

RRSP VS. TFSA

Which one is better for you?

When it comes to saving there are many things to consider such as how much to save or what to invest your savings into. With so much to think through, it is important to not be discouraged by it all and move forward with a plan to save. One other item to consider which plan you should invest. The common plans for individuals to invest in are the RRSP and TFSA. Depending on your personal situation, and your plans for the savings, one (or both) of these plans may be a suitable place for you to invest.

Below are some of the attributes of each program as well as a comparison chart to review.

RRSP

With a Registered Retirement Savings Plan (RRSP), you can deduct that amount from your taxable income for that year. You do not pay tax on the money you invest and interest compounds tax free until you take the money out. With an RRSP, you also have carry forward room if you have not contributed to your maximum every year.. Checking your latest Notice of Assessment will provide the amount you may contribute into this plan.

TFSA

Tax-Free Savings Account (TFSA) is a flexible, registered general-purpose savings vehicle that allows you to earn tax-free investment income. TFSA is not just for savings, you can hold mutual funds, stocks, and/or bonds. Currently as of 2012, if you have not made any contributions to a TFSA, you are eligible to contribute \$20,000.

Although a RRSP and a TFSA are very similar, they do have small differences. Below is a comparison table.

	RRSP	TFSA
Eligibility Age	None	Age 18
Maximum Age Limit	Age 71	None
Contribution Maximum (per year)	18% of priors year's income	\$5,000
Tax Deduction of Contributions	Yes	No
Taxation on Withdrawals	As income	Not taxed
Carried Forward Contribution	Yes	Yes
Withdrawal Fees	Yes	Yes
Contribution room restored after Withdrawals	No	Yes (Starting the following year)
Spousal Plan	Yes	No
Excess Contributions	Penalty of 1% per month	Penalty of 1% per month

When considering choosing between a RRSP and TFSA, there are a few questions you can ask yourself to help you with making your decision. Below are some questions to assist you with making your decision:

If...	RRSP	TFSA
You want a tax deduction for your contributions	✓	
You have existing non-registered savings and wish to take advantage of tax-sheltering	✓	✓
Tax rates are high and you want to shelter your investment earnings	✓	✓
Your income (marginal tax rate) will be higher when you withdraw than when you contributed		✓
You've "maxed out" your RRSP contribution room		✓
You're saving for a major purchase		✓

Considering the attributes of each of these plans remember to consider your options and make a decision that's right for you! Everyone has different saving goals and plans for their money. The most important consideration is to be sure and to review your progress periodically to determine if you are on track to meet your goals!