



RRSP or TFSA?

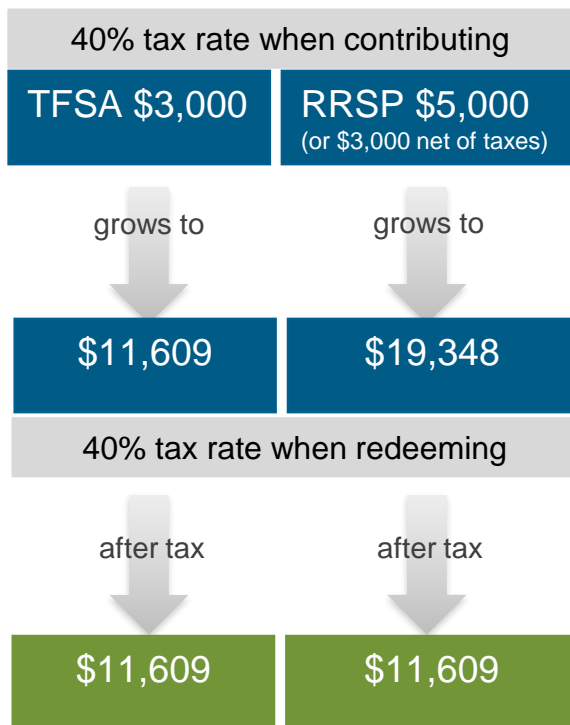
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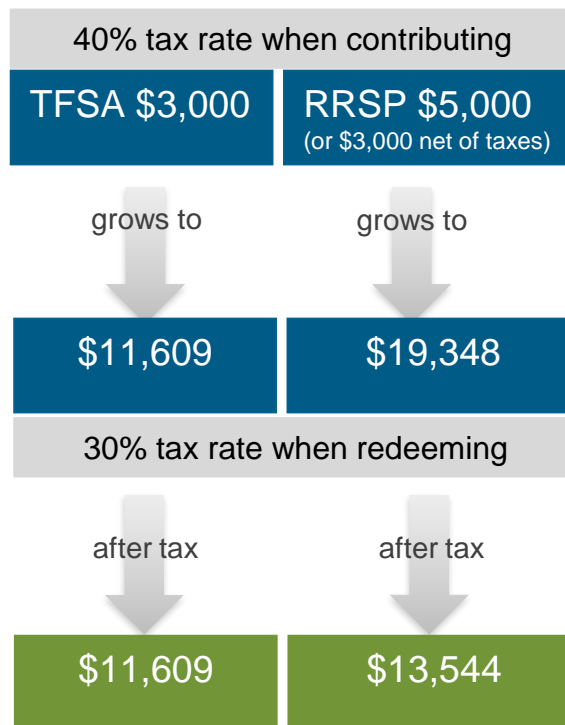
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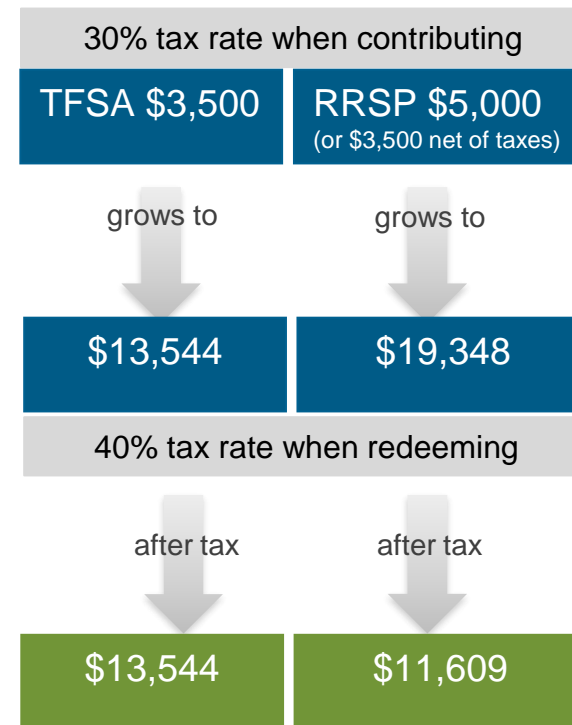
Scenario 1: Tax rate when redeeming is the same as when contributing



Scenario 2: Tax rate when redeeming is lower than when contributing



Scenario 3: Tax rate when redeeming is higher than when contributing



Recommendation: equal benefit, consider other factors

Recommendation: RRSP first, then TFSA

Recommendation: TFSA first, then RRSP

Scenario Explanation



It's important for clients to understand that RRSPs are not the only way to save for retirement in a tax-efficient way. They may ask about TFSAs, but may not understand how a TFSA can fit into a retirement planning strategy in conjunction with RRSPs. The one that might be right for clients could depend on their current tax rate. Let's look at three scenarios to determine from a tax perspective, which may be right for the client.

- In **scenario 1**, we see that from a tax perspective, when the client's tax rate is the same when they contribute as it is when they redeem, then a TFSA and RRSP have an equal benefit. In this case, other factors should be considered such as, need for current tax refunds, contribution amount etc. in order to make a decision.
- However, if the client's tax rate when they redeem is expected to be lower than when they contribute like in **scenario 2**, then they should consider investing in an RRSP first and then a TFSA.
- Finally, if the client's tax rate when they redeem is expected to be higher than when they contribute like in **scenario 3**, then they should consider investing in a TFSA first and then an RRSP.

Assumptions: \$5,000 pre-tax income in a RRSP, an equivalent after-tax amount contributed to TFSA based on 30 and 40 per cent marginal tax rates. Growth assumes a seven per cent annual rate of return for 20 years.

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259 King Street East, Kingston, ON K7L 3A8 • 1 877 548-1881 • info@empire.ca • empire.ca