RRSPs, TFSAs, and RESPs

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Over the years, the government has introduced a number of ways Canadians can use to save for retirement and education, including the Registered Retirement Savings Plan (“RRSP”), the Tax Free Savings Account (“TFSA”), and the Registered Education Savings Plan (“RESP”).

Here we will discuss the nature of each and when they may be of benefit to you.

RRSP

RRSP contributions reduce your taxable income, resulting in a tax savings in the current year. Depending on your income level, you can save up to $0.54 of tax for each dollar contributed to your RRSP.

The 2017 maximum RRSP contribution limit is the lower of 18% of your 2016 earned income or $26,010. Unused room can be carried forward to next year.

Money in the RRSP grows tax-free until you withdraw your money.

RRSP withdrawals are taxable, with the actual tax liability depending on your overall income level at the time you make the withdrawal.

Contributing to your RRSP is generally most beneficial when you are currently in a high tax bracket, and expect to be in a lower tax bracket in the future.

TFSA

TFSA contributions are not deductible, however your money in the TFSA grows tax-free, and is not taxable when withdrawn.

The 2018 TFSA contribution limit is $5,500. The overall TFSA contribution limit, for those that have never contributed before, may be as high as $57,500.

Contributing to a TFSA may be more beneficial for individuals early in their career who expect to see their income levels growing in the future.

RESP

Contributions to an RESP are not deductible, however, the money in the RESP grows tax-free, and there are government grants available to match your contributions, up to certain limits. The Canada Education Savings Grant matches 20% of the first $2,500 of annual contributions up to a lifetime maximum of $7,200 per beneficiary (beneficiary cannot be older than 18 years). Depending on your family circumstances, you may also be eligible for the Canada Learning Bond up to a maximum of $2,000 per child.

When RESP funds are withdrawn to pay for qualifying post-secondary education costs, only the portion of the withdrawal related to government grants and investment income is taxable.

The matching government grants make RESP's a valuable tool for saving for your child's education.

CALL TO ACTION

The best investment plan should consider the tax implications, and each family's circumstances are different. Making the right decision at the right time can help reduce your taxes and save more for the future. Please contact your Roth Mosey advisor to discuss what investment approach is best for you.

ABOUT THE AUTHOR

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Jayson is currently a Client Service Manager involved in a wide-range of assurance, advisory and tax services. He volunteers his time in various capacities with the Windsor-Essex Small Business Centre.

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