GUIDE 02

RRSP vs TFSA: Which Account Is Right for You?

A practical, plain-language comparison of Canada's two most powerful savings accounts — with real numbers, real scenarios, and a clear decision framework.

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1. How the TFSA works — contribution room, withdrawals, and investments
2. How the RRSP works — tax deductions, limits, and conversion rules
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Introduction

The TFSA and RRSP are the two most powerful savings and investment accounts available to Canadians, yet most people use them without fully understanding how they work, which one fits their situation, or why the sequence of contributions matters enormously over a lifetime.

This guide explains both accounts with real numbers so you can make decisions based on your actual situation rather than general advice.

REALITY CHECK

Only 30% of eligible Canadians

maximize their TFSA in any given year. The average Canadian holds just over $32,000 in their TFSA against a possible $95,000 of cumulative room (as of 2024). Most of that unused room is tax-free growth permanently left on the table.

The TFSA: How It Actually Works

A Tax-Free Savings Account is one of the most flexible financial tools in Canadian history. The name is slightly misleading — it is not just for savings. It is a registered account that can hold cash, GICs, stocks, bonds, mutual funds, and ETFs, and everything it earns is tax-free forever.

Contributions and Room

You contribute after-tax dollars. There is no deduction when you put money in. In return, every dollar of growth — interest, dividends, capital gains — is completely tax-free. Withdrawals are also tax-free, and unlike an RRSP, the amount you withdraw is restored to your contribution room on January 1 of the following year.

Year	Annual Limit	Cumulative Room (from 2009)
2009-2012	$5,000/year	$20,000
2013-2014	$5,500/year	$31,000
2015	$10,000	$41,000
2016-2018	$5,500/year	$57,500
2019-2022	$6,000/year	$81,500
2023	$6,500	$88,000
2024	$7,000	$95,000
2025	$7,000	$102,000
2026	$7,000	$109,000

Investment Options Inside a TFSA

Most people hold their TFSA as a plain savings account earning 2% to 5% interest. This is fine for short-term goals. But if your timeline is five years or more, consider holding investments inside your TFSA. Because all growth is tax-free, growth-oriented investments are commonly held in a TFSA because future gains can be entirely tax-free. Asset location depends on your tax bracket, investment horizon, and the types of income each investment generates. What works best varies by individual situation.

SUKRAH'S TAKE

The most underutilized aspect of the TFSA I see is the investment component. Clients often have $20,000 sitting in a TFSA at their bank earning 2.5% when they could be invested in a diversified ETF portfolio earning potentially far more, all tax-free. The account name should not limit your thinking about what belongs inside it.

The RRSP: How It Actually Works

The Registered Retirement Savings Plan is specifically designed for retirement and is most valuable for people who are currently in a high tax bracket and expect to be in a lower bracket in retirement.

The Tax Deduction Mechanics

When you contribute to an RRSP, you receive a deduction that reduces your taxable income for that year. If you are in a 40% marginal tax bracket and contribute $10,000 to your RRSP, your tax bill for the year drops by $4,000. That $4,000 refund can itself be invested. Your money then grows tax-deferred inside the plan until you withdraw it in retirement, at which point it is taxed as ordinary income — ideally at a lower rate than when you contributed.

Marginal Tax Rate	RRSP Contribution	Tax Refund Generated
26% (approx. under $57K income)	$5,000	$1,300
33% (approx. $57K to $112K)	$10,000	$3,300
43% (approx. $112K to $165K)	$15,000	$6,450
50%+ (over $246K federally)	$20,000	$10,000+

These examples assume approximate combined federal and provincial tax rates for illustration. Your actual marginal rate depends on your province, territory, and total income. Rates vary significantly across provinces.

Contribution Limits

You can contribute 18% of your previous year's earned income, up to the annual dollar maximum set by the CRA each year. Your personal limit is printed on your Notice of Assessment from the CRA. Unused room carries forward indefinitely. If you have worked in Canada for several years and never contributed, your accumulated room may be substantially higher than the current year limit.

The RRSP Home Buyers' Plan

You can withdraw up to $60,000 from your RRSP tax-free to purchase a qualifying first home (limit increased from $35,000 in the 2024 federal budget). If you and a spouse both have RRSPs, you can each withdraw up to $60,000 for a combined $120,000. The funds must have been in the RRSP for at least 90 days. Repayments begin two years after withdrawal and must be completed over 15 years. Amounts not repaid in a given year are added to your income and taxed.

Converting to a RRIF at Age 71

By December 31 of the year you turn 71, your RRSP must be converted to a Registered Retirement Income Fund (RRIF) or an annuity. From a RRIF, you must withdraw a minimum percentage each year based on your age. These withdrawals count as taxable income. Strategic planning before age 71 — including whether to draw down your RRSP earlier — can significantly reduce your lifetime tax burden.

TFSA vs RRSP: Side-by-Side with Real Numbers

Feature	TFSA	RRSP
Contribution dollars	After-tax (no deduction)	Pre-tax (deductible)
Tax on growth	None, ever	Tax-deferred until withdrawal
Withdrawals	Tax-free, any time	Taxed as income
Annual limit (check CRA)	$7,000 (2024-2026)	18% of prior year earned income (up to annual CRA max)
Unused room	Carries forward indefinitely	Carries forward indefinitely
Withdrawal room restored?	Yes — Jan 1 next year	No
Age limit	None (need 18+ and SIN)	Converts to RRIF by age 71
Impact on OAS/GIS?	None — withdrawals not counted as income	Yes — withdrawals increase income
Best for	Flexibility, low-to-mid income, short goals	Retirement savings, higher incomes

A Real Dollar Comparison

Consider two people who each have $500/month to save over 20 years, earning an average 6% annual return:

Scenario	Account Used	Total Contributed	Approx. Value at Year 20	Tax on Withdrawal
Person A (TFSA)	TFSA	$120,000	$231,000	$0

Scenario	Account Used	Total Contributed	Approx. Value at Year 20	Tax on Withdrawal
Person B (RRSP, 33% bracket)	RRSP	$120,000	$231,000	~$76,000 at withdrawal
Person B with refund reinvested	RRSP + reinvested refund	$120,000	$270,000+	Tax due on higher amount

The RRSP's advantage comes from reinvesting the tax refund and the higher lifetime balance — but this only outperforms the TFSA if your retirement tax rate is meaningfully lower than your contribution-year tax rate.

What to Hold Inside Each Account

Asset location — which investments you hold in which account — can meaningfully increase your after-tax returns without changing your investment risk.

Investment Type	Best Account	Reason
Growth stocks / equity ETFs	Often TFSA	Tax-free growth on high-return assets is a common strategy; depends on your full picture
High-yield bonds	Often RRSP or TFSA	Interest income is taxed in a non-registered account; holding in a registered account defers or eliminates that tax
REITs	Depends on situation	REIT distributions may be better in an RRSP or TFSA depending on your tax bracket and income type; consult your situation
Canadian dividend stocks	Often non-registered	Dividend tax credit can reduce tax; less impactful inside registered accounts where credits cannot flow through

Investment Type	Best Account	Reason
US or international ETFs	Often RRSP	US withholding tax on dividends is waived inside an RRSP by Canada-US tax treaty

The FHSA: A Third Account Worth Knowing

The First Home Savings Account launched April 1, 2023. It combines the best features of both registered accounts specifically for first-time home buyers.

Feature	Detail
Annual contribution limit	$8,000
Lifetime contribution limit	$40,000
Contributions tax-deductible?	Yes — like an RRSP
Qualifying withdrawals?	Tax-free — like a TFSA
Unused room?	Carries forward one year only
If not used for a home?	Transfer to RRSP tax-free, no RRSP room used
Can combine with HBP?	Yes — use FHSA and RRSP HBP for same purchase

If you are a first-time home buyer, the FHSA should be your first priority before either the TFSA or RRSP. $8,000 per year of tax-deductible, tax-free-growth contributions with a $40,000 lifetime cap is a powerful combination that did not exist before 2023.

Which Account for Your Situation

Your Situation	Recommended Priority
Income under $50,000	TFSA first — tax deduction less valuable at lower rates
Income $50,000 to $100,000	Both — TFSA for flexibility, RRSP for the deduction
Income over $100,000	RRSP first — the deduction generates significant tax savings
Saving for first home	FHSA first, then TFSA
Employer RRSP matching	Always maximize the employer match before anything else
Retirement income planning	Both — draw RRSP in lower-income years; use TFSA any time
Receiving OAS or GIS in retirement	TFSA — withdrawals do not affect benefit clawback calculations

Common Mistakes to Avoid

- Over-contributing to either account — always check your current room through CRA My Account before contributing
- Holding only cash in a TFSA — treating it as a savings account misses the true power of tax-free investment growth
- Not re-contributing TFSA withdrawals — the room comes back January 1; many people think it is gone forever
- Withdrawing RRSP funds early without a qualifying plan — the full withdrawal is added to your income that year
- Contributing to an RRSP at a low income and planning to retire at a higher income — this can reverse the benefit
- Ignoring spousal RRSPs — contributing to a spousal RRSP now can reduce your combined retirement tax burden significantly

QUICK WIN

Log in to CRA My Account (canada.ca/my-cra-account) and check your exact TFSA and RRSP room right now. You may have more accumulated room than you realize. Then call your bank and open whichever account you do not yet have.

Your Savings Account Action Plan

Step 1
Log in to CRA My Account to see your exact TFSA and RRSP contribution room.

Step 2
Open a TFSA if you do not have one. Start with any deposit, no matter how small.

Step 3
Set up an automatic monthly transfer into your TFSA so contributions happen without thinking.

Step 4
Review your marginal tax rate to determine whether an RRSP deduction meaningfully benefits you this year.

Step 5
If buying a first home, open an FHSA and contribute before year-end to claim the deduction.

Step 6
Find out whether your employer matches RRSP contributions. Maximize the match first.

Step 7
Review what your TFSA is actually invested in. If it is only a savings account, consider whether investments are appropriate for your timeline.

Step 8
If you withdrew from your TFSA last year, re-contribute that amount after January 1 to restore your room.

Step 9
Look up your accumulated RRSP carry-forward room on your most recent Notice of Assessment.

Step 10
Book a session to build a personalized strategy using both accounts together based on your income and goals.

About Your Guide

Sukrah Mebude is a finance educator with Phummie Mebson Financial Services Inc. With a focus on plain-language education and practical guidance, Sukrah works with clients across North America to help them understand their options, build lasting financial habits, and take confident steps toward their goals.

This guide is part of a free educational series covering the topics Canadians and newcomers ask about most. All sessions are completely free. No charge, no hidden fees, no obligation.

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