

TFSA or CPP? A Business Owner's Dilemma



Over age 65 and still working? Should you stop contributing to the CPP at age 65 in favour of a TFSA contribution? It's a commonly asked question. In fact, the TFSA has an especially important multi-generational role in 2020.

Here are some pros and cons to consider in discussions with clients:

PROS FOR THE TFSA

It's a great option for:

1. GenZs who are residents of Canada who are at least 18 years old who may have received the CERB and want to start an emergency fund.
2. Millennials who have no earned income for RRSP purposes but want to save for a home
3. GenXers who have no RRSP room due to employer-sponsored RPP contributions
4. Business owners who are taking only dividends out of their small business corporations
5. Retired people who withdraw RRSP or RRIF payments and want to re-invest in a tax-free solution
6. Anyone who has TFSA room but must make CPP contributions, which are rising: mandatory CPP premiums may squeeze out TFSA savings room in the future, so contributing voluntarily to the TFSA now makes sense.
7. Older workers who can opt out of CPP: the TFSA provides better survivor and death benefits than the CPP, while creating tax-free rather than taxable retirement income.

PROS FOR THE CPP

1. A portion of the premiums can be written off on the tax return, generating some tax savings
2. There is a disability benefit available through the plan
3. There is an orphan's benefit available through the plan
4. The employer contributes an equal amount for employees

Financial advisors can provide sound guidance on the best solution for each individual situation.

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