TAX CORNER

RRSP? TFSA? RESP?

When it's time to decide which mix of savings vehicles is right for you, your options can start looking like a hearty bowl of alphabet soup. There are Registered Retirement Savings Plans (RRSPs), Tax-Free Savings Accounts (TFSAs) and Registered Education Savings Plans (RESPs). Determining which savings plan, or combination of savings plans, is best depends on your personal situation and your objectives.

Until 2009, most Canadians held their retirement savings in an RRSP, where they could claim a deduction for their contributions and then defer tax on withdrawals until retirement. The introduction of TFSAs has provided another powerful savings vehicle that allows investment growth to accumulate and be withdrawn at any time tax-free. Unlike an RRSP, you cannot claim a tax deduction for the contributions you make to a TFSA. On the plus side, if you need to withdraw money from your TFSA, you have an opportunity to replace that money because all TFSA withdrawals are added back to your unused contribution room in the following year.

If you have children or grandchildren, RESPs are another popular option. The subscriber (or contributor) makes contributions on behalf of a beneficiary (the child). The contributions are not deductible or taxable on withdrawal. The growth is tax-deferred until withdrawal, at which time it can be taxed in the beneficiary's hands if he or she enrolls in a qualifying educational program. Contributions to a child's RESP qualify for the Canada Education Savings Grant (CESG)[1] and, if your family's income is below certain thresholds, you may also qualify for the Canada Learning Bond (CLB).

THE RETIREMENT DILEMMA

If you are saving for retirement, then you may be torn between an RRSP and a TFSA. Ideally, you would maximize contributions to both, but if that's not an option here are some thoughts to consider.

Whether the best choice is to save in an RRSP or a TFSA depends on your savings needs, as well as your current and expected future financial situation and income level.

Generally, an RRSP is used for saving for retirement, while a TFSA can be used for both saving for retirement and other shorter-term purchases. Because TFSA withdrawals are added back to your available TFSA contribution room in the following year, there is very little downside to using your TFSA savings for mid-sized to large purchases.

If you are in a low tax bracket, saving in a TFSA may be more advantageous than saving in an RRSP since TFSA withdrawals have no impact on federal income-tested benefits and credits such as child tax benefits and Old Age Security. On the other hand, RRSPs may be a better option if your tax rate at the

[1]Contributions to an RESP for a child under the age of 18 qualify for the CESG, which pays 20 per cent of the annual contributions you make, up to a maximum of $500 per year, per beneficiary (or a maximum of $1,000 if there is unused grant room from a previous year), to a lifetime limit of $7,200. You may be entitled to an enhanced CESG if your family's income is below certain thresholds.

time you contribute is higher than it will be when you withdraw your savings. You'll benefit from a tax deduction when you make your contribution and withdrawals will be taxed at your lower future rate. If the reverse is true, a TFSA can provide better results.

EDUCATION SAVINGS CHOICES

If you are saving for your child's education, then you are probably weighing the pros and cons of an RESP or a TFSA. For children under age 18, RESPs are the preferred savings vehicle because of the CESG. For children over age 18, the CESG no longer applies so you may want to help them start their own TFSAs. If you want to maintain control over the funds, then you could save for their education in your own TFSA instead. •

	RESP	RRSP	TFSA
Is there an annual contribution limit?	No annual limit but a $50,000 lifetime limit[1]	Yes, it is based on earned income	Yes, a $5,000[2] annual limit but there are no earning requirements
Can I carry forward unused contribution room?	Yes	Yes	Yes
Is there a monthly penalty on excess contributions?	Yes, calculated at month-end	Yes, calculated at month-end	Yes, calculated on the highest excess during the month[3]
Are my contributions tax-deductible?	No	Yes	No
Is my investment growth tax-deferred or tax-free?	Tax-deferred	Tax-deferred	Tax-free
Are taxes payable on withdrawals?	Withdrawals are fully taxable except for refund of contributions[4]	Withdrawals are fully taxable	Withdrawals are tax-free – except for growth after death if no spouse/successor holder
Are withdrawals added to my contribution room?	No	No	Yes, in the following year[5]
Do withdrawals have an impact on income-tested benefits/credits?	Yes	Yes	No
What is the minimum age to contribute?	None	None	Age 18
What is the maximum age to contribute?	None	At the end of the 71st year	None
If I borrow to invest in this account, can I deduct the interest?	No	No	No
Can I use assets in this account as collateral for a loan?	No	No	Yes

[2]Increases, rounded to the nearest $500, to the yearly contribution limit will be applied as warranted by the consumer price index for years after 2009. [3]The Federal government has proposed that any income attributable to deliberate overcontributions will be taxed at 100 per cent. [4]Any withdrawals other than the refund of contributions will be fully taxable to either the beneficiary (student), if he or she qualifies to receive the payment, or the subscriber (contributor). [5]The Federal government has proposed that the withdrawal of amounts in respect of deliberate overcontributions, prohibited investments, non-qualified investments, asset transfer transactions and income related to those amounts not create additional TFSA contribution room.

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Boris Guzman
Proactive Financial Results Inc.
168 Queen St. South, Suite 201
Streetsville, ON, L5M 1K8
905-812-3199 x211
boris@proactivefinancial.ca

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