Canaccord Genuity Wealth Management

Financial Focus

Becker Orr Wealth Management

December 2020

RRSP vs TFSA

By Clinton Orr

We are nearing the end of 2020, which means we are rapidly approaching RRSP season. In the first 60 days of the year you can contribute to your RRSP and use the tax deduction on your prior year's tax return. During that period, I am often asked: is it wise to contribute to a RRSP or is putting the money in a TFSA better? Ideally, you would contribute to both, however the budget does not always allow for that - so I will pass along a few guidelines to help make the decision.

To start, a quick review of the basics: RRSP stands for Registered Retirement Savings Plan and TFSA stands for Tax Free Savings Account. The RRSP offers a tax deduction for any money contributed to the account. That is a significant benefit, one not matched by the TFSA. One benefit both the RRSP and TFSA share, is that any money contributed to the account grows tax free. Both the RRSP and the TFSA limit the amount of money you can contribute. There is a formula based on the previous year's earned income that determines your RRSP room. For the TFSA, it is a fixed annual amount. In both cases, unused room carries forward. Unfortunately, when you withdraw funds from your RRSP the money is treated as taxable income, which is a drawback the TFSA does not have. As well, a RRSP must be converted to a Registered Retirement Income Fund (RRIF) by the end of the calendar year in which you turn 71. Once in a RRIF, the government mandates that every year a minimum amount of money must be withdrawn, those withdrawals are fully taxed. A TFSA does not have a forced conversion, you can hold a TFSA as long as you'd like.

In my view, one of the main benefits of the RRSP is the upfront tax deduction. The best time to contribute to your RRSP is when you are in a high tax bracket. Ideally, you want to contribute to your RRSP when you are in a high tax bracket and withdraw the funds when you are in a lower tax bracket. An example would be if you have a temporary increase in your taxable income. The sale of a rental property, retirement payouts, sale of a cottage, bonuses from your employer are all examples of events could create a one-time increase in your taxable income. In all cases an RRSP contribution could ease your tax burden. That money could be withdrawn down the road when you are in a lower tax bracket.

Clinton Orr
Vice President, Investment Advisor & Portfolio Manager
T: 204.259.2860
Beausejour: 204.205.0101
corr@cgf.com

Kevin Becker
Investment Advisor & Portfolio Manager
T: 204.259.2863
TF: 1.877.259.2888
kbecker@cgf.com

Alicia Roache
Investment Advisor Assistant
(Licensed)
T: 204.259.2851
asroache@cgf.com

Maricar Irwin
Investment Associate
T: 204.259.2861
mirwin@cgf.com

Adam Buss
Wealth & Estate Planning Specialist
T: 204.259.2865
abuss@cgf.com

Canaccord Genuity Wealth Management
1010-201 Portage Avenue,
Winnipeg, MB R3B 3K6
beckerorr.com

As well, for individuals with a high income, regular RRSP contributions can provide significant tax savings. As a rule of thumb, I often suggest an individual make a RRSP contribution if their income is above $72,164. At the moment, that level of income is the start of a tax bracket, the combined federal and provincial marginal tax rate for that bracket is 37.90%. So, with that level of income, every dollar you contribute to your RRSP saves you 37.9 cents of tax. That's significant.

Additionally, I usually recommend contributing enough to the RRSP to push your income into a lower tax bracket. For 2020, the tax bracket mentioned above starts at $72,164 and goes up to $97,069. If, for example, your 2020 income is $82,000 and you contributed $10,000 to your RRSP, your taxable income would drop to $72,000, and you would be in a lower tax bracket. A sizable tax savings. As your taxable income declines, your marginal tax rate also drops, that means the tax savings of a RRSP contribution will be lower and a RRSP contribution is less beneficial. So, RRSP contributions at lower income levels might not be worthwhile.

Ideally, you would contribute to both your TFSA and your RRSP. If that is not possible, a RRSP contribution would make sense if you earn a high income or there is a temporary increase in your taxable income. In those cases, I often suggest contributing enough to the RRSP to lower your income by one tax bracket. If you are not in one of those situations, in my view, a contribution to your TFSA would be better. It is important to mention that these are guidelines and might not apply to your unique financial situation. It is best to review your financial plan and see what is the best fit.

Clinton Orr B.Comm (hons.), CIM, CFP, DMS, FMA lives in Beausejour and is a vice president and portfolio manager with Canaccord Genuity Wealth Management.

CANACCORD GENUITY WEALTH MANAGEMENT IS A DIVISION OF CANACCORD GENUITY CORP., MEMBER-CANADIAN INVESTOR PROTECTION FUND AND THE INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

This newsletter is solely the work of the author for the private information of clients. Although the author is a registered Investment Advisor at Canaccord Genuity Corp., this is not an official publication of Canaccord Genuity Corp. and the author is not a Canaccord Genuity Corp. analyst. The views (including any recommendation) expressed in this newsletter are those of the author alone, and are not necessarily those of Canaccord Genuity Corp. The information contained in this newsletter is drawn from sources believed to be reliable, but the accuracy and completeness of the information is not guaranteed, nor in providing it do the author or Canaccord Genuity Corp. assume any liability. This information is given as of the date appearing on this newsletter, and neither the author nor Canaccord Genuity Corp. assume any obligation to update the information or advise on further developments relating to information provided herein. This newsletter is intended for distribution in those jurisdictions where both the author and Canaccord Genuity Corp. are registered to do business in securities. Any distribution or dissemination of this newsletter in any other jurisdiction is prohibited. The holdings of the author, Canaccord Genuity Corp., its affiliated companies and holdings of their respective directors, officers and employees and companies with which they are associated may, from time to time, include the securities mentioned in this newsletter.

The preceding information is for general information only and does not constitute tax advice. All investors should consult with a qualified tax accountant.

Tax & Estate advice offered through Canaccord Genuity Wealth & Estate Planning Services. FOR DISTRIBUTION IN CANADA ONLY