Investments

RESP

Taxpayers who are saving for their children's post-secondary education should contribute at least $2,500 to their child's RESP in order to take maximum advantage of the matching Canada Education Savings Grants (CESG) or any other provincial incentives available. However, because RESP income will only be taxed in the child's hands if they do in fact decide to pursue a post-secondary education, they may decide that any additional savings might be better achieved through a TFSA.

If a child decides not to pursue a post-secondary education the RESP income is taxed in the hands of the RESP contributor in the form of accumulated income payments. They will also be subject to a 20% penalty tax to the extent that the taxpayer does not have sufficient room to transfer the payments to their RRSP. However, if the funds are invested in a TFSA, there are no restrictions on how distributions are used and the income is not taxed.

You have to be a Canadian resident to receive the government grant related to RESPs. The tax-sheltered status of the RESP only applies to Canadian residents. If the subscriber or account owner is a non-resident, they might have to pay taxes on any income earned in the RESP account as well as capital gains, according to the rules of their resident country.

If the beneficiary of an RESP account becomes a non-resident, the account can be kept intact, but no contributions can be made and no grants are paid. If the beneficiary moves back to Canada and re-establishes Canadian residency, contributions can again be made and grants will be paid on contributions. No grant room will be accumulated for the time during which the beneficiary was a non-resident.

If the beneficiary has moved away from Canada and it is likely the beneficiary will be returning to Canada, it makes sense to keep the RESP account in place. If the beneficiary is not coming back to Canada, collapsing the account should be considered. The beneficiary does not have to be a Canadian resident to use the RESP money for post-secondary education, however a non-resident will lose the grant amount of their RESP.

RESP money can be used to attend either a Canadian post-secondary school or a non-Canadian school. The beneficiary must be a Canadian resident in order for RESP grants to be paid into the RESP account. If the beneficiary is not a Canadian resident, an existing RESP account can be maintained – but no contributions can be made.

TFSA

The Tax-Free Savings Account has generated a lot of positive interest across Canada—and for good reason. Here are the special features that make a TFSA such a great savings option.

Tax-Free Investment Income and Withdrawals

Unlike other registered tax-deferred plans, earnings throughout your lifetime from qualified investments in your Tax-Free Savings Account - whether interest, dividends or capital gains—are never subject to Canadian tax. You don't pay taxes even when you withdraw your money.

Flexible Withdrawals

You can withdraw funds from your TFSA whenever you want (depending on what you've invested in), and use the funds for multiple purposes. This makes a TFSA ideal for both your short and long-term investment goals. For example, you could save to purchase a new car, renovate your home, buy a new home, start a small business, take a vacation, build an emergency fund, and grow your retirement nest egg and more.

No Income Requirement

You don't need to have earned income to contribute to a TFSA. This is excellent news if you are retired or a stay-at-home parent. (Your spouse or common-law partner can give you funds to contribute to your own TFSA. There are no tax consequences to either you or your spouse.)

Indefinite Carry-Forwards

With a Tax-Free Savings Account, unused contribution room is carried forward indefinitely, so you can contribute whenever you have the money. Since the inception of the TFSA in 2009 you are eligible to contribute $57,500 which includes your 2018 contribution of $5,500.

Investment Choice

You can hold a wide range of investments in your TFSA; Funds, GICs and stocks. This makes the Tax-Free Savings Account appropriate for all types of investors.

Lifelong Eligibility

There is no requirement to collapse your TFSA at a set age. You can keep it as long as you live. This makes it especially valuable as part of a long-term strategy that may also include RRSPs/RRIFs.

No Lifetime Contribution Limits

There is no lifetime limit on the amount of your TFSA contributions. If you are eligible, you will accumulate contribution room equal to the annual contribution limit for every year you are a resident of Canada.

No Impact on Federal Benefits or Social Credits

Income earned and TFSA withdrawals are not included as income for tax purposes, which means that they will not affect your eligibility for Federal income–tested government benefits and credits such as Old Age Security (OAS) or the Goods and Services Tax (GST) credit.

RRSP

Taxpayers who envision their income declining in future years will probably want to contribute as much as possible to their RRSP for long term goals. Here are the special features that make a RRSP such a great savings option.

Contributions are tax deductible

Your RRSP contribution is a deduction on your tax return. If you're in the top tax bracket, every $1,000 you contribute it reduces the tax you pay by approximately $470. If your income is lower in a year, you can carry forward the deduction to a future year when your income is higher

Savings grow tax free

The tax free compounding allows your savings to grow fast.

You can convert your RRSP to get regular payments when you retire

You can transfer your RRSP tax free into a RRIF or an annuity when you retire. You'll pay tax on the regular payments you receive each year, but if you're in a lower tax bracket in retirement you will pay less. You can also use your spouse's/common-law partner's age as the required withdrawal if they are younger than you.

A spousal RRSP can reduce your combined tax burden

If you earn more money than your spouse, you can help build their tax free savings by contributing to a spousal RRSP. Retirement income will be split more equally between the 2 of you – which may reduce the total amount of tax you pay when you withdraw it.

You can borrow from your RRSP to buy your first home or pay for your education

- Allow first time home buyers to use RRSP funds (up to $25,000) to make a deposit on a house. However, funds withdrawn under the Home Buyer Plan (HBP) must be either paid back or brought back into income, usually in years when the taxpayer earnings are increasing and their income is being taxed at a higher marginal rate. TFSAs have no such restrictions and are therefore the preferred vehicle for saving towards a home
- Similar considerations would apply to the use of RRSP funds to finance one's education - Lifelong Learning Plan (LLP) - ($20,000 – subject to annual limit of $10,000).

If you're emigrating from Canada, don't collapse your RRSP too early

- If you leave Canada and become a non-resident for tax purposes, it could benefit you to wait until you're a non-resident before you collapse your RRSP and move the proceeds to wherever you're moving.
- Canada imposes a withholding tax of just 25 per cent on the proceeds of an RRSP for non-residents. But if you want to wind up your RRSP while you're still a resident of Canada, "the proceeds will be taxed at your marginal tax rate, which will be about 48 per cent if you're in the top tax bracket, depending on the province you live in."

PRPP

In Alberta an individual can be enrolled into a PRPP by; their employer (if their employer chooses to participate in a PRPP); or a PRPP administrator (such as a bank, insurance or investment company).

Once enrolled, a PRPP account is created under the individual's SIN. The PRPP account holder (member) chooses the amounts to be contributed from their pay cheque. All member and employer contributions, including any lump-sum contributions, are pooled together and credited to the member's account.

The member must file an income tax and benefit return each year to participate in the PRPP since the amount that can be contributed depends on the income reported on their return. The total amount that a member or employer can contribute ***without tax implications*** depends on the member's RRSP deduction limit.