K·B·H WEALTH PLANNING

Comparing RRSP vs TFSA vs RESP

	Registered Retirement Savings Plan (RRSP)	Tax-Free Savings Account (TFSA)	Registered Education Savings Plan (RESP)
Eligibility	• No minimum age. • Must have earned income from previous year to determine your contribution allowance. • Canadian resident with Social Insurance Number.	• Must be 18 or older. • Canadian resident with Social Insurance Number.	• Your child (or grandchild), as the beneficiary of the plan, must be under age 17 and have their own Social Insurance Number. • You, as the "subscriber" of the plan, control contributions and withdrawals from the plan.
Contribution Limits	• Annual limit is 18% of your previous year's earned income, up to annual limits ($30,780 for 2023). • Unused contribution room accrues annually and can be used in future years.	• Annual limit is fixed and is currently $6,500. • Contribution room accumulates from 2009, when TFSAs were introduced. • Total available room is $88,000 if you were 18 or more in 2009 and have not yet contributed.	• Annual contributions of $2,500 per child will maximize the standard 20% federal grant of $500 per year. • The lifetime maximum grant amount is $7,200 per beneficiary. • The lifetime contribution limit is $50,000 per beneficiary.
Contribution Benefits	• Contributions are a tax deduction against your personal income. • Contributions can be deducted in later years if you expect a higher tax bracket in the future. • Investment earnings grow & compound tax free.	• Contributions are not tax deductible, but all investment earnings grow & compound tax free. • Withdrawals from the plan are tax-free.	• Contributions are not tax deductible, but you get the grant (see above). • Your contributions, plus the grant funds, and the investment earnings grow tax-free. • The withdrawal of grant funds & investment earnings are taxed as income in your child's hands, where little or no tax may be owed.
Contribution Period	• You can contribute to your own RRSP up until the end of the year you turn 71. • You must convert your RRSP to a RRIF or an annuity by the end of the year you turn 71. • If you have a younger spouse, you can make a spousal contribution to their RRSP to age 71.	• You can contribute over your lifetime. • There is no requirement to make withdrawals.	• You can contribute to the RESP for up to the $50,000 limit per beneficiary over 31 years, but the grant is capped at $7,200 per child. • Normally, you would use up the value of the plan over the years your child is in their program.

	Registered Retirement Savings Plan (RRSP)	Tax-Free Savings Account (TFSA)	Registered Education Savings Plan (RESP)
Withdrawals	• Normal withdrawals are taxed as regular income, and any amount can be taken out. • If you are 65 or older, you can income-split with your spouse to reduce income tax. • Tax-free withdrawals are possible under the Home Buyers Plan (for first-time home buyers) and the Lifelong Learning Plan (for education or training for you or your spouse). • Once your RRSP has been converted to a RRIF, a federal schedule mandates a minimum annual withdrawal based on your age.	• Generally you can withdraw any amount, at any time, on a completely tax-free basis. • You can replace withdrawals (in addition to normal annual limits), as long as you do so in the following year. • You can leave your account for your estate or name a specific beneficiary, all on a tax-free basis.	• You can withdraw any amount of the contributions at any time. However, the maximum EAP amount for a full-time student is limited to $8,000 during the first 13 consecutive weeks of enrollment (up from $5,000 as per the 2023 federal budget announcement). • Afterwards, almost any amount can be withdrawn, if for costs related to studies. • Withdrawals that are comprised of government grant funds and investment returns are taxable income for your child. Your contributions are a tax-free return of capital. • If funds can't be used for your child's education, you can transfer accrued plan earnings to your own RRSP, subject to your available contribution room.
Estate Considerations	• If left to a spouse, or dependent child under 18, the value of your plan passes tax-free to them. • If left to your estate or other beneficiary, the entire value of the plan is taxed as income in your final tax return.	• You can leave the entire plan to a named beneficiary or your estate, with no tax consequences.	• If your spouse is a co-subscriber, the plan ownership passes to them and funds applied to your child's post-secondary costs as normal. • If no surviving joint subscriber, the RESP can become part of your general estate, so it is important to name a successor subscriber in your will.
Key Benefit	• Good strategy for saving for your retirement, especially if your tax bracket is higher now than you expect in retirement. • Typically the key vehicle for retirement savings for those without employer-sponsored pensions.	• Good strategy to supplement your RRSP, or just save for yourself for a future use, or simply build a tax-free asset for your estate.	• An excellent strategy to save for your child's post-secondary education, as you get a 20% increase in contributions due to the federal grant funds. • Additional grant or bond funds may be available for low income earners.

Have Questions?

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