



## TFSA vs. RRSP: Which One Should You Choose?

### Description

The pandemic has disrupted many things but it's still important that you contribute to an RRSP or a TFSA if you can put some cash aside. But you should analyze your situation to determine if you would be better off contributing to an RRSP or a Tax-Free Savings Account (TFSA).

Your best choice depends on your position in the COVID economy. If you earn a decent salary from a stable job, but are stuck at home with limited possibilities to spend it, then this could be a golden opportunity to load up your [RRSP](#). On the other hand, if your income has suffered or if your job security is uncertain, it might be better to keep the cash you have in a TFSA close at hand.

### TFSA vs. RRSP

TFSA's and RRSP's have distinct and complementary roles. With an RRSP, you get a tax deduction upfront by making a contribution – which usually creates a tax refund when your 2020 tax return is processed – but withdrawals are fully taxable.

The TFSA works in the opposite way. You don't get a tax deduction on contributions but you also don't pay tax on withdrawals. If you're 18 or older, [\\$6,000 has been added to your TFSA contribution room for 2021](#) and can be used anytime this year or later.

But RRSP's and TFSA's also have some favourable characteristics in common. Both protect you from income tax on interest, dividends, and realized capital gains while the funds remain invested in the RRSP or TFSA structure. Both allow you to accumulate unused contribution room each year and use it in subsequent years.

If you have accumulated enough cash during the pandemic and also have unused RRSP contribution room from previous years, you may be able to make a particularly large contribution. But regardless of the amount of the contribution, you benefit from an attractive tax deduction from the start and you are not taxed on the cash until you finally withdraw it when you retire from work. At that time, you will likely be in a lower tax bracket.

However, RRSPs are generally not as suitable if you are likely to need funds in the short term, as you will then be liable for income taxes at a possibly inopportune time.

TFSA contributions, on the other hand, do not entitle you to a tax refund, but withdrawals never have tax consequences either. Plus, if you withdraw from your TFSA, you don't lose your contribution room for good (unlike RRSPs). You can put the money back into your TFSA at any time starting in the next calendar year.

These features make the TFSA a great, comprehensive and much more flexible way to save in case you need funds anytime soon. So, if you worry about your financial situation or your job, the TFSA might be the best place to put your money right now.

## What should I invest in?

Whether you contribute to a TFSA or an RRSP or both, where you invest your cash depends on your investment goals. If you invest for retirement, you can take more risks as you have a long-time horizon.

Buying stocks is a great way to get interesting returns over the long-term. Bank stocks, like **Royal Bank of Canada** and **National Bank of Canada**, are great stocks to buy for retirement. They will provide you some growth with a decent dividend yield while limiting the downside. If you're looking for higher growth, tech stocks like **Constellation Software** and **Docebo** are interesting picks.

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