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TFSA vs. RRSP

Solutions

There is a lot of noise about TFSAs and RRSPs. Which one is better? Which one should I be using? Both vehicles are excellent choices for saving. But it all boils down to what your financial goals are.

RRSPs, or Registered Retirement Savings Plans, are a great way to save for retirement. Contributions to an RRSP are tax deductible. This deduction can be used to reduce your taxes and may lead to a tax refund which can be reinvested.

RRSPs can work so that withdrawals that are made during retirement are taxed at a lower marginal tax rate than when contributions were made.
Be aware though, withdrawals from an RRSP while in a higher tax bracket, such as during working years, are taxed at a higher rate. RRSPs are an ideal option for retirement savings.

What you should know is that there are two ways you can borrow tax free from an RRSP. The Home Buyers' Plan allows first time home buyers to access their RRSP savings for a down payment. The second way is the Lifelong Learning Plan. Cash may be borrowed from the RRSP to fund education. Keep in mind that this money must be repaid to the RRSP in a certain amount of time depending on the program.

Now, let's take a look at TFSAs or Tax-Free Savings Accounts. TFSAs are savings accounts that you contribute to with after-tax income but you cannot claim a tax deduction for contributions you make. Instead, you can withdraw from a TFSA at any time without being taxed and investments grow tax free inside of a TFSA.

This makes them ideal for short to medium term saving goals, like a car or a holiday.

Keep in mind that there is a maximum limit for annual contributions to a TFSA, amounts are adjusted each year for inflation. If you over contribute in any one year you will be subject to penalties.

So which is better? The truth is both RRSPs and TFSAs are great ways to save money for your future. But, the tax treatment of each means you can choose which will be more effective for your investing goals.

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