

TFSA VS RRSP DECISION GUIDE

Both tax shelters help your investments compound tax-free for the long term, but there are important differences. Work through these steps to help figure out which is best for you.

1. Default Option

The TFSA is flexible and easier to use, so if you don't have the time to figure it out exactly, or lack clarity to optimize, go with the TFSA—you can always switch to an RRSP later.

2. Emergency Access

Any money you'll need in an emergency has to be accessible. Have a cash emergency fund, but also consider keeping some of your long-term savings accessible in your TFSA, just in case.

3. Free Money

Always take free money when offered. If your employer matches your RRSP contributions, sign up for that program. (This may also point you towards making RESP contributions a priority)

TFSA

RRSP

4. Behaviour

RRSPs can only beat TFSA's if you're making RRSP contributions **pre-tax** (i.e. contributing your refund too so more goes in the RRSP). If you fritter away your refund, go straight to the TFSA.

5. Low Income

If you're lower income (<\$40k/yr)—in particular if you may be eligible for GIS in retirement—then look towards the TFSA. The claw-back on GIS from RRSP withdrawals will be too high.

6. Special Situations

Buying a house? The RRSP HBP lets you use pre-tax money for your down-payment, which helps you avoid CMHC fees. An upcoming mat/pat leave may also let you use tax arbitrage early.

7. Tax Arbitrage

Most comparisons skip straight to this step. If there are no other strong factors, then the RRSP will be better for people who have a lower tax rate in retirement than in their contribution years.

See more details on this decision tool at <http://www.holypotato.net/?p=1403>

Prepared by John Robertson, author of *The Value of Simple*. Check it out for information on how to invest within your RRSP and TFSA. <http://ValueofSimple.ca>