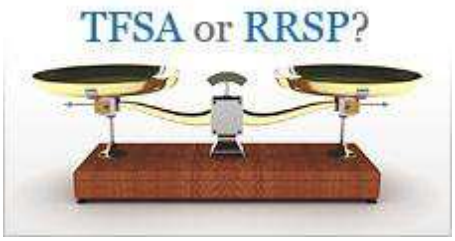
When to TFSA vs. RRSP



You may already use an RRSP to invest for the future but did you know there's another option – the Tax-Free Savings account or TFSA. It's a great complement to your RRSP but the challenge is deciding when it's best to choose a TFSA over an RRSP. Here are some general guidelines.

Want easy and frequent access to your money, use a TFSA. You'll be able to withdraw funds tax-free at any time and re-contribute the same amount in the future. Keep your RRSP for long-term retirement savings.

Earn a low income you may benefit more from the tax-free growth and withdrawal flexibility of a TFSA than from the modest tax deduction of an RRSP.

Starting your career, then invest in a TFSA before an RRSP. Over the years you'll accumulate RRSP contribution room that you can eventually take advantage of when your income is higher and when claiming the RRSP tax deduction has a bigger impact.

Saving for a house or education a TFSA may be a better option than the RRSP's Home Buyers Plan or Life Long Learning Plan. That's because TFSA withdrawals don't have to be paid back, money doesn't have to be kept in the account for 90 days before withdrawing, and if you decide to use your money for another purpose, you don't have to pay tax.

Have interest-bearing investments, like GICs, money market mutual funds, term deposits, or bonds, which are taxed at higher rates, put them in a TFSA where they are tax sheltered.

Own high risk/high return investments a TFSA might be better than an RRSP or non-registered account. If your $5K grows to $50K it could be withdrawn tax-free. The downside — you can't claim a capital loss if your investments lose value.

Hold investments in a non-registered account; consider transferring them 'in-kind' to your TFSA so they can grow tax-free. But talk to an expert first because there may be tax consequences.

Have a pension plan at work and therefore have limited opportunities to contribute to an RRSP, use a TFSA to augment your retirement savings.

Retiring in 10-20 years use a TFSA to complement your RRSP and grow your nest egg more aggressively.

Making maximum RRSP contributions put additional savings in a TFSA before a non-registered plan so your money can grow tax-free.

Need to reduce taxable income in retirement, use a TFSA in addition to your RRSP. After you convert your RRSP into a RRIF at age 71, RRIF withdrawals are taxed, and more money you withdraw the higher your marginal tax rate. But by also withdrawing tax-free funds from a TFSA you can reduce your RRIF withdrawals, potentially lowering the overall tax you pay.

Don't need all your RRIF/LIF withdrawal cash, move it to a TFSA where it can grow tax-free until you need them later.

Receiving Old Age Security, the Canada Child Tax Benefit, EI or the GIS invest in a TFSA to avoid potential clawbacks. TFSA interest earned or withdrawals aren't considered income so won't affect your benefits.

These are all only generalizations. Your situation is unique. If you want to find out how to use the Tax-Free Savings Accounts to your advantage, Ali Schmidt, Certified Financial Planner with Credential Asset Management Inc. can be contacted through the Turtleford Credit Union. She can provide you with an expert's perspective and help you invest in the future with your own Tax-Free Savings Account.