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SANDRA DACOSTA CPA

The Difference between Canadian Registered Accounts

It's the beginning of the year and January is known as Financial Wellness Month. For those who can, it's a great time to invest and top-up registered savings accounts in Canada. Investing in registered savings accounts usually makes sense in January, or as early in the year as possible, to take advantage of a full year ahead of compounding growth. This is assuming your investments are making money for you from the start of the year. I'm frequently asked to list my recommendations, from a tax perspective, in order of which registered savings account to invest in. My answer is always the same; it depends. I know, this is so cliché in the tax planning community. But it is correct.

Which registered savings account is best for you depends on your individual circumstances. And the goal should be to use as many of them as you qualify to open and can afford to contribute into, based on your individual financial situation. So, if I had to list them in order, here's my general list (with the caveat that this list is just a generalized opinion and might change depending on your specific financial and personal tax situation):

1. TFSA
2. FHSA
3. RESP
4. RRSP

I've excluded a few other registered accounts as they are less mainstream and usually require special circumstances to open, although they are just as advantageous. For example, the registered disability savings plan (RDSP). To participate in an RDSP you need to qualify for the disability tax credit. The RDSP is a savings plan intended to help an individual who is approved to receive the disability tax credit to save for their long-term financial security.

The following is a general break down of each registered account assuming you are a resident of Canada and qualify for each registered account. Yes, this information is readily available online from many sources. But let's attack this with a twist; let's take it one step further and discuss some traps to avoid and some treatments as a non-resident from a tax perspective…because tax residency is my specialty after all. This general breakdown does not replace the need to seek professional input from a tax and financial advisor. Also, I will not discuss treatment from a U.S. perspective because this is a complex topic. U.S. persons and Canadians moving to the U.S., who hold these accounts, should seek out tax and cross-border financial advice. Let's go.

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Tax Free Savings Account (TFSA)

The TFSA account helps you save money tax free. The amount of money that you can contribute to a TFSA is limited by your available room. Contribution room begins to accumulate from either 2009 (when it was first introduced) or from the year in which you turn 18yrs. In general, you can open one if you are a resident of Canada and have a SIN. It is very flexible, meaning that you can invest in cash, GICs, stocks, bonds, and funds for example. It is in my opinion, the best (or tied for best) registered investment account type in Canada. The TFSA is generally tax-exempt which means that income earned such as interest, dividends or capital gains are usually tax free. For 2025, the contribution limit is $7,000. The accumulated room since inception is $102,000. What this means is that someone who has never contributed to a TFSA and met the requirements to contribute every year since inception in 2009, can now contribute up to $102,000 as of January 1, 2025 – a very respectable sum of money!

You can hold more than one TFSA account (at various brokerages for example) but your maximum limit applies to all your TFSAs in aggregate. You can contribute and withdraw funds at anytime. Withdrawals don't reduce your contribution room. However, they are added back to your contribution room as of the next year.

Traps:

1. Fees paid in a TFSA and interest paid to borrow money to contribution to a TFSA are not tax deductible. Capital losses in a TFSA are not deductible. For this reason, it isn't an account you want to use to gamble with (because losses are lost). The power of the TFSA is the tax-free compound growth over the long-term. Many financial advisors will recommend that investments are made in a diversified portfolio, usually with a long-term goal in mind. But each person is different, and you can also use it with short-term funding goals or for emergencies…consult with your financial advisor directly.
2. Another trap is to use CRA's MyAccount service to find your contribution limit. Some advisors will tell you to wait until mid year to check your balance on the CRA site (after the financial institutions have a chance to update CRA with your contributions made) but I will tell you to avoid reliance on CRA's site. Instead, use CRA's site only as a starting point but keep track of your contributions over the years yourself. Or work with your financial institution or financial advisor to get your contribution history. There are tax court cases on this topic, taxpayers are usually the loser. CRA themselves advice to not rely on their site for TFSA contribution room. The onus is on the taxpayer to know their room. Overcontribution penalties are costly.
3. There are a few situations that will make earnings taxable in a TFSA. The following is just two examples. One - you cannot day trade in a TFSA. CRA has strict rules on the frequency of trading within a TFSA. The purpose of a TFSA is to hold funds in

investments over a period for savings, not to frequently trade. Frequent trading is generally considered running a business and earnings would be deemed business income and taxed as such. Two - if you purchase U.S. company stock, dividend earnings from this stock will usually be subject to U.S. withholding tax. The IRS doesn't care that in Canada the earnings are tax-exempt…they want their money. Because in Canada these earnings are tax free, you will not be able to claim any foreign tax credits. The US non-resident withholding rate is 30% which can be reduced to 15% by the current tax treaty between the countries.

Non-residents:

1. In general, a non-resident with a valid SIN can open a TFSA but cannot make contributions to a TFSA as a non-resident. What this means is that if you leave Canada, you can continue to hold your TFSA but you should not make any contributions. There are costly penalties of 1% tax for each month the over contribution stays in the account. If you can imagine, this can add up quickly, especially if the over contribution amount is high and it stays in the account over a long period of time. There are many stories of TFSA penalties out there, including tax court cases, and let me tell you CRA isn't one to back down. If you are planning to move out of Canada, please seek tax planning guidance well in advance of leaving.
2. If you are a non-resident of Canada, consider the tax impact in your country of residence of holding a TFSA. Just because the earnings are tax free in Canada doesn't mean the earnings are tax exempt elsewhere.

Registered Retirement Savings Account (RRSP)

An RRSP is a retirement savings plan that you establish, that the CRA registers, and to which you or your spouse or common-law partner contribute. Deductible RRSP contributions can be used to reduce your tax. Unlike the TFSA, which is tax free at withdrawal time, RRSPs are a tax deferral mechanism. The goal is to invest now for retirement and to withdraw funds at retirement when presumably your income will be lower (subject to a lower tax rate).

Any income you earn in the RRSP is usually exempt from tax as long as the funds remain in the plan. You generally have to pay tax when you receive payments from the plan. Basically, earnings inside the RRSP are tax sheltered. Contributions made are tax-deductible, which is the best benefit of an RRSP in my opinion. Like a TFSA, an RRSP is flexible. You can invest in various products such as cash, GICs, bonds, mutual funds, options, ETFs, stocks.

You build RRSP contribution room yearly, which is based on your prior year earned income in Canada, such as employment income. You can also locate your RRSP contribution room on your notice of assessment from CRA. Generally, you can deposit 18% of your earned

income from the previous year (up to a maximum of $32,490 for 2025 and any leftover room from previous years will carry over indefinitely until you use it). The deadline for a RRSP tax contribution is 60 days after the end of the previous year to be eligible for a deduction for that tax year. For example, for the 2024 tax year the deadline is March 3rd because March 1 falls on the weekend.

You can withdraw the RRSP income at any time, but you will have to pay a withholding tax on the amount you withdraw, except for certain cases such as the Home Buyers Plan. Currently the Home Buyers Plan (HBP) allows you to withdraw up to $60,000 from your RRSP tax-free to pay for a home. You must then repay the amount withdrawn from your RRSPs under the HBP. You have up to 15 years to repay. To make a repayment under the HBP, you have to make contributions to your RRSPs, PRPPs, or SPP in the year the repayment is due or in the first 60 days of the year after. Once your contributions are made, you can designate all or part of the contributions as repayment.

An RRSP must be converted to a Registered Retirement Income Fund (RRIF) in the year you turn 71 but can be converted ahead of time. Once converted to a RRIF, minimum payments must be withdrawn, and payments above minimum payments are subject to tax. RRIF income will be added to your overall income on your income tax return.

Traps:

1. Part of the reason RRSPs are so popular is the ability to claim the RRSP contribution as a deduction on your income tax return (aka the tax savings). You want to be sure that you are paying taxes at a certain higher rate level to fully take advantage of the tax savings (and possible tax refunds). One of the biggest mistakes I see is taxpayers in a low or nil tax bracket contributing to an RRSP. Yes, contributing is great any time as you are essentially saving for retirement but why use the RRSP when you can use the TFSA with no withdrawal consequences, say if you did need the funds? For individuals who are in a higher tax bracket, the RRSP can make sense from a tax savings perspective.
2. Another issue I come across is seeing taxpayers claim RRSP contributions when not needed, especially on DIY tax returns. You can always decide not to use all or a portion of your RRSP contributions and instead carry over to a future year when the impact of the deduction will be bigger (for example, when you are at a higher tax bracket).

Non-residents:

1. You can maintain your RRSP as a non-resident. There is no requirement to close the account simply because you have moved abroad. Your investments can remain within the RRSP and continue to grow tax-free in Canada until you make withdrawals. You can continue to contribute into your RRSPs if you have Canadian

sources of earned income as Non-resident, although in many circumstances this wouldn't be the case.

2. Withdrawals from an RRSP as a non-resident are generally subject to a 25% withholding tax, unless reduced by a tax treaty. There is the opportunity to tax plan, for example conversion to a RRIF (periodic payment plan) might lower the tax rate based on a tax treaty or it might be beneficial to wait until becoming a NR of Canada to do a lump sum withdrawal, depending on your overall tax rate.
3. As with the TFSA, an issue is how the RRSP account is treated in your current country of residence, as many countries would not recognize the RRSP as a registered account and earnings in the RRSP might be subject to tax abroad.

But wait, why did I skip over the FHSA? Imagine this; the TFSA and RRSP got together and decided to have a child together…this child would be called the FHSA. It has combined some great parts of both! See below.

First Home Savings Account (FHSA)

A FHSA, which first came into effect in April 2023, is a registered plan which allows you as a first-time home buyer to save to buy or build a qualifying first home tax-free (up to certain limits). If you opened the FHSA in 2025, you could claim up to $8,000 in FHSA contributions you made by December 31, 2025. This would show a FHSA deduction on your 2025 income tax and benefit return. Currently, you could contribute up to $8,000 per year to an FHSA, up to a lifetime limit maximum of $40,000.

To open the FHSA, you must be a qualifying individual by meeting all the conditions when you open your account. For example, you are 18 yrs or older and you are 71 yrs or younger as of December 31 of the year you open your FHSA. You must be a resident of Canada, and you did not live in a qualifying home (or what would be a qualifying home if located in Canada) as your principal place of residence that you owned or jointly owned in this calendar year or in the previous 4 calendar years. Further you must meet one of the following two conditions: you did not live in a qualifying home (or what would be a qualifying home if located in Canada) as your principal place of residence that your spouse or common-law partner owned or jointly owned in this calendar year or in the previous 4 calendar years OR you do not have a spouse or common-law partner at the time you open the account.

You need to meet all the above conditions to open the FHSA. If you do not meet all the conditions above, you are not a qualifying individual and cannot open an FHSA.

The FHSA combines the tax advantages of an RRSP and a TFSA. And when it comes to taxes, this is a big deal. First, like an RRSP, contributions to an FHSA are tax-deductible. Say you contribute $8,000, you can deduct the same amount from your taxable earnings.

You can use the deduction in the year you contribute or carry it forward to a later year, which may be useful if you expect to be in a higher tax bracket in the future. Second, if you are making a qualifying withdrawal, you won't pay tax on that withdrawal. Like the TFSA, this includes principal and potential growth (in comparison, all withdrawals from an RRSP are subject to income tax).

The list of qualified investments for the FHSA is the same as it is for TFSAs.

If you decide not to buy a house, then you can transfer the money you've saved (and any income earned) directly to an RRSP or a RRIF. There is no penalty and no tax at the time of transfer. However, once in the RRSP (or RRIF) account, the money will then be taxable when you withdraw based on the rules of those account types. When you transfer money from an FHSA to an RRSP, it doesn't change your RRSP contribution limits. For example, it becomes $40,000 (plus any income) of additional contribution room. On the flip side, you won't get that FHSA contribution room back - once used it's gone.

Some other benefits of the FHSA; you don’t need to pay anything back if you use all the savings from your FHSA to buy a qualifying home (this is contrary to the HBP with the RRSP). Further, since each FHSA is an individual account, your spouse or common-law partner can also open and contribute to their own FHSA (the FHSA can be used with your spouse’s FHSA to help pay for your home) and both accounts can be used to help with your down payment, so long as you’re both first-time homebuyers. You can also use the FHSA and HBP together to buy a home.

Traps:

1. Caution, you can only carry forward up to a maximum of $8,000 unused participation room at the end of the year to use in the following year. For the years following the year in which the FHSA is opened, an FHSA holder’s contribution room for the year is $8,000 plus unused contribution room, or carryforward, from the prior year to a maximum of $8,000 and subject to the $40,000 lifetime limit. For example, if you did not contribute the $8,000 in year one but had a FHSA open, in year two your new room will be $16,000 ($8,000 from year one that you did not contribute and the new $8,000 limit for year two). In year three, you will continue to only have $16,000 of room available (carry over of $8,000 max). The income earned by your FHSA will not impact your unused FHSA participation room.
2. Be careful with overcontributions as with the TFSA, there is a 1% tax applied to over-contributions for each month the excess amount stays in your FHSA.
3. U.S. dividends earned in an FHSA are subject to U.S. withholding tax. While RRSP’s aren’t subject to such taxes, TFSAs and FHSAs have a 15% withholding tax (per tax treaty) on U.S. company dividends required by the IRS.

Non-residents:

1. If you become a non-resident of Canada after you open your FHSA, you can continue to participate normally in your FHSA, with one exception: You cannot make a qualifying withdrawal to build or buy a qualifying home while you are a non-resident of Canada. One of the requirements of a qualifying withdrawal is that you must be a resident of Canada throughout the period that begins with the date of the first qualifying withdrawal and ends with the date of acquisition of the qualifying home. If you are a non-resident of Canada, any taxable withdrawal from your FHSA will be subject to non-resident withholding tax in the year of withdrawal.
2. Same with the other registered accounts, seek tax guidance from a tax advisor in your current home country for the local tax treatment.

Registered Education Savings Plan

A registered education savings plan (RESP) is a tax-sheltered plan to help save for a child's post-secondary education. It is a contract between an individual (the subscriber), the Minister designated for the purposes of the Canada Education Savings Act, and a person (the promoter).

Under the contract, the subscriber names one or more beneficiaries (the student(s)) and agrees to make contributions for them, and the promoter agrees to pay educational assistance payments (EAPs) to the beneficiaries.

You can set up an individual plan or a family plan. Family plans are the only RESP that allow subscribers to name more than one beneficiary. In most circumstances, a parent is the subscriber. But it can be someone else such as a grandparent for example. The subscriber will make the contributions, to the beneficiaries (the students). For example, a parent is the subscriber, the student child is the beneficiary and the financial institution that holds the RESP is the promoter.

When you contribute to the RESP, the federal government will match your contribution through the Canada Education Savings Grant (CESG) by 20% on contributions of up to $2,500 every year. This means you can receive a maximum grant of $500 per year in your RESP (up to a lifetime limit of $7,200).

You can open an RESP as soon as your child is born and has a SIN. You can contribute to an RESP for up to 31 years, and the plan can remain open for a maximum of 35 years.

You can contribute any amount to a RESP—there is no minimum or an annual limit—but there are a few limits and rules to follow:

1. There is a lifetime contribution limit of $50,000 per beneficiary. There are tax consequences for over-contributing to a RESP.

2. You can maximize the government's matching contribution. If you contribute $2,500 each year, that maximizes the federal government's 20% match on annual contributions up to $2,500 per beneficiary per year. However, if you don't contribute enough to qualify for the maximum $500 CESG each year, the unused entitlement can be carried forward to the next year.

In terms of the available investment vehicles, an RESP is similar to a TFSA or RRSP.

A quick summary of the 2 types of post secondary RESP withdrawals when your child is ready to use the RESP and starts to withdraw:

1. Education Assistance Payments (EAP): these withdrawals refer to the portion of the funds that came from matching government grants or investment earnings. This is the combined total of the lifetime investment returns and the government grants. They are taxable to the beneficiary (the student) when withdrawn.
2. Post-Secondary Education Payments (PSE): these withdrawals refer to the portion of the funds that were contributions made by the person who opened the RESP (your contributions into the RESP). They are not taxable when withdrawn.
3. Accumulated Income Payment (AIP): Used when a child is not enrolled (and doesn't intend to enroll) in a post-secondary program and refers to the interest or growth from the RESP not used by the beneficiary as an Educational Assistance Payment (EAP). AIPs are paid to the subscriber and are subject to income tax of the subscriber plus an additional 20% (depending on your province).

EAPs are subject to $8,000 limit in the first 13 weeks of a full-time program or $4,000 if a part-time program. After the first 13 weeks there is an annual EAP limit and the limit is indexed annually. For example, for the 2024 tax year it was $28,122.

There are no limits on PSE withdrawals, as long as you have a beneficiary in a qualifying educational program. Withdrawing from your RESP for education is easy. Once your child is enrolled in post-secondary school, he or she just needs to provide proof of enrolment which they can get directly from the school and give the proof to your RESP provider.

When tax time comes around, the student must claim all EAPs as income on his or her tax return in the year that they are received. But the first few years of post-secondary education usually means that the student is in a very low tax bracket. However, the student does not have to include the contributions (PSE) they receive in their income. If the contributions are not paid out to the beneficiary, the promoter (the bank or financial institution where the RESP is held) usually pays them to the subscriber at the end of the contract.

Basically, your RESP contributions grow tax-free and when funds are eventually withdrawn, the income is taxed at that point, but under the student's name.

What happens if the student decides not to pursue post-secondary education? RESP accounts can remain open for 35 years, so even if your child doesn't immediately enroll in a post-secondary institution after high school, you can wait and see what happens down the road. You can transfer up to $50,000 of private contributions to an RRSP. The government grants and their earnings would go back to the federal government.

If the beneficiary has reached age 21 and the plan is at least 10 years old, you can withdraw the earnings subject to a withholding tax and a 20% penalty tax. The amounts withdrawn will be considered taxable income. It's worth noting that any matching contributions from the government (CESG) are returned to the government if the beneficiary doesn't pursue postsecondary education. Therefore, using a family plan ensures that another beneficiary student can take advantage of the plan.

Traps:

1. Not taking advantage of the full CESG grant total of $7,200. The Government of Canada will match 20% of your annual contributions, up to $500 per beneficiary per year. How many investments have a 20% upfront return on investment!?
2. Don't assume you can only contribute $2,500 per year. In fact, you can top up the contributions by up to $14,000. This is the difference between the grant of $7,200, the max yearly contribution to trigger the max grant incentive, and the $50,000 lifetime limit for each beneficiary. You can decide to top-up the RESP as soon as possible (when the child is young) to ensure more tax-deferred money gets compounded growth over the long-term earlier on. Speak to a financial advisor to discuss financial strategies in more detail.
3. Assuming you can only use RESPs to fund tuition and books. In fact, you can fund school supplies, laptops, transportation, residence fees and meal plans, student activity fees, studying abroad, and it's even possible to fund the students TFSA/FHSA with PSE withdrawals…again speak to a financial advisor to discuss options.

Non-residents:

1. Contributions to the RESP are allowed only for beneficiaries who are resident in Canada on December 31 and who have a SIN. To be able to contribute to the RESP on your children's behalf, they must accompany you to Canada. If a beneficiary becomes a non-resident, if the funds remain in the RESP, tax will continue being deferred. If, however, funds are distributed out of the RESP to a non-resident beneficiary, a flat non-resident tax will apply.
2. With respect to the CESG grant, room will only accrue in years the child is a Canadian resident on December 31. If you cease to be a Canadian resident, your children will likely cease to be residents as well and will not generate any CESG grant room.
3. You should consider how your home country may treat the RESP before establishing an RESP or contributing to one. It is often advisable to move the plan to a subscriber who is a

Canadian resident if you are departing Canada (grandma or grandpa in Canada for example).

Summary

In conclusion, the list of registered accounts all come with some tax benefits, investment flexibility, and can be used to fund various goals prior to death. The ideal situation is to take advantage of as many as you are eligible for and meet your individual needs. As always, taking a holistic approach is best. What this means is that you are using both a trusted financial advisor and a tax advisor. And ideally both should communicate (with your permission) and work together to determine your financial plan and tax plan. The above is a general explanation and it is recommended that you seek qualified professional guidance. Further tax laws, legislation and regulation can change and therefore it is always recommended to seek timely qualified professional guidance.

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