

TFSA VS RRSP

Which is Right for you this RRSP Season?

As the March 3, 2025, RRSP deadline approaches, you may be weighing your options between contributing to a TFSA (Tax-Free Savings Account) or an RRSP (Registered Retirement Savings Plan). Both offer unique benefits, and choosing the right one depends on your financial goals and circumstances. Let's break it down!

What is a TFSA?

A TFSA allows you to save money tax-free. Contributions are not tax-deductible, but your investment growth and withdrawals are tax-free.

- Best for: Short-term goals, emergency funds, or supplementing retirement savings.
- Contribution Limit: \$7,000 for 2025 (subject to annual updates). Unused room carries forward.
- Flexibility: Withdraw anytime without penalties, and the room is re-added the following year.

What is an RRSP?

An RRSP is a tax-deferred account designed to help you save for retirement. Contributions are tax-deductible, but withdrawals are taxed.

- Best for: Long-term retirement savings, especially if you're in a higher tax bracket now.
- Contribution Limit: 18% of your earned income from the previous year (up to \$32,490 for 2025, plus unused room from prior years).
- Special Programs: Use the Home Buyers' Plan (HBP) or Lifelong Learning Plan (LLP) for specific goals.



Key Differences: TFSA vs. RRSP

| Feature | TFSA | RRSP |
|-------------------|-------------------------------------|--|
| Tax Treatment | Tax-free withdrawals | Tax-deferred withdrawals |
| Contribution Room | Not tied to income | Based on earned income |
| Best for | Short-term or supplementary savings | Retirement or high-income earners |
| Withdrawal Rules | Flexible, no penalties | Taxed at withdrawal (exceptions apply for HBP/LLP) |

How to Decide?

- Pick TFSA if: You're saving for short-term goals, are in a lower tax bracket, or want flexibility.
- Pick RRSP if: You're focused on retirement, in a higher tax bracket, or want to reduce taxable income this year.
- Why not both? Maximize both accounts if you can. A TFSA can supplement retirement income tax-free, while an RRSP builds your nest egg.

RRSP Season: Don't Miss the Deadline!

The deadline to contribute for the 2024 tax year is March 3, 2025. Contributions made before this date can lower your taxable income for the 2024 tax year, possibly leading to a refund.

How Can Stoughton Credit Union Help?

At Stoughton Credit Union, we're here to guide you through RRSP and TFSA options. Whether you're opening a new account or contributing to an existing one, our financial advisors can help you make informed decisions.

Contact us today to start saving!

