

What is a Tax Free Savings Account (TFSA)?

First introduced to Canadians in 2009, the TFSA has proven to be very popular. Each year, you get an allotment of \$6,000 available for your TFSA, which means that you can put that amount away, plus an rollover from previous years (assuming you were 18 or older in 2009, you have a lifetime limit of \$69,500 as of 2020). This money has already been taxed - you contribute to a TRSA from your net income - so there's no tax break at the time of contribution. But any gains you earn in a TFSA - whether its' from a savings account, or another investment product - aren't subject to capital gains tax, so you won't owe any tax on your earnings when you make a withdrawal.

What is a Registered Retirement Savings Plan (RRSP)?

A registered retirement savings plan, or RRSP, allows you to invest up to 18% per year of your gross income, or \$26,500, whichever is less, without paying income tax on that money. (If you invest with after-tax dollars, the tax will be refunded after you file your income tax return for that contribution year.)

In this way, an RRSP allows you to defer your taxes while saving for retirement. The most important thing to understand is that you will pay tax on this money once you withdraw it. The idea is that, because you will be retired, you will be in a lower tax bracket than during your high-earning years, and so will pay less tax overall because you invested in an RRSP.

TFSA vs RRSP: Which is better?

The "best" investment is going to depend on your individual financial situation and goals. Remember, with a TFSA, you pay tax on money you've earned before you make a contribution, and with an RRSP you get a tax refund now on money you contribute, but will have to pay tax later on the money you withdraw from the plan. This difference, along with your income, your investment timeline, and other factors will all contribute to making the right decision for your investment dollars. You may find that you can use both investment vehicles simultaneously.

Contact one of Raymore Credit Union's Investment Specialists today!



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