

## TFSA or RRSP?

### It depends on your tax bracket and savings goals

As the tax filing season is here once again, it is time to think about how best to maximize your financial wealth. The graphic arts industry employs over 10,000 Canadians mostly in what Stats Canada calls small to medium sized businesses. These employees range in age from first employment to seniors who are ready to retire soon. Likewise, their tax brackets range from lowest to highest. Furthermore, their savings objectives can be very different, and that is why there is not often an obvious answer to the question: "Where should I invest my pre-tax dollars to gain the best financial benefit?"

#### Beyond the tax shelter

Both the contributions to RRSP's and TFSA's shelter you from immediate tax consequences as long as these investments remain within their respective accounts. The RRSP further provides the benefit of reducing your taxable income which reduces your immediate tax payable. However, when you remove the funds from your RRSP, preferably during retirement when you have less sources of taxable income, and therefore a lower tax bracket, the money withdrawn becomes fully taxable. TFSA's on the other hand do not reduce your taxable income, which means that they do not incur taxes when they are withdrawn.

In the December 2014 issue of Graphic Arts Magazine, I provided a detailed look at the actual return on investment advantages of an RRSP (see Should you invest in RRSP?). Bottom line, if you continue to invest yearly into an RRSP, and do not withdraw the money until retirement, RRSP is almost always a better financial investment than a TFSA. Further, dollar for dollar, an RRSP investment increases your current cash flow, even if it reduces your income when you are in your seventies, and most people with families need the cash flow now.

This is not necessarily true in situations where you cannot afford to be without access to the savings until retirement. For example, if you are young or a parent of young children, you have many more financial requirements on the horizon, such as marriage, education costs, children weddings, children coming of age events, down payments for a new home, family vacations, etc. In other words, you know that you cannot put your money away until retirement, or comply with the stringent rules of "borrowing" money from your RRSP. In those cases, TFSA's become much more attractive.

#### Spousal RRSP and other considerations

Now that doesn't seem like such a complex choice. However, there are other considerations. What if you're a

single income family, or a family where the income disparity between spouses results in significantly different tax brackets. A spousal RRSP enables this couple to gain all of the benefits as above described, and adds the benefit of moving income to the lower earner. While that has no affect on current wealth, it will mean that at retirement age, as the RRSP was split, each spouse will likely be in a lower tax bracket and pay less tax than if all the income were in one of the partners.

Do you have a home that has a mortgage that you are paying off? Do you want to invest in an RESP (Registered Education Savings Plan) for your children? Are you an owner, or a healthy middle-aged employee who intends to work beyond the age of 71 (the age when you must start withdrawing taxable funds out of your RRSP)?

With respect to your mortgage, most financial experts agree that it is always best to pay down your mortgage first. However, while this is a simple rule of thumb, it hasn't been as financially beneficial in the past year with home interest rates low and the stock market high (where your RRSP or TSFA funds may reside).

Regarding RESP's, the federal government matches 20% of your contribution for each child to an annual maximum of \$500 or \$7,200 over the life of the plan, and in Alberta and Quebec, there is also provincial matching.

If you intend to work beyond 71 years, the current mandatory age when to begin withdrawing RRSP funds, you will probably not have a significant future tax advantage. Nevertheless, this author has always followed the philosophy that since we don't know what the future will bring, it's best to save the tax dollars now. Happy holidays!

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Elliot Schiller is a Director at Toronto's Teeger Schiller Inc., a company that specializes in obtaining government funding. His clients receive over \$5 Million annually to support their ongoing business innovation. E-mail [eschiller@teegerschiller.com](mailto:eschiller@teegerschiller.com), visit [www.FundingHelp.ca](http://www.FundingHelp.ca) or phone 1-888-816-0222 Ext. 102.

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## David Teeger

### Director

David Teeger C.A., C.A. (S.A.) graduated as a Chartered Accountant in South Africa, and upon arrival in Canada he obtained his Canadian C.A. designation and joined Richter & Associates, a management consulting firm, where he concentrated his practice on various business sectors including household goods, fashion, automotive parts, public associations, and retail chains. He performed many roles in his 15 years at Richter, including managing the professional services organization in North America and all business operations throughout Europe.

David's professional capabilities include computer audits, feasibility studies, system analyses and assistance in the selection, negotiation and implementation of computerized solutions.

As a founding partner of Teeger Schiller Inc., he has focused his practice on consulting to management. His team of professionals has helped businesses select and successfully install a variety of ERP business solutions and add-on systems including business intelligence solutions to give new life to existing computer systems. David's clients not only rely on him to successfully manage the implementation of their new systems, but to manage the change that occurs in their organizations as a result of the use of these new tools.



## Elliot Schiller

### Director

Elliot Schiller, Ph.D., C.M.C. began his career as a Chemical Engineer working for Grumman Aircraft, in Long Island, New York. He obtained his Ph.D. at the University of Pittsburgh with funding from the U.S. Atomic Energy Commission, and, after being awarded a Presidential Fellowship, he went on to perform research and development activities at Brookhaven National Laboratory.

Since coming to Canada, he has primarily assisted consumer products and retail organizations in a variety of strategic management initiatives, traveling around the globe on behalf of his clients. In 1987, Elliot joined Richter & Associates, and it is here that he first met David Teeger.

As a founding partner of Teeger Schiller Inc., he has focused the SR&ED / Grant Division on obtaining grants and tax incentives for over 100 companies in the small to medium sized business sector. His team has provided services to the discrete / processing manufacturing, material development, textiles, apparel, automotive and computer sciences sectors. Annually, Teeger Schiller Inc. secures more than \$5 million in government funding to assist its clients in having their business initiatives supported by government funding.



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