

RRSP vs. TFSA



We always get asked, what's the best alternative to invest in, RRSP or TFSA? It depends on many factors, such as your age, financial assets and personal goals. Here is the detailed breakdown of the benefits for both accounts.

RRSP: A registered Retirement Savings Plan is a retirement account that is in existence since 1957. The year you turn 71 is the last year in which you can make a contribution to your RRSP. However, it is still possible to contribute to an RRSP under which your spouse or common-law partner is the annuitant until the end of the year your spouse or common-law partner turns 71. The contribution to a spousal RRSP is based on your RRSP contribution limit. Attribution rules may apply, if a withdrawal is made within three years.

- You can contribute up to 18% of earned income you reported on your tax return in the previous year, up to a maximum of \$27,830 (2021 RRSP limit).
The annual RRSP deduction limit can be found on your notice of assessment or CRA My Account.
- Interest charged on RRSP loan is not eligible for tax deduction.

Benefits of RRSP:

- Tax deferral until retirement.
- The RRSP value grows tax free. You do not pay tax on the income earned in the plan until it is withdrawn.
- RRSP contributions are tax deductible. You have a choice to carry forward the unused contributions and deduct it when you are in a higher tax bracket.
- The HBP and LLP (Home Buyer's Plan and Lifelong Learning Plan) are two programs administered by CRA that allow you to withdraw limited amount from your RRSP tax-free. The HBP withdrawal limit is \$35,000 and the LLP is \$20,000. You have 15 years to repay the funds back to the RRSP.

TFSA: The Tax Free Savings Account was first introduced in 2009.

- The TFSA contribution limit is not prorated in the year an individual:
 - turns 18 years old;
 - dies; or
 - Becomes a resident or a non-resident of Canada.
- Administrative or other fees in relation to a TFSA and any interest on money borrowed to contribute to a TFSA are not tax-deductible, as well as TFSA contributions.
- The annual TFSA contribution limit for each individual is set at \$6,000 for 2021.
- Cumulative TFSA room as of 2021 is \$75,500.
- Unused contribution room from one year is carried forward and added to the TFSA contribution limit the following year. TFSA withdrawals made in a calendar year will create additional contribution room the following year.

Benefits of TFSA:

- A TFSA allows you to accumulate tax –sheltered savings throughout your lifetime. Interest, dividends, and capital gains earned in a TFSA grow tax-free.
- Your TFSA savings can be withdrawn from your account at any time, for any reason, and all withdrawals are tax-free.
- TFSA withdrawals are added back to the total TFSA contribution room in the following year.

For the most part, the RRSP contributions generate higher tax savings when an individual is in high income level. A TFSA would be a better option if your income is low and you prefer easy access to your savings.