

Comparing TFSAs and RRSPs

[TFSAs](#) and [RRSPs](#) both offer tax advantages to help you reach your savings goals. If you can afford it, a good strategy is to contribute as much as you can to both. But if you have to choose one over the other, make sure you understand how they differ. And then make your choice based on your own individual financial and tax situation.

A quick comparison

	RRSP	TFSA
Need earned income to contribute	✓	✗
Tax-deductible contributions	✓	✗
Tax-free withdrawals	✗	✓
Age limit for making contributions	✓	✗



Top 6 differences between TFSAs and RRSPs

1. An RRSP is intended for retirement savings. A TFSA can be for any type of savings goal.
2. RRSP contributions are tax deductible. TFSA contributions are not. With an RRSP, you deduct your contribution from the income you report on your tax return. With a TFSA, you can't deduct your contribution on your tax return.
3. You pay tax on your RRSP withdrawals because you made the contributions with pre-tax dollars. TFSA withdrawals are tax free because you made the contributions with after-tax dollars.
4. The last day you can make contributions to your RRSP is December 31 of the year you turn 71, after which it must be closed. At that time, you can either convert your RRSP to a [RRIF](#) or buy an [annuity](#). With a TFSA, you don't have to stop contributing or close it at a certain age.

5. You need earned income to contribute to an RRSP but not to a TFSA.
6. With both plans, you can name your spouse as a beneficiary. The money will roll over to them upon your death. But with an RRSP, after your spouse dies, taxes will due on any money left in the account. So if your children inherit the money, they will receive what is left after the tax is paid. With a TFSA, only the increase in the value of the TFSA since the date of death is taxed in the year the children receive it. If the amount they receive is not greater than the value of the TFSA at death, no tax is paid.

CAN YOU SAVE MORE WITH AN RRSP OR TFSA?

It depends on your individual circumstances, tax situation and when you plan to take money out.

KEY POINT

The main difference between an RRSP and TFSA is the timing of taxes:

- An RRSP lets you defer taxes – an advantage if your marginal tax rate is lower in retirement.
- With a TFSA, you've already paid tax on the money you contribute – an advantage if your marginal tax rate is higher when you withdraw the money.