RRSP? TFSA? Both?

We can help you make the right decision for your budget, goals and stage of life.

EAST REGION

ARBORFIELD
108 Main Street, Arborfield, SK S0E 0A0

CARROT RIVER
10 Main Street, Carrot River, SK S0E 0L0

CHOICELAND
100 Railway Avenue, Choiceland, SK S0J 0M0

NIPAWIN
100 1st Avenue West, Nipawin, SK S0E 1E0

WHITE FOX
125 Railway Avenue, White Fox, SK S0J 3B0

WEST REGION

BIG RIVER
101 4th Avenue, Big River, SK S0J 0E0

DEBDEN
324 Main Street, Debden, SK S0J 0S0

PRINCE ALBERT
200 28th Street West, Prince Albert, SK S6V 4S9

contactus@diamondnorthcu.com
1-855-862-4242
diamondnorthcu.com

Diamond North CREDIT UNION

Feb 2023

Comparing RRSPs & TFSAs

SAVE FOR THE FUTURE USING THE RIGHT MIX

Diamond North CREDIT UNION

Tax Free Savings Account (TFSA)

TFSAs allow your money to grow tax-free. When you withdraw from it, the funds are not subject to tax.

WHO IS ELIGIBLE?

If you are a Canadian who is 18 or older and have a valid Social Insurance Number, you can have a TFSA.

WHAT CAN I USE IT FOR?

Use a TFSA to save for anything! Down payments for a home or car, future education plans or retirement nest eggs can all be created from TFSA savings. They offer flexibility and convenience and can even be used as collateral on loans.

HOW MUCH CAN I CONTRIBUTE?

Contribution limits are set by the government and are cumulative, meaning unused contribution room can be used in future year(s).

The contribution limit for 2023 is $6,500. If you were 18 years of age in 2009 (when TFSAs were first available), this means you can contribute a maximum of $88,000.

If you withdraw funds from your TFSA, you do not lose contribution room. The amount withdrawn is added back to your contribution room in the following year.

To find out your exact contribution limit, contact the CRA.

WHAT ARE THE TAX IMPLICATIONS?

Since the money you invest into a TFSA has already been taxed, investing in TFSAs does not provide a tax break like investing in an RRSP does.

Withdrawals from and interest earned inside the TFSA are not subject to income tax. Having a TFSA will not impact your eligibility for federal benefits (for example: Old Age Security, Child Tax Benefits, Employment Insurance or the Guaranteed Income Supplement).

Registered Retirement Savings Plan (RRSP)

RRSPs allow you to save for a comfortable retirement, invest your money when you can afford it most (during your peak earning years) and defer your taxes. Contributing to RRSPs reduces your earned income and therefore reduces the income tax you owe.

WHO IS ELIGIBLE?

If you are 71 or younger and have earned income, you can contribute to an RRSP. Earned income refers to salary or wages, CPP benefits, income from self-employment or rental properties, wage loss replacement and more. Once you turn 71, your RRSP must be converted to a Registered Retirement Income Fund (RRIF).

WHAT CAN I USE IT FOR?

RRSPs are primarily used to save for retirement but can be used for other goals as well.

The Lifelong Learning Program (LLP) provides the option to use up to $20,000 to finance full time education or training. Funds withdrawn for this purpose must be repaid to the RRSP within 10 years or tax penalties apply.

The Homebuyers Plan (HBP) allows use of up to $35,000 from the RRSP to purchase a home. Funds used for this purpose need to be repaid within 15 years or tax penalties will apply.

Withdrawing funds under these plans is beneficial as tax penalties are not incurred; if funds are withdrawn outside of these two plans, it's considered income and is taxed at your current tax rate.

HOW MUCH CAN I CONTRIBUTE?

Different than TFSA contribution room, RRSP contribution room is equal to 18% of your previous year's earned income, to a maximum set by the government. In 2023, that maximum contribution is $30,780.

Unlike TFSAs, once funds are withdrawn from your RRSP, contribution room is lost.

To find out your exact contribution limit, contact the CRA.

WHAT ARE THE TAX IMPLICATIONS?

The amount you invest into RRSPs reduces your earned income. Since income tax is based on your earned income, the amount you invest in RRSPs reduces the amount of income tax you're required to pay.

With the exception of the Homebuyers and Lifelong Learning Plans, withdrawals from RRSPs are considered income and are taxable at your marginal tax rate. Withdrawals are typically made from RRSPs as people age and earned income is lower. This results in less income tax paid to the government.

Which is Right for You?

RRSP? TFSA? OR BOTH?

Depending on your goals you may be better suited for one or the other. Often members have TFSAs and RRSPs and reap the benefits of both, as they can serve different purposes.

WILL YOU USE THE MONEY BEFORE RETIREMENT?

If so, investing funds in a TFSA account is a good option. Funds withdrawn from a TFSA will not be taxed and you can re-contribute the funds in a future year. If you withdraw from an RRSP, you'll lose the contribution room and likely be taxed at a higher rate.

DO YOU WANT TO BUILD SAVINGS AS QUICKLY AS POSSIBLE?

Depending on your income and age, you may have greater contribution room in an RRSP than in a TFSA, allowing you to accumulate savings faster.

WILL YOUR TAX RATE BE HIGHER THAN TODAY?

If you expect your marginal tax rate to be lower in the future, an RRSP may be a better option. If your tax rate will be higher when you are in your retirement years, then investing in a TFSA may be the better choice.

For example, if you are young and starting out in your career, you may want to use a TSFA while your tax rate is low. Once your tax rate is higher you can transfer the funds to an RRSP, and thereby generate a larger tax refund.

How Can I Make the Most of my Investment?

Working with one of our Wealth Specialists to determine your best course of action will greatly assist you in getting the most out of your money.

Our Wealth Specialists can help you make a plan that works for you – regardless of your goals, budget or stage of life. Once you have a plan, setting up pre-authorized contributions creates automatic contributions to your investments, so you can save without even thinking about it!

Speak with our Wealth Specialists to get started.