Which plan should I contribute to first – my RRSP or TFSA?

As a general rule, RRSPs are a good choice for longer-term goals like retirement, while TFSAs work better for more immediate ones because you can access your savings for other things, like a down payment on a new home. But TFSAs offer tax advantages, so don't overlook yours as a vehicle for your retirement savings.

If you expect to be in a higher marginal tax rate in the future, it might be a good idea to contribute to your TFSA now, when you're paying less income tax, and an RRSP later, when you'll be subject to a higher marginal tax rate and your RRSP contribution will generate more income tax savings. Your advisor can work with you to help determine a strategy tailored to your needs and circumstances.

What is a spousal RRSP and should I take advantage of it?

In a spousal RRSP, the spouse who earns more money makes an RRSP contribution and claims the tax deduction, but the other spouse owns the plan and the money within it.

Spousal RRSPs are generally used to equalize income during retirement, reducing the family's overall tax rate. This is particularly powerful if one spouse earns a lot more than the other. Any contributions made by the spouse who earns more will reduce their individual RRSP deduction limit for the year but won't affect how much the other spouse can contribute to their individual RRSP.

The spouse who made the contribution will be taxed on all or part of this amount if the money is withdrawn within three years of being contributed to the spousal RRSP.

Your advisor can help you understand how a spousal RRSP can impact your individual RRSP contributions.

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The information provided is based on current tax legislation and interpretations for Canadian residents and is accurate to the best of our knowledge as of the date of publication. Future changes to tax legislation and interpretations may affect this information. This information is general in nature and is not intended to be legal or tax advice. For specific situations, you should consult the appropriate legal, accounting or tax advisor.

RRSP withdrawals are subject to withholding tax, the withholding rate will depend upon the amount withdrawn and your residency.

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RRSPs and TFSAs

Two ways to save

Both registered retirement savings plans (RRSPs) and tax-free savings accounts (TFSAs) have tax advantages and can be used to help you save for retirement.

Combined, RRSPs and TFSAs can really complement each other in your financial plan. Not sure what the difference is or what to use each one for?

We can help.

Here's a snapshot of the basics:

	RRSP **Used to save for retirement**	TFSA **Used to save for anything** (including retirement)[1]
You accumulate contribution room:	By having earned income.[2]	Automatically, if you're 18 or older, have a valid Canadian social insurance number and are a resident of Canada.
Maximum age to contribute:	71 – you'll have to cash out, convert to a registered retirement income fund (RRIF), or buy an annuity by Dec. 31 of the year you turn 71.	None – you can contribute for as long as you want.
Contribution deadline:	Typically, you have the first 60 days of the new year to contribute to your RRSP and have it count for the previous tax year.	Contributions are tracked on a calendar year basis – Jan. 1 - Dec. 31.
Contribution limit:	You can contribute a set percentage of your previous year's income up to a maximum amount for the previous tax year, plus any unused RRSP carry-forward contribution room.	You can contribute the annual TFSA dollar limit of $6,000 for 2019, plus any withdrawals in a previous year, plus any unused contribution room carried forward from the previous year.
If you over contribute:	You'll have to pay a 1% tax penalty per month on contributions that exceed your RRSP deduction limit by more than $2,000[3].	You'll have to pay a 1% tax penalty on the excess TFSA amount per month, for each month that you're in an excess contribution position.
You can carry contribution room forward:	Until the maximum age of 71.	Indefinitely – for as long as you need to.
If you withdraw money:	Contribution room is permanently lost[4].	Contribution room isn't lost, and withdrawals will be added back to your contribution room at the beginning of the following year on Jan. 1.
Upfront tax advantages:	Contributions provide an upfront tax benefit – they lower your taxable income for the current year.	None, as contributions are made with after-tax income.
Future tax advantages:	**Tax deferred** – any income earned in your RRSP is usually exempt from tax as long as it stays in the plan. **Potential tax savings** – Upon withdrawal, every dollar is fully taxable at your marginal tax rate, which may be lower when you're retired.[1]	**Tax free** – you generally won't pay tax on any income earned in the account or the money you withdraw. There aren't any tax consequences if you need to use your savings for emergencies or short-term expenses. Also, you don't permanently lose any contribution room. Also, TFSA withdrawals aren't considered income, so this money isn't included when the government calculates benefits like Old Age Security, Guaranteed Income Supplements, GST/HST credits and other credits/benefits like the Age Credit.

1 If you only use a TFSA for short-term investment purposes, you'll lose the potential for more growth.

2 Wondering what earned income is? It can be more than just your salary. Your advisor can help you determine what this means for you.

3 Did you contribute too much? There's a $2,000 over-contribution grace amount without any penalty, but the contribution doesn't qualify as an income deduction for tax purposes.

4 There are two exceptions – the RRSP Home Buyers' Plan and the Lifelong Learning Plan allow you to use a portion of your savings, without any tax penalty, and repay it within a defined term. This can help you buy a new home or further your education.