

# Handout #1

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(The following is from the website of the [Investor Education Fund](#).)

## Comparing TFSAs and RRSPs

Key differences between TFSAs and RRSPs.

TFSAs and RRSPs both offer tax advantages to help you reach your savings goals. If you can afford it, a good strategy is to contribute as much as you can to both. But if you have to choose one over the other, make sure you understand how they differ. And then make your choice based on your own individual financial and tax situation

### A quick comparison

	RRSP	TFSA
Need earned income to contribute	✓	✗
Tax-deductible contributions	✓	✗
Tax-free withdrawals	✗	✓
Age limit for making contributions	✓	✗

### Top 6 differences between TFSAs and RRSPs

1. An RRSP is intended for retirement savings. A TFSA can be for any type of savings goal.
2. RRSP contributions are tax deductible. TFSA contributions are not. With an RRSP, you deduct your contribution from the income you report on your tax return. With a TFSA, you can't deduct your contribution on your tax return.
3. You pay tax on your RRSP withdrawals because you made the contributions with pre-tax dollars. TFSA withdrawals are tax free because you made the contributions with after-tax dollars.
4. In the year you turn 71, you can't make any more contributions to your RRSP and you must close it. At that time, you have to use your savings to buy either an [RRIF or an annuity](#). With a TFSA, you don't have to stop contributing or close it at a certain age.
5. You need earned income to contribute to an RRSP but not to a TFSA.
6. With both plans, you can name your spouse as a beneficiary. The money will roll over to them upon your death. But with an RRSP, after your spouse dies, taxes will due on any money left in the account. So if your children inherit the money, they will receive what is left after the tax is paid. With a TFSA, only the increase in the value of the TFSA since the date of death is taxed in the year the children receive it. If the amount they receive is not greater than the value of the TFSA at death, no tax is paid.

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(Globe and Mail Classroom Edition: "TFSAs vs. RRSPs: The Gen Y guide" – Rob Carrick, February 14, 2014.)