TFSA & RRSP
Extension Activity for *Conquer Cashalot* or *Managing Money &Understanding Credit* Presentations

Grade Level:
- Grade 10-11

Learning Objective:
This extension activity, along with the *Conquer Cashalot* or *Managing Money & Understanding Credit* presentation should help students:
- define what a Tax-Free Savings Account (TFSA) is and its characteristics
- define what a Registered Retirement Savings Plan (RRSP) is and its characteristics
- identify the similarities and differences between a TFSA and RRSP

Materials Needed:
- whiteboard
- whiteboard marker
- pencils (1 per student)
- *TFSA or RRSP?* worksheet (1 per student)
- *glossary* (1 per student) *

*Glossary is optional but may aid students in completing the worksheet

Lesson Plan:

Part I: Tax-Free Savings Account

1. Write the words Tax-Free Savings Account (TFSA) on the whiteboard
2. Ask students what they know about a Tax-Free Savings Account (TFSA) and allow them to share their responses aloud. Write correct responses on the whiteboard
3. Share with students the following information about a Tax-Free Savings Account (TFSA): a Tax-Free Savings Account (TFSA) can be used for saving or investing money
    - you must be 18 years old or older to contribute into a TFSA. There is no maximum age for making TFSA contributions
    - money contributed to a TFSA is not tax deductible. This means any money contributed into a TFSA cannot be subtracted from taxable income when calculating the amount of income tax due. However, money earned within a TFSA (i.e. interest earned, dividends, capital gains) is not taxable. This money does not need to be included on your tax return and will not affect your taxable income
    - there is a maximum amount of money you can contribute to your TFSA each year and this amount is based on your unused contribution room.

Your total contribution is cumulative so you can roll over unused contribution room year after year

- there are no tax penalties for withdrawing money from a TFSA. The only restriction is that you can't put the money you took out back in the same calendar year (unless you have sufficient contribution room for it to be considered an additional contribution). Any money withdrawn from a TFSA can be put back in the next calendar year without affecting your contribution room

<u>Part II</u>: Registered Retirement Savings Plan (RRSP)

1. Write the words Registered Retirement Savings Plan (RRSP) on the whiteboard
2. Ask students what they know about a Registered Retirement Savings Plan (RRSP) and allow them to share their responses aloud. Write correct responses on the whiteboard
3. Share with students the following information about a Registered Retirement Savings Plan (RRSP):
    - a Registered Retirement Savings Plan (RRSP) is typically used to save for retirement
    - contributions to an RRSP are tax deductible. This means the contributions made into an RRSP can be used to reduce how much tax you pay by reducing your taxable income
    - you do not have to pay tax on any money contributed to an RRSP until you retire or withdraw the money
    - there is no minimum age for contributing to an RRSP
    - to make contributions to an RRSP account, a person needs to have earned income in previous year(s) and filed an income tax return with Canada Revenue Agency
    - there are contribution limits to an RRSP each year which are set by Canada Revenue Agency (CRA). Your total contribution room is cumulative, so you can roll over unused contribution room year after year
    - money in an RRSP can also be used for a down payment or for going back to school but the money must be paid back into the RRSP to avoid being taxed on these amounts
    - after age 71, you must choose an RRSP maturity option because you can no longer have an RRSP. Depending on what option you choose, there may be a minimum amount allowed to be withdrawn each year

<u>Part III</u>: worksheet

1. Distribute the *TFSA or RRSP* worksheet, glossary and pencils to students
2. Review the answers with students after they have completed the worksheet

TFSA or RRSP?

Instructions: read the description in the first column. Decide whether it is describing a Tax-Free Savings Account (TFSA) or a Registered Retirement Savings Plan (RRSP) and put an X in the correct column.

Description	Tax Free Savings Account (TFSA)	Registered Retirement Savings Plan (RRSP)
contributions are not tax deductible		
contributions are tax deductible		
minimum contribution age is 18		
no minimum contribution age but you need to have earned income from previous year(s)		
cannot have account past the age of 71		
no maximum age limit for making contributions		
no tax penalties for withdrawing money		
need to pay taxes on money withdrawn from the account		
contribution room is cumulative and based on earned income from previous tax years to a maximum amount		
contribution room is cumulative but not based on income		

TFSA or RRSP?: Answer Key

Instructions: Read the description in the first column. Decide whether it is describing a Tax-Free Savings Account (TFSA) or a Registered Retirement Savings Plan (RRSP) and put an X in the correct column.

Description	**Tax Free Savings Account (TFSA)**	**Registered Retirement Savings Plan (RRSP)**
contributions are not tax deductible	**X**	
contributions are tax deductible		**X**
minimum contribution age is 18	**X**	
no minimum contribution age but you need to have earned income from previous year(s)		**X**
cannot have account past the age of 71		**X**
no maximum age limit for making contributions	**X**	
no tax penalties for withdrawing money	**X**	
need to pay taxes on money withdrawn from the account		**X**
contribution room is cumulative and based on earned income from previous tax years to a maximum amount		**X**
contribution room is cumulative but not based on income	**X**	

Glossary

calendar year: the period from Jan. 1– Dec. 31 of the same year
contribution limit: maximum amount of money you can put into an account

cumulative contribution room: unused contribution room can be carried forward. The sum of all the unused contribution room makes up your cumulative contribution room
income tax: amount of money that must be paid to Canada Revenue Agency from gross income (before taxes). The amount of tax to be paid each year is based on taxpayer's taxable income
non-taxable income: income that is not taxed regardless of whether it is entered on your tax return
taxable income: amount of income used to calculate the tax an individual must pay to Canada Revenue Agency
tax deductible: money that can be deducted from taxable income when calculating income tax due
tax return: a form on which a taxpayer makes an annual statement of income used by tax authorities to assess the amount of tax due
unused contribution room: your contribution limit minus the contributions you have made