



MODULE: 2

INTRODUCTION TO TYPES OF INVESTMENT ACCOUNTS

TYPES OF ACCOUNTS AND THEIR CHARACTERISTICS

Non-registered account

This investment account doesn't offer any tax benefits, meaning that the income earned or the capital gains generated during a fiscal year will have to be declared on your income tax. You must be 18 years of age to open such an account unless your parents open one for you; however, that means they will be in charge of making investments decisions. Such an account can be opened with a bank or an independent investment dealer. It can also have an extra feature called "margin" which allows you to borrow amounts based on the value of your investments; however, margin should only be used by investors who can afford to lose money as it can be risky. Specific rules will apply and borrowing is not free.

Your investment advisor will ask you many questions when you open an investment account. From money laundering to suitability, there are security checks required by the Investment Industry Regulatory Organization of Canada (IIROC). Take a quick look at the document linked below to get a better understanding of why investment dealers are required to apply the "Know Your Client Rule".

Click here for the [IIROC Retail Account Brochure](#)

Registered Retirement Savings Plan (RRSP): Start planning for retirement early

This type of account is set up by a financial institution and registered with the government. You can contribute up to 18% of your income up to a set maximum per year.

The major advantage of this account is that your contribution is tax deductible. Furthermore, income from interest and dividends, as well as capital gains earned in the RRSP are exempt from tax as long as the funds remain in the plan.

To recap, contributions are tax deductible and growth is sheltered from taxes. Taxes are applied when you withdraw money from the plan, but the compounding effect of having the money sheltered for years makes it a good investment vehicle. The amount of taxes paid will vary according to your tax bracket.

Contributions are allowed until the age of 71. At the end of the year you turn 71, you will be required to convert the RRSP into a Registered Retirement Income Fund (RRIF).

For more info on RRSPs, check out: <http://www.cra-arc.gc.ca/tx/ndvdl/tpcs/rrsp-reer/rrsps-eng.html>



BEING TAX EFFICIENT

Tax-Free Savings Account (TFSA): Withdrawals tax-free

For individuals who are 18 years of age and older, the TFSA is a vehicle to set money aside tax-free throughout their lifetime. Unlike contributions made to an RRSP, TFSA contributions are not deductible for income tax purposes but the income and capital gains generated by the investments are tax-free, even when it is withdrawn. That means you don't pay tax on it; it won't affect your GST credit or employment insurance; and you won't face claw backs on your Guaranteed Income Supplement or Old Age Security. People earning low salaries are better off saving inside a TFSA than an RRSP, but both investment vehicles make good sense for most Canadian investors.

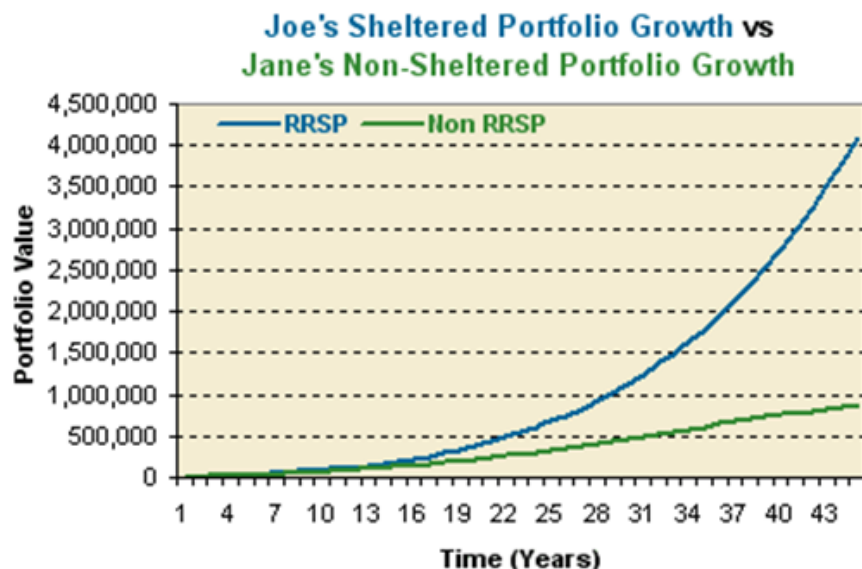
Interest from savings accounts, bonds and GICs is taxed at a higher rate than dividends or capital gains, so you benefit more by keeping them in a TFSA or your RRSP. Administrative or other fees in relation to your TFSA and any interest or money borrowed to contribute to your TFSA are not tax deductible.

You can contribute each year up to your TFSA contribution room which, as of 2016 equals \$46,500. Limit for the years 2009, 2010, 2011 and 2012 was \$5,000

- Limit for the years 2013 and 2014 was \$5,500
- Limit for 2015 was \$10,000
- Limit for 2016 was \$5,500
- Limite for 2017 is \$5,500

Starting in 2009, TFSA contribution room accumulates every year. If you are 18 years of age or older and a resident of Canada, you have the right to contribute up to the contribution limit.

For more info on TFSA: <http://www.cra-arc.gc.ca/tx/ndvdl/tpcs/tfsa-celi/menu-eng.html>



WHERE TO START AND EFFICIENT WAYS TO SET MONEY ASIDE



TFSA or RRSP

When it comes to RRSP contributions, take a look at your marginal tax rate for the tax year in which you plan to claim the tax deduction. Talk to your advisor about your current situation. If you expect your income to increase substantially in the years to come, it could be beneficial not to contribute in order to accumulate contribution room for when you will be in a higher tax bracket.

Here's a link to information on marginal tax rates on income: <http://en.planiguide.ca/tables/quebec/tax-table/>

TFSA's are much more flexible when it comes to withdrawals. You can withdraw any contributions you have made plus any growth on your investments, and add them back later on. However, if you have contributed the maximum amount allowed to your TFSA and you withdraw any of your money, you must wait until the following year to contribute again, otherwise you may incur a tax penalty from the Canada Revenue Agency.

RRSPs, on the other hand, don't allow that much flexibility. There are three main consequences when withdrawing from an RRSP.

- You lose the benefit of future tax-deferred compounding effect in your plan
- You face a withholding tax of up to 30%
- You can't recontribute the funds withdrawn without using up additional RRSP contribution room

RRSP Home Buyer's Plan

Allows first-time homeowners to withdraw up to \$25,000 from an RRSP to purchase or construct a new home. Amounts withdrawn must be repaid over a maximum of 15 years.

This plan lets you “borrow” money from your RRSP without paying taxes on the money and later return the withdrawn funds to your plan.

RRSP Lifelong Learning Plan

You can withdraw up to \$10,000 per year (\$20,000 total) to finance full-time education for you or your spouse or partner, repayable over 10 years.



References:

Registered Retirement Savings Plan (RRSP). (n.d.). Retrieved August 05, 2016, from <http://www.cra-arc.gc.ca/tx/ndvdl/tpcs/rrsp-reer/rrsps-eng.html>

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<http://www.moneysense.ca/magazine-archive/tfsa-truth-rumours/>



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