TFSA vs. RRSP

Your tax rate at the time you invest vs. withdraw, will determine your best option

aviso wealth

Higher tax rate later

= choose TFSA

$2,373 TFSA

$1,924 RRSP

Invest at 26% tax rate,
withdraw at 40%

$449 more money in your pocket

Same tax rate later

= choose either

$1,924 TFSA

$1,924 RRSP

Invest at 40% tax rate,
withdraw at 40%

Lower tax rate later

= choose RRSP

$1,924 TFSA

$2,373 RRSP

Invest at 40% tax rate,
withdraw at 26%

$449 more money in your pocket

Note: The examples above assume $1,000 investment at 6% growth over 20 years.

Find the right balance

Your circumstances and goals will determine how you allocate your resources. Most Canadians can benefit from having a Registered Retirement Savings Plan (RRSP) and a Tax-Free Savings Account (TFSA) — both are great tax-sheltered savings vehicles.

The key difference is whether you pay taxes now or later.

RRSP contributions are tax deductible, so they generate a tax credit. But withdrawals are taxed as income.

TFSA contributions are made with after-tax dollars, so withdrawals are not subject to taxation.

Investment tip

The TFSA and RRSP put the same amount of money in your pocket if your tax rate stays the same over time. However, if you think your tax rate will be higher when you withdraw your money, a TFSA has the advantage. If you anticipate your tax rate will be lower, then an RRSP is a better choice.

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