TFSA or RRSP?

What's the difference?

TFSA

Introduced in 2009, a Tax-Free Savings Account (TFSA) is a flexible, registered, general-purpose savings plan available to Canadian tax residents 18 and over. TFSA contributions are not tax-deductible, but withdrawals and investment earnings are tax-free. Many people open a TFSA to put money aside for a big ticket purchase, like a dream vacation, or for unforeseen expenses. You can also use a TFSA to save for retirement, especially if you don't have any contribution room left in your pension plan or your Registered Retirement Savings Plan (RRSP).

With a group TFSA, you can invest your money any way you choose and you can withdraw your money at any time[1]. Your withdrawals won't compromise your eligibility to receive federal benefits such as Old Age Security (OAS), the Guaranteed Income Supplement (GIS), Employment Insurance or the Canada child benefit.

Your TFSA contribution limit[2]:

TFSA annual contribution room limit	+	Eligible withdrawals from the previous year[3]	+	Unused contribution room at the end of the previous year[4]

RRSP

RRSPs have been around since 1957 and are a widely popular and effective way to save for retirement. RRSP contributions are deducted when calculating your net income for tax purposes, which shields your retirement capital from taxes. In this way, the tax you pay on the contributions made to your RRSP is deferred until the time of withdrawal. If you contribute by payroll deductions, you'll benefit from immediate tax savings as you're contributing with "before-tax" dollars from your paycheck. On the other hand, if you contribute with "after-tax" dollars, there could be a nice refund waiting for you at tax time (or a decrease in your tax owing)! You'll have to pay taxes on the assets in the plan eventually, but not until you withdraw the money. As your income will likely be lower at retirement, you'll pay less taxes on withdrawals. The withdrawal could affect your government benefits.

Depending on your plan, you may be able to make withdrawals for the Home Buyers' Plan (HBP) or the Lifelong Learning Plan (LLP). You have up to 15 years to repay the RRSP amounts you withdraw under the HBP, and up to 10 years under the LLP from the time prescribed for starting repayment. If you do not make your minimum annual repayments[5], the unpaid amounts will be added to your income and subject to taxes.

Your RRSP contribution limit for a given year[2] (This is a summary only—other items also affect your contribution room.):

The lesser of 18% of your previous year's earned income and the annual contribution room limit	-	Your pension adjustment from the previous year (PA)[6]	+	Unused contribution room at the end of the previous year[4]

Simply put, an RRSP is a tax-deferral tool that helps you save for retirement, and a TFSA is a savings tool for everything else in your life including retirement.

[1] Withdrawn amounts are added back to your TFSA contribution room, but not until the following year. Before you re-contribute, make sure that you won't exceed the current year's contribution room, to avoid a tax penalty.

[2] For TFSA and RRSP contribution room, visit the CRA website at www.cra-arc.gc.ca.

[3] The details of your TFSA withdrawals from previous years are on the TFSA transaction summary that you can obtain from CRA (this summary also includes contribution details from previous years, but not the contributions for the current year).

[4] Your RRSP contribution room is indicated on your Notice of Assessment from CRA, and your TFSA contribution room – on your TFSA room statement that you can obtain from CRA.

[5] According to the terms and conditions laid down by the tax authorities with regard to the year in which the repayment begins.

[6] The pension adjustment (PA) applies only if you or your employer contributed to an RPP, SPP or DPSP in the previous year. The pension adjustment is, in a sense, the contribution that a taxpayer who isn't contributing to an RPP, SPP or DPSP would have to make to an RRSP, if they wanted to obtain, at retirement, a benefit equivalent to the one acquired in the year by a member of an RPP, SPP or DPSP.

NOTE: You're responsible for monitoring your RRSP and TFSA contribution limits.

	RRSP	TFSA
Objective	• Accumulate tax-deferred savings while decreasing your taxable income when you contribute.	• Accumulate tax-sheltered savings.
You can use it to	• Save for retirement. • Buy or build your first home. • Pay for your education.	• Renovate your home. • Buy a new car. • Start a business. • Go on a trip. • Save for retirement.
Advantages	• Save for retirement and take advantage of tax deductions when you're in a higher tax bracket. • At retirement, the possibility to benefit from a lower tax bracket when you withdraw your money.	• Continue saving for retirement after you've maxed out your RRSP, or another retirement plan. • Save for major purchases. • Set money aside for emergencies.
Maximum age	• Age 71—by December 31 of the year you turn 71, your RRSP must be converted to an income payout product (RRIF, LIF or annuity).	• No maximum age.
Contributions	• They're tax deductible, but you do pay taxes on your withdrawals. • The annual contribution room limit may vary based on your earned income. But, you can only contribute the lesser of 18% of your previous year's earned income and the annual maximum set by the Canada Revenue Agency.	• Not tax deductible, but you don't pay taxes on your withdrawals. • Your earned income is not a factor, but there are annual contribution limits set by the Canada Revenue Agency.
Contribution room	• Unused contribution room can be carried forward until the year you turn 71. If your maximum contribution allowable for last year was $8,000 and you only contributed $2,000, then you can contribute an additional $6,000 next year. • Excess contributions are subject to a penalty tax of 1% per month. This tax only applies if you exceed the $2,000 lifetime over-contribution amount. • The RRSP contribution limit for a given year is reduced by the pension adjustment (PA) of the previous year. (See the previous page's footnote on the pension adjustment (PA) for more details.)	• Any unused contribution room can be carried forward indefinitely. • Excess contributions are subject to a penalty tax of 1% per month.
Investment income	• They're tax deferred as long as they remain in the plan.	• They're tax exempt.
Can I take out my money from my group plan whenever I want?	• It depends on the rules of your RRSP. • Withdrawals for the Home Buyers' Plan (HBP) and the Lifelong Learning Plan (LLP) may also be prohibited. • Some plans do allow withdrawals, but you'll have to pay income tax and withdrawal fees.	• Yes, at any time.
Can I regain contribution room after I make a withdrawal?	• No. Keep in mind that no matter how much you withdraw, you can only contribute the amount of your contribution room limit, the calculation of which is set out on the previous page and can be found on your notice of assessment.	• Yes. The amount of your withdrawal will be added to the contribution room for the following calendar year. • If you wish to re-deposit the amount during the same calendar year, you have to make sure you have enough contribution room left. If you over-contribute, tax penalties will apply.

Questions? Call our Customer Contact Centre at **1-800-968-3587** from Monday to Friday, 8 am to 8 pm (ET).

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