Investment account type comparison

This *InfoCard* contains summary data to assist you in responding to your clients' inquiries about the tax and estate issues surrounding different investment account types.

	RRSP	TFSA	Open account	RESP	In trust for a minor child
Primary purpose	Retirement savings (and assist homebuyers and education)	Any purpose	Any purpose	Education funding	Education or future wealth transfer for a minor child
Age eligibility in	No lower age limit, but must have earned income; no contributions after Dec. 31 of year turning age 71	Age 18 for tax purposes, and most issuers also require age of majority (provincial law)	No requirements	From beneficiary's birth to approximately 32nd plan year	Settlor must generally be age of majority
Tax in	Contributions come from pre-tax money	Contributions come from after-tax money	Contributions come from after-tax money	Contributions come from after-tax money and may attract matching government grants	Contributions come from after-tax money
Contribution limit	18% of previous year's earned income to prescribed annual maximum ($24,270 in 2014), plus carryforward amounts	Annual dollar limit ($5,500 in 2014), plus previous year's withdrawals and carryforward amounts	No limit	$50,000 lifetime limit per child, but no annual limit (CESG lifetime limit of $7,200 per child, with annual limit rules)	No limit
Unused room	Carry forward	Carry forward	Not applicable	Subject to lifetime limit	Not applicable
Penalty on over-contributions	Yes, 1% per month, but lifetime over-contribution of $2,000 allowed	Yes, 1% of the highest excess amount per month	No	Yes, 1% per month on amount in excess of lifetime limit	No
Investment options	List prescribed by the *Income Tax Act* (Canada)	List prescribed by the *Income Tax Act* (Canada)	No restrictions	List prescribed by the *Income Tax Act* (Canada)	Each province has prescribed list or prudent investor rule; may be affected by trust deed
Used as loan collateral	Causes plan deregistration	Yes	Yes	Causes plan deregistration	Possible if benefiting beneficiary, but likely only if trust terms allow
Interest on borrowed money	Non-deductible	Non-deductible	Deductible	Non-deductible	Non-deductible, but may be deductible in a formal trust
Tax during	Income and growth tax-deferred	Income and growth are not taxable	Realized and allocated income taxable	Income and growth tax-deferred	Income taxed to trust or attributed to settlor if distributed, except capital gains taxed to child
Attribution rules	May contribute to spousal plans in accordance with prescribed rules	May gift money to spouse or any others for contribution to their own TFSA	Generally applies to gifts to spouse or minor children, except capital gains to minors are not attributable	No attribution applies	Generally on all income, but capital gains may be excepted if it is proven to be a valid trust
May name beneficiary	Yes, as provincial law allows	Yes, as provincial law allows	No, except insurance-based plans if provincial law allows	Yes, by Will, via estate or using joint-subscriber spouse	No, the trust structure itself defines who is the beneficiary
Protection from creditors	Protected in bankruptcy, except deposits within 12 months. There is broader protection in some provinces, particularly for insurance-based plans	May be possible for insurance-based plans, in accordance with provincial laws	No inherent protection	Grant is preserved for government, and contributions and growth may be subject to subscriber creditor claims	Not available to creditors of settlor or trustee, but possible exposure to beneficiary creditors
Internal rebalancing†	Gains and losses do not trigger tax so long as assets remain within a plan, including direct transfers to another RRSP	Gains and losses do not trigger tax so long as assets remain within a plan, including direct transfers to another TFSA	Disposition may trigger a capital gain or loss (subject to superficial loss rules), though tax-free switches possible using a corporate-class mutual fund	Gains and losses do not trigger tax so long as assets remain within a plan, including direct transfers to another RESP	Disposition may trigger a capital gain or loss (subject to superficial loss rules), though tax-free switches possible using a corporate-class mutual fund

	RRSP	TFSA	Open account	RESP	In trust for a minor child
Canadian dividends	Direct increase in plan value, and cannot claim the dividend tax credit	Direct increase in plan value, and cannot claim the dividend tax credit	Gross-up and dividend tax credit mechanism applies	Direct increase in plan value, and cannot claim the dividend tax credit	Gross-up and dividend tax credit mechanism applies, and characterization is preserved on a beneficiary distribution, though attribution to settlor applies
Realized capital gains	Treated as regular income in plan, and cannot realize a capital gain	Treated as regular income in plan, and cannot realize a capital gain	One-half taxable	Treated as regular income in plan, and cannot realize a capital gain	One-half taxable (taxable to trust or distributable to beneficiary)
Realized capital losses	Direct decrease in plan value, and cannot claim a capital loss	Direct decrease in plan value, and cannot claim a capital loss	May offset realized capital gains in account or elsewhere (three-year carryback or indefinite carryforward)	Direct decrease in plan value, and cannot claim a capital loss	Cannot be distributed, but may offset capital gains in the trust
Marriage breakdown	Generally subject to equalization	Generally subject to equalization	Generally subject to equalization	Generally subject to equalization, but government interests remain preserved	Generally not subject to equalization, unless facts disclose that trust is not bona fides
Age horizon out	Must collapse, annuitize or convert to RRIF by Dec. 31 of year turning age 71	No age or duration limit	No requirements	Withdrawals to commence within 31 years, and plan to close within 35 years (extendable if beneficiary disabled)	Without formal trust provisions to the contrary, trust property vests in beneficiary at age of majority
Tax out	All withdrawals are fully taxable	Non-taxable	Disposition at fair market value triggers capital gain/loss tax treatment	Principal is non-taxable. Grant and growth are taxable as EAP to child, though growth could be taxable to subscriber as an AIP (with possible RRSP transfer)	Capital property deemed disposed each 21st anniversary, but tax may be deferred by rolling out capital property to beneficiary at adjusted cost base
Reaccessibility	Room is exhausted	Recovers contribution room	No limits	Exhausted	No limits to reuse
Tax if probate required	Yes, if there is no valid beneficiary or estate is the beneficiary	Yes, if there is no valid beneficiary or estate is the beneficiary	Yes, unless held in joint ownership or other probate-avoidance steps taken	Yes, unless there is a joint subscriber	Death of trustee or beneficiary may require court application, but whether probate tax is applicable depends on facts and province
Withholding tax on withdrawal	Yes, ranging from 10% to 31%, but not applying to minimum RRIF withdrawals	No	No	No, except on AIP withdrawals (including possible 20% penalty tax)	No
Non-resident departure tax (*withholding tax of 25% may be reduced by Treaty*)	Not subject to departure tax; however, lump-sum withdrawals are subject to non-resident withholding tax	Not subject to departure tax rules, and no non-resident withholding tax	Subject to departure tax rules. Subsequent income distributions are subject to non-resident withholding tax (but not applying to capital gains)	Not subject to departure tax; however, any EAP is subject to general non-resident withholding tax	Trust assets subject to departure tax on trustee becoming non-resident. Subsequent income distributions are subject to non-resident withholding tax (but not applying to capital gains)
Rollover at death	Rollovers possible to "qualified beneficiaries" (i.e., spouse, financially dependent minor (grand)children (annuitizing to age 18) and disabled financially dependent (grand)children)	Spouse named as successor annuitant/beneficiary may continue/transfer TFSA without affecting own existing TFSA room	Roll over at ACB to spouse or qualifying spousal trust at death. A lifetime rollover is possible, but attribution rules may apply	Requires specific instructions in Will to roll over and continue RESP. Refund of contributions are not subject to tax	Death of settlor (e.g., parent, grandparent) does not affect trust, except that attribution no longer applies on distributions

† **SPECIAL NOTICE: As per the 2016 Federal Budget, the government announced an end to tax-deferred switches among fund classes within a mutual fund corporation. Nonetheless, the structure continues to offer other tax efficiencies for non-registered accounts. Please refer to our *Tax & Estate* special advisory titled *Mutual fund corporation tax changes* for more information.**