The Money Matters Series

TFSA vs RRSP

Hope 24/7.ca

PHEONIX CONSULTING

STRENGTHEN YOUR FUTURE

Adiba Ahmed

Financial Advisor

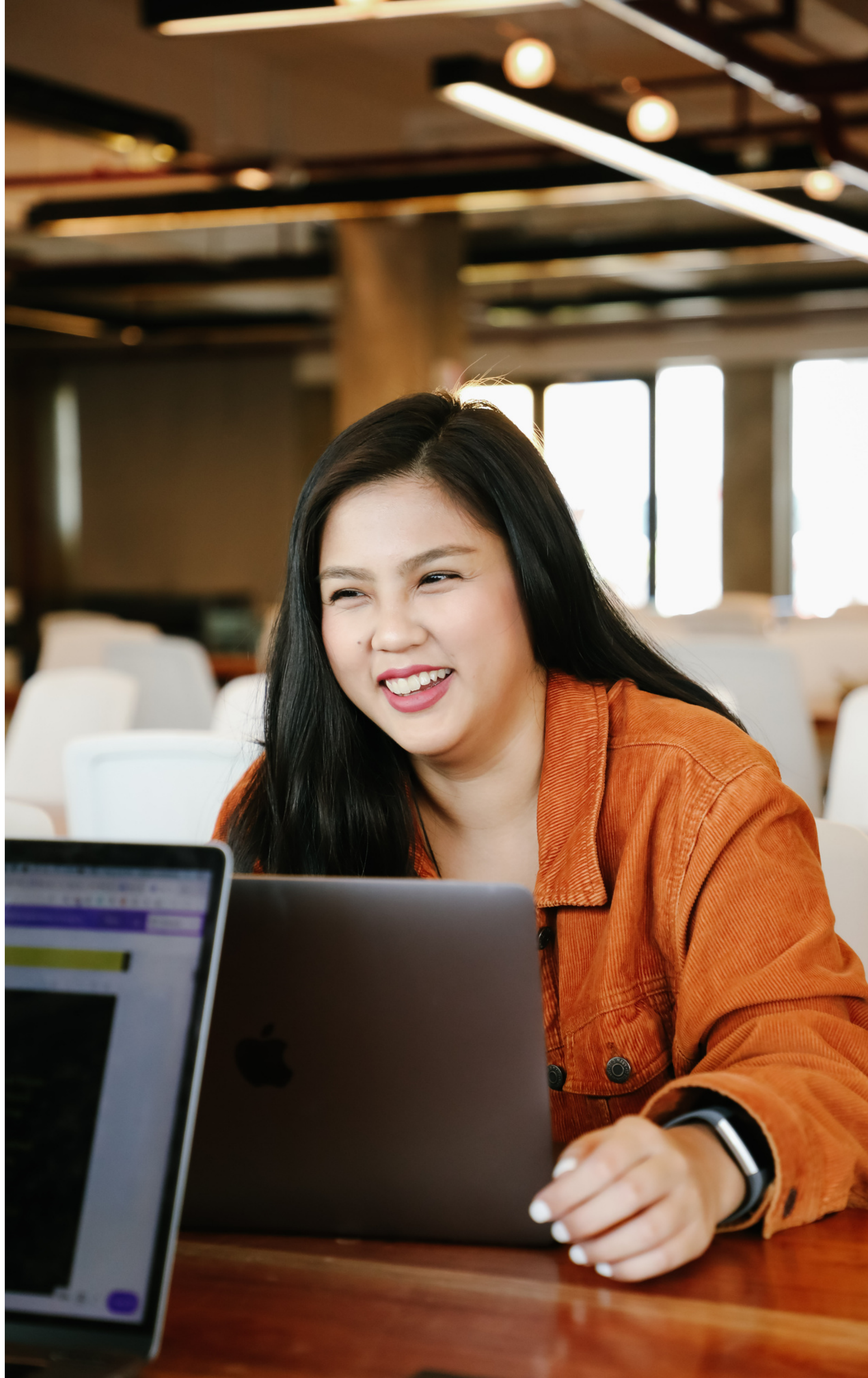
Honours Bachelors in Commerce, specialization in Finance

Awarded best advisor in THe Spectator Readers Choice

Owner of Pheonix Consulting

TAX FREE SAVINGS ACCOUNT

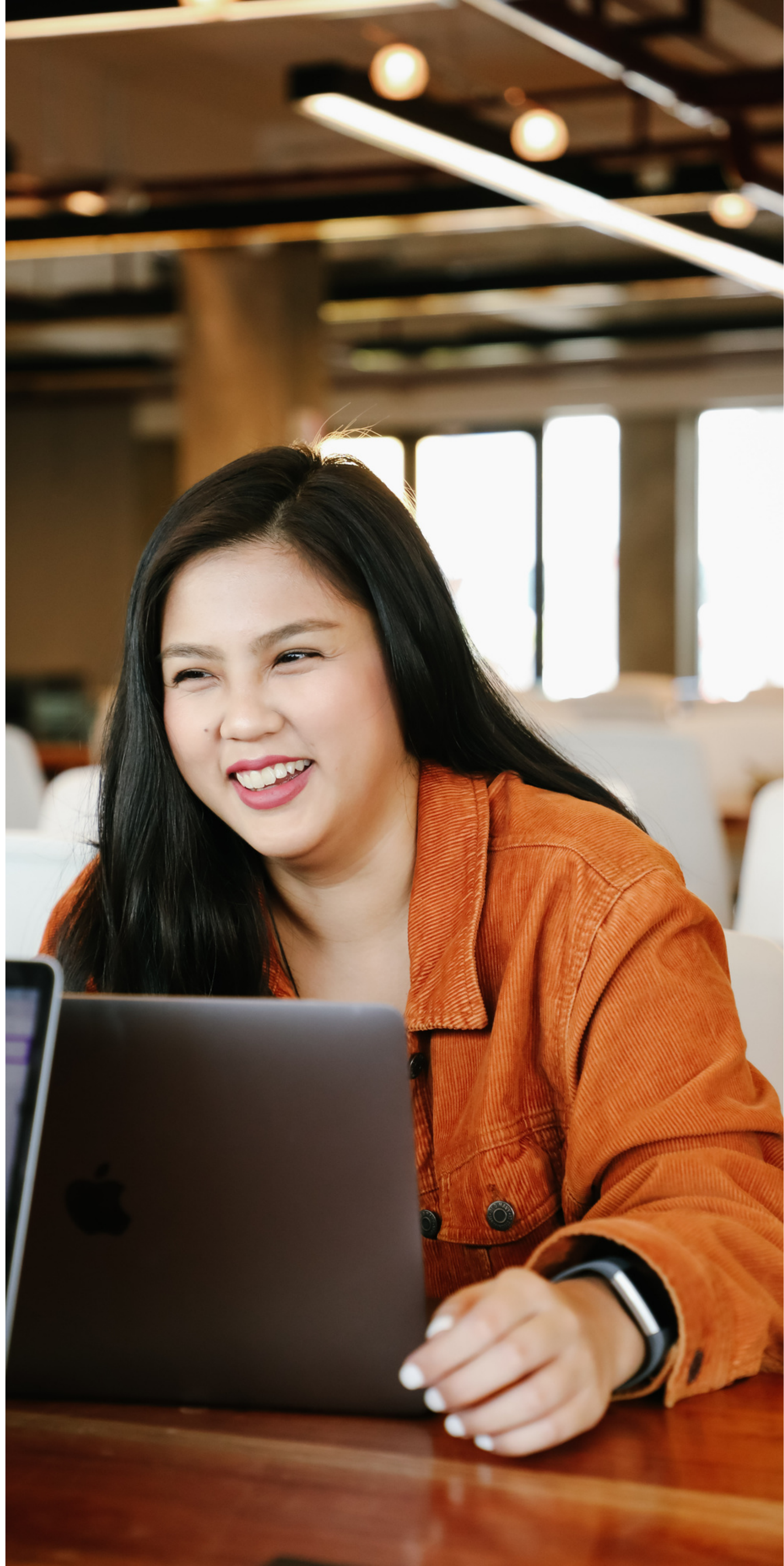
A TFSA (Tax-Free Savings Account) is a type of savings account that is offered in Canada. Contributions to a TFSA are not tax-deductible, but any investment growth and withdrawals from the account are tax-free. The annual contribution limit for a TFSA is currently $6,000, and there is no requirement to withdraw funds at any age.



REGISTERED RETIREMENT SAVINGS ACCOUNT

An RRSP (Registered Retirement Savings Plan) is also a savings account offered in Canada, but it is intended for retirement savings.

- Contributions to an RRSP are tax-deductible, and investment growth inside the account is tax-deferred.
- Withdrawals from an RRSP are taxed as income,
- There is a requirement to withdraw a minimum amount from the account starting at age 71.
- The annual contribution limit for an RRSP is currently 18% of earned income, with a maximum of $27,830 for the 2021 year.



DIFFERENCE

TFSA vs RRSP

TAXATION

TFSAs offer tax-free growth and withdrawals, while RRSPs offer tax-deductible contributions and tax-deferred growth. However, RRSPs have mandatory withdrawals in old age, while TFSA withdrawals can be done at any time without penalty.

PURPOSE

TFSAs can be used for savings and investment, while RRSPs are primarily used for retirement savings. TFSAs may be better for short-term savings goals or for those who expect their income to be higher in retirement. RRSPs may be better for long-term savings and for those who expect their income to be lower in retirement.

PROS & CONS

TFSA

PROS

- Tax-free growth and withdrawals
- No age limit for withdrawals
- Can hold a wide range of investments

CONS

- Lower contribution limits compared to RRSPs
- No tax deductions for contributions

PROS & CONS

RRSP

PROS

- Tax-deductible contributions
- Tax-deferred growth
- Higher contribution limits compared to TFSAs

CONS

- Taxable withdrawals
- Required minimum withdrawals starting at age 71

EXAMPLE

TFSA

In terms of taxation examples, let's say an individual contributes $1,000 to a TFSA and the investment grows to $1,500 over several years. If the individual withdraws the $1,500, they will not have to pay any taxes on the growth.

RRSP

On the other hand, if the same individual contributes $1,000 to an RRSP and the investment grows to $1,500, they will receive a tax refund for the contribution. When the individual withdraws the $1,500 from the RRSP in retirement, they will have to pay taxes on the withdrawal.

RRSP EARLY WITHDRAWAL CONSEQUENCES

- Withdrawals from an RRSP are taxed as income, so you will pay taxes on the money you withdraw.
- Taking money out of your RRSP early can negatively impact your long-term savings, as you are losing the compound interest you would have earned over time.
- If you withdraw funds and don't repay them, you may be subject to a penalty tax and lose the tax-deferred growth that would have been earned in the RRSP.

RRSP FIRST TIME HOME BUYERS PROGRAM

FIRST HOME PURCHASE

ALSO ELIGIBLE IF NOT OWNED HOME IN LAST 4 YEARS

About

The HBP is a program that allows first-time home buyers to withdraw funds from their RRSP to buy or build a qualifying home.

Withdrawal

The maximum withdrawal amount is $35,000 per individual, or $70,000 for both partners.

Payback

The withdrawn funds must be repaid to the RRSP over a period of 15 years, starting in the second year after the withdrawal.

It's important to note that tax laws and regulations can change over time and it's recommended to consult with a financial advisor to determine which one is best for your specific situation.

Q&A