room is permanently lost.⁴

Contribution room isn't lost, and withdrawals will be added back to your contribution room at the beginning of the following year on Jan. 1.

Upfront tax advantages:

Contributions provide an upfront tax benefit, which may lower your taxable income for the current year.

None, as contributions are made with after-tax income.

Future tax advantages:

Tax deferred – Any income earned in your RRSP is usually exempt from tax as long as it stays in the plan.

Potential tax savings – Upon withdrawal, every dollar is fully taxable at your marginal tax rate, which may be lower when you're retired.

Tax free – You generally won't pay tax on any income earned in the account or the money you withdraw. There aren't any tax consequences if you need to use your savings for emergencies or short-term expenses.

TFSA withdrawals aren't considered income by the Canada Revenue Agency, so this money isn't included when the government calculates benefits like Old Age Security, Guaranteed Income Supplements, GST/HST credits and other credits/benefits like the Age Credit.



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¹If you only use a TFSA for short-term investment purposes, you'll lose the potential for more growth.

²Wondering what earned income is? It can be more than just your salary. Your advisor can help you determine what this means for you.

³Did you contribute too much? For RRSPs there's a \$2,000 over-contribution grace amount without any penalty, but the contribution doesn't qualify as an income deduction for tax purposes. There's also a 1% per month penalty above this grace amount.

⁴The RRSP Home Buyers' Plan and the Lifelong Learning Plan allow you to use a portion of your savings, without any tax penalty, and repay it within a defined term. This can help you buy a new home or further your education.

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

RRSP withdrawals are subject to withholding tax, the withholding rate will depend upon the amount withdrawn and your residency.

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