THE TAX-FREE SAVINGS ACCOUNT AND RRSPs

WHICH IS RIGHT FOR ME?

Since January 1, 2009, the Federal government has offered Canadians the opportunity to invest in a new Tax-Free Savings Account (TFSA). This type of account may offer you significant tax advantages. TFSAs have some similarities with traditional RRSPs but are quite different in other respects.

The following table highlights some of the benefits and features of these accounts. The decision on whether to have a TFSA, an RRSP, or both will depend on your specific circumstances. To help determine which approach is right for you, please speak with your Financial Advisor.

QUESTIONS	TFSA	RRSP
Are there minimum age limitations for having the account?	Yes. To open a TFSA you must be 18 years of age or older, a Canadian resident and have a valid SIN.	No. As long as you earned qualified income in the previous year, are a Canadian resident and have a Social Insurance Number, you can open an RRSP.
Are there maximum age limitations for having the account?	No. Provided you are a Canadian resident with a valid SIN, you can own and contribute to a TFSA.	Yes. You cannot own an RRSP beyond the end of the year in which you turn 71.
Is there a tax deduction for contributions?	No.	Yes.
Will the income earned in the account be taxed?	No. Income earned in the TFSA is tax-free.	No. As long as the earned income remains in the account there are no tax implications until withdrawal.
How much can be contributed to the account annually?	Maximum annual contributions are $5,500 per year[1] per investor. This limit is indexed to the inflation rate, with the indexed amount rounded to the nearest $500.	Maximum annual contributions are the lesser of 18% of earned income in 2011 or $22,450 (plus any unused contribution room from previous years). For 2012, this amount rises to $22,970 and will be indexed to average wage growth in subsequent years.
Can unused contribution room be 'carried forward'?	Yes. If you only contributed $2,000 this year, you could contribute $8,500 next year ($5,500 + $3,000 unused).	Yes, unused room can be carried forward indefinitely.
If funds are withdrawn, will more contribution room be created?	Yes. Withdrawals will create new room. If you withdrew $4,000 this year you could contribute $9,500 next year ($5,500 + $4,000).	No. Withdrawals do not create additional contribution room.
How are withdrawals taxed?	Any withdrawals from the account are received tax-free.	Any withdrawals from the account will be taken into income and be taxed.

[1] As of January 2013. Previous years' maximum contribution amount is $5,000.

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QUESTIONS	TFSA	RRSP
Which account is better from a tax perspective?	Although withdrawals are tax-free, there is no tax deduction initially. Assuming the marginal tax rate (MTR) remains constant, there is no tax advantage. If the MTR is expected to rise in the future, the TFSA could be preferable to the RRSP.	Although withdrawals are taxed, there is a tax deduction provided initially. Assuming the marginal tax rate (MTR) remains constant, there is no tax advantage. If the MTR is expected to be lower in the future, the RRSP could be preferable to the TFSA.
Will withdrawals affect my Federal benefits?	No. Withdrawals are not considered income for federally income-tested benefits such as Old Age Security or Employment Insurance so those benefits will not be reduced.	Yes. RRSP withdrawals are considered income for Federal benefits such as OAS or Employment Insurance so those benefits may be reduced.
What are the investment options in the fund?	The investment options are very broad and essentially the same as provided by an RRSP.	There is a wide range of investment choices, such as Money Market, Stocks, Bonds, Mutual Funds, etc.
Can the funds be used as collateral for a loan?	Yes, provided certain criteria are met.	No.
Can non-residents hold the account?	Yes.	Yes.
Can the plan be transferred to my spouse upon death?	Yes, the plan can be transferred to your spouse if he or she is named as the sole successor.	Yes, the plan can be transferred to a spouse upon death with no immediate tax implications.

For more specific information about TFSAs and RRSP investing, please contact your professional Financial Advisor.

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