INDIVIDUAL SAVINGS PLANS: RRSPs AND TFSAs

Registered Retirement Savings Plans (RRSPs) have been the main tool to save for your retirement. In 2008, an additional savings opportunity was introduced: the Tax-Free Savings Account (TFSA). This account is available to all Canadians over age 18 regardless of income level. Both RRSPs and TFSAs can hold the same types of investments, and the only differences between them are tax-oriented.

WHAT ARE THE MAIN DIFFERENCES BETWEEN RRSPS AND TFSAs?

Contributions

- RRSP contributions are tax deductible; any money invested into an RRSP will reduce the amount of taxable income that you declare on your tax return.
- TFSA contributions are not tax deductible; contributions are made with after-tax income.

Investment income

- Income generated within an RRSP or TFSA portfolio is tax-sheltered; that is, no income is included on your tax return while it remains in the account.
- Any investment losses that may occur upon the sale of an investment in either portfolio will not count as a capital loss for tax purposes.

Withdrawals

- RRSP withdrawals (or most commonly, RRIF withdrawals at retirement), are 100% taxable as income on your tax return. This income does count towards determining if you will be impacted by Old Age Security (OAS) clawback.
- TFSA withdrawals (both capital invested and any investment gains) are tax-free, and not included on your tax return whatsoever. This means that they will not affect your eligibility for OAS.

Determining which plan is appropriate for you is an individual consideration, depending on your other sources of income and retirement objectives. It is best to speak to a Raymond James advisor who can help you determine what makes the most financial sense, given your personal situation.

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