



Survey: 4 in 5 Canadians Will Not Contribute to an RRSP This Year

Description

With less than a week to go before the February 29 contribution deadline for the 2015 tax year, fewer than one in five Canadians (just 18%) plan to contribute to a registered retirement savings plan (RRSP), according to a survey by H&R Block Canada. This is less than the 23% who have contributed to, or say they intend to contribute to, the far younger tax-free savings account (TFSA) program.

Caroline Battista, senior tax analyst for H&R Block Canada, suggests many are not planning to take advantage of the RRSP contribution deadline because they don't fully understand how RRSPs and TFSAs affect their tax situations. In fact, the survey found only half of us fully comprehend the similarities and differences between RRSPs and TFSAs.

As I have often written, the two programs are almost mirror images of each other. The RRSP program is more than a half century old and, as the recent Motley Fool RRSP report made clear, provides upfront tax deductions that lower your overall tax liability for the year the contribution is made. By contrast, TFSAs were launched only in 2009 and provide no upfront tax deduction.

Both RRSPs and TFSAs shelter investment income from annual taxation, whether it's interest income, dividends, or capital gains. But the closer one gets to retirement, the better TFSAs will look compared to RRSPs. That's because RRSPs eventually must be annuitized or converted to a registered retirement income fund (RRIF), at which point (after age 71) RRIF holders will be subject to forced annual minimum withdrawals. By contrast, the TFSA—while not providing an upfront tax deduction on the original contribution—will remain tax free, both on investments earnings and any withdrawals made from the plan.

“By this time of year, people should have a clear picture of how much money they made last year,” Battista says. “The RRSP contribution deadline is 60 days into the New Year. It gives people an opportunity to calculate their 2015 taxable income and consider contributing to an RRSP in order to reduce it. If they decide not to contribute by February 29, the contribution room carries forward to next tax season.”

One difference is that a person needs to have earned income in order to contribute to an RRSP, while

any Canadian who has reached age 18 qualifies for a \$5,500 annual TFSA contribution, whether or not any income was earned in the year of contributing.

The H&R block [survey](#) found that a major factor in choosing between the two vehicles is penalties on withdrawals, which were cited as a concern by 37% surveyed. Generally, there are no penalties to withdraw from a TFSA, although you do have to be careful to wait until the following year to recontribute any amounts withdrawn in the current year. RRSPs have far stricter rules on withdrawing funds.

Not surprisingly, the motivation of reducing taxes was cited by 35% (here the RRSP would get the nod), which was almost even with the 36% who were motivated by the incentive to save money for the future.

Interestingly, younger Canadians aged 18 to 34 are most concerned with their savings goals (55% of them were), while older Canadians aged 35 to 54 (in 38% of cases) were most concerned with the opportunity to reduce their tax obligations.

Naturally, I believe most middle-class, middle-income Canadians trying to build wealth should strive to maximize both programs, although lower-income earners may give the nod to the TFSA alone. Personally, I'm at the stage where the TFSA makes more sense. As most know, once the Liberal administration won the federal election in the fall, they repealed the just-won Conservative \$10,000 TFSA annual limit introduced in calendar 2015 back to the prior \$5,500 level, which kicked in on January 1, 2016. The limit will be raised in line with inflation as the years go by and certain thresholds are reached. Surprisingly, the H&R Block survey found that more than two-thirds (67%) said the lowering of the TFSA limits did not affect their decision to invest in them.

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