

TFSA or RRSP

The difference between an RRSP and TFSA

Two of the most common investment questions are: “What’s the difference between an RRSP and TFSA?” and “Which one should I choose?”

The differences between a Registered Retirement Savings Plan (RRSP) and a Tax-Free Savings Account (TFSA) are outlined below. Which one you should choose depends on a few factors: your current tax rate, your reason for saving, and your future tax rate.

TFSA vs. RRSP

An RRSP is mainly intended for retirement savings.

- > Annual contributions are tax deductible.
- > Your contribution limit is based on earned income.
- > Your contribution room begins at whatever age you begin working and filing a tax return.
- > The contribution limit for 2020 is 18% of the earned income reported on your 2019 tax return, up to a maximum of \$27,230.
- > If you do not contribute to an RRSP, your contribution room accumulates and you can contribute even larger amounts in the future.

The TFSA was introduced by the federal government in 2009, as a way for anyone 18 or older to set money aside tax-free throughout their lifetime.

Annual contribution limits amounts have varied over the years.

- > From 2009 to 2012, the maximum contribution amount for each year was \$5,000.
- > From 2013 to 2014, the amount increased to \$5,500 for each year.
- > In 2015, the amount increased again to \$10,000.
- > From 2016 to 2018, the amount decreased to \$5,500 for each year.
- > From 2019 to 2020, the amount increased to \$6,000 for each year.

TFSA contributions are not tax deductible and contribution room accumulates if unused. Anyone who was 18 or older in 2009, and has not yet contributed, will have \$69,500 of contribution room available in 2020.

The chart below shows how different tax rates during your working years and retirement years can affect your decision to invest in an RRSP or a TFSA today, and the after-tax value after 20 years.

Marginal tax rate (contribution/retirement)	Same tax rate today as in retirement		Higher tax rate today than in retirement		Lower tax rate today than in retirement	
	40% / 40%		40% / 30%		30% / 40%	
	RRSP	TFSA	RRSP	TFSA	RRSP	TFSA
Contribution (before tax)	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Tax payable	\$0	\$400	\$0	\$400	\$0	\$300
Net contribution	\$1,000	\$600*	\$1,000	\$600*	\$1,000	\$700*
Investment income	\$2,207	\$1,324	\$2,207	\$1,324	\$2,207	\$1,545
Market value**	\$3,207	\$1,924	\$3,207	\$1,924	\$3,207	\$2,245
Tax payable	\$1,283	\$0	\$962	\$0	\$1,283	\$0
Account value (after-tax)	\$1,924	\$1,924	\$2,245	\$1,924	\$1,924	\$2,245

*Net contributions are made with after-tax dollars.

**Assumes annual 6% return over 20 years.