

RRSP vs. TFSA: HELPING YOU CHOOSE

At this time of year, many Canadians are trying to determine where to put their savings in order to maximize the greatest tax and long-term advantage. With the introduction of TFSAs, there has been great debate over where to invest: RRSP or TFSA? Although Registered Retirement Savings Plans and Tax-Free Savings Accounts are similar, there are some key differences.

	RRSP	TFSA
Primary Purpose	Mainly meets retirement needs	Meets savings needs throughout your life and retirement
Eligibility	Must have an income to accumulate contribution room	Minimum age is 18
Annual Contribution Limit	18% of earned income (subject to the annual contribution limit)	\$5,000 per year
Unused Contribution Room	Carried forward from year to year	Carried forward from year to year
Tax Deductions	Money contributed to an RRSP is not counted as income, you receive a deduction that amounts to your marginal tax rate.	None. TFSA contributions are made with after-tax dollars.
Withdrawals	Withdrawals are taxed in the year of withdrawal- any amount you withdraw cannot be added to your contribution room in the following year	Withdrawals are tax-free and any amount you withdraw is added to your contribution room the next year
Maturity Date	Must be fully withdrawn or transferred to a RRIF or Annuity by December 31st of end of the year in which you turn 71	None

The most important factor in choosing whether to invest in an RRSP or TFSA is your income level- now and in the future. If your marginal tax rate is higher at the time of contribution than when withdrawals are being made, an RRSP will provide the greatest tax-savings. If the reverse is true- your marginal tax rate (and retirement income) is greater than during your working life, then a TFSA would be a better retirement vehicle.

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