The Tax-Free Savings Account (TFSA)
The Registered Retirement Savings Plan (RRSP)

TFSA, RRSP or both? A question of strategy!

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

The Tax-Free Savings Account (TFSA) at a glance

Thanks to the TFSA, you can grow your savings tax-free, whatever your annual income, even if you withdraw money. If you withdraw money, you are not obligated to repay it. The TFSA is a government-registered account and is available to all Canadian residents 18 years or older with a valid Social Insurance Number (SIN).

Main advantages

- Investment income and withdrawals are not taxable
- Access to funds at any time, for whatever reason

Annual contribution

Maximum of $6,000*
You can carry forward your unused contributions and there is no cumulative limit, and you can make a deposit at any time.

Types of investments eligible for your TFSA

Generally, all types of investments offered by National Bank Financial – Wealth Management are eligible. To learn more or to request opening a TFSA, speak with one of our investment advisors.

Use your TFSA strategically

To put money aside

Since we never know what life has in store for us, the TFSA could become supplementary income that will protect you from life's little surprises. In this regard, it's an ideal tool because you can withdraw your funds at any time.

To carry out a project

Whether buying a house, going back to school or for any other project, your TFSA can be a source of financing, without penalty or repayment obligation.

For tax-free investment income

With the TFSA, your investment income is not taxable, even at the time of withdrawal.

For income splitting

The TFSA offers a great deal of flexibility for a retirement income splitting strategy and can be combined with contributions to your spouse's RRSP.

To lend a helping hand to others

Do you want to support your children and grandchildren? You can begin to transfer your assets to them, provided they are 18 years or older. A tax-efficient gift for your loved ones!

To balance your pension adjustment

The TFSA can help you counterbalance the pension adjustment from a retirement plan from an employer who limits, or sometimes prohibits, RRSP contributions.

To raise your RRSP contribution limit

If you assess your RRSP contribution limit and you estimate that you need more money to ensure a comfortable retirement, the TFSA can allow you to save beyond the contribution allowed by your RRSP.

* Subject to change

The Registered Retirement Savings Plan (RRSP) at a glance

The RRSP is a government-registered savings account that lets you defer your income tax until the time of withdrawal. It is available to all Canadian residents 71 years or less.

Main advantages

- Deductible contributions from taxable income
- Possibility to borrow funds from your RRSP without paying taxes to purchase your first home or go back to school

Deadline

March 1 of every year
(for the previous tax year)
Contributions made in the first 60 days of the year are eligible for a deduction for the previous taxation year.

Annual contribution

Maximum of 18% of the previous year's income, up to the maximum amount established by Canada Revenue Agency and indexed annually, less a pension adjustment if you benefit from a private pension plan. You can carry forward your unused contributions and there is no cumulative limit.

Types of investments eligible for your RRSP

Generally, all types of investments offered by National Bank Financial – Wealth Management are eligible. To learn more or to request opening an RRSP, speak with one of our investment advisors.

Use your RRSP strategically

> To reduce your taxable income

Contributions to an RRSP are deductible from your taxable income and are one of the best ways to save while reducing the tax payable for the deposit year.

> To save, tax-free

Since your investment earnings are not taxable until they are withdrawn, this is a good way to grow your money.

> To have the retirement of your dreams

Thanks to an RRSP, you can grow your money strategically and, once you have retired, you can convert your RRSP to an RRIF and continue to enjoy advantageous terms.

> To purchase a house

The Home Buyers' Plan (HBP) allows you to withdraw up to $25,000* from your RRSP, tax-free, to make a down payment to buy or build a home in which you will live, and then repay this sum in 15 years or less, interest-free. You are also eligible for HBP if you have not been a homeowner for five years.

> To go back to school

Are you or your spouse thinking about going back to school full-time for the short or long term? Through the Lifelong Learning Plan (LLP), you can withdraw up to $10,000* a year from your RRSP (total plan limit of $20,000*), without paying taxes on the sum used for your studies in an eligible program, and then repay the amount in 10 years or less, interest-free.

* Subject to change

The main similarities and differences between a TFSA and an RRSP

TFSA or RRSP? It all depends on your situation.

	TFSA	RRSP
Who is eligible?	Any Canadian resident who has reached the age of majority* (no age limit) and has a valid SIN	Individuals aged 71 or younger, who earned income in the previous year (subject to a pension adjustment)
What is the allowable annual contribution?	$6,000	18% of earned income, less a pension adjustment if you benefit from a private pension plan
How is the contribution limit indexed?	Based on the Consumer Price Index, rounded to the nearest $500	Based on the increase in the Average Industrial Wage
Is the contribution deductible from taxable income?	No	Yes
Are spousal contributions allowed?	No, but one spouse can give the other spouse the funds required for a contribution without being subject to income attribution rules	Yes
Is unused contribution room carried forward to future years?	Yes	Yes
Is there a penalty for excess contributions?	Yes, 1% per month if there is an excess contribution at any time during the month	Yes, 1% per month if the excess contribution is greater than $2,000 at the end of the month
Do the returns grow on a tax-sheltered basis?	Yes	Yes
What types of investments are eligible?	Generally, all types of investments offered by National Bank Financial – Wealth Management	Generally, all types of investments offered by National Bank Financial – Wealth Management
Are withdrawals taxed?	No	Yes
Can the amounts withdrawn be re-contributed to the account?	Yes, starting the following year	Only if the withdrawal was made as part of the Home Buyers' Plan (HBP) or the Lifelong Learning Plan (LLP)
Can withdrawals affect income-tested government benefits?	No	Yes
In the event of marriage breakdown or death, are rollovers between spouses tax-free?	Yes	Yes
Are the plan assets taxed at death if there is no beneficiary?	No	Yes
If the contribution is financed with a loan, is the interest income-tax deductible?	No	No
Can the account be pledged as security for a loan?	The assets held in a TFSA may be used as security for a loan. However, this disposition is not available with the National Bank Financial – Wealth Management TFSA.	No
Is the account unseizable under the federal Bankruptcy Act?	No	Yes, except for contributions made in the 12-month period prior to the bankruptcy

* Contribution room is accrued starting at age 18, no matter what the age of majority in your province of residence.

Some factors to consider

The TFSA and the RRSP both offer tax advantages. Depending on your situation, investing or withdrawing an amount from your TFSA, your RRSP or both could be very advantageous for you.

Here are the factors to consider:

Contributions, investment income and withdrawals

Contributions to an RRSP can be deducted from income; this is not the case for a TFSA.

Investment income (interest, dividends and capital gains) is not taxable in the case of a TFSA, but is taxable when withdrawals are made from an RRSP.

Withdrawals made from a TFSA are tax-free because the contribution is made from income that has already been taxed. Withdrawals from an RRSP are taxable at the individual's marginal rate since contributions are made from non-taxable income.

Effects of the marginal tax rate

The net proceeds of an RRSP or TFSA depend on the difference between your tax rate at the time of contribution versus the tax rate at the time of withdrawal. If these two rates are identical, the RRSP and the TFSA offer the same advantages, in addition to surpassing those of a taxable savings or investment account.

If your rate at withdrawal is lower than your contribution rate, the RRSP will be more beneficial because you will get a tax deduction based on a higher rate (the one at the time of your contribution) and will be taxed at a lower rate (the one at the time of withdrawal).

Conversely, if your rate at withdrawal is higher than your contribution rate, the TFSA may be more beneficial.

Effects of clawback

Certain government programs, like Old Age Security, include eligibility or adjustment criteria related to the financial resources of their beneficiaries. Old-age benefits will be reduced $0.15 for each dollar exceeding a certain income threshold from other sources. This is called the tax recovery threshold.

For example, in 2017, the threshold was fixed at $74,788, and entirely indexed to inflation. As a result, the investor loses $150 of Old Age Security pension income, less tax, for every $1,000 of taxable retirement income above the established threshold.

Further, every investor must convert their RRSP to an RRIF or annuities the year they turn 71, as well as make taxable withdrawals the following year, even if they do not need the money. This results in the Old Age Security clawback threshold being exceeded.

Equally, the investor who withdraws an amount from his or her RRSP for a purchase—such as a car or for travel—could see his or her income increase and therefore lose some or all of his or her Old Age Security benefits.

On the other hand, with the TFSA, there are no mandatory withdrawals, and any amounts withdrawn, including income generated over the years, are not taxable.

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