Less tax can help save more

An investor's guide to the TFSA

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What is a Tax-Free Savings Account (TFSA)?

The TFSA was introduced by the Canadian government in 2008 and came into effect on January 2, 2009 as a way of helping Canadians save for different purposes throughout their lifetime. The TFSA allows for tax-free growth of investment income and capital gains from qualified investments, while providing flexibility for contributions and withdrawals.

How does the TFSA work?

Contributions

- Canadian residents age 18 or older may contribute up to the following amounts per year:

Year	Amount	Total
2009	$5,000	$5,000
2010	$5,000	$10,000
2011	$5,000	$15,000
2012	$5,000	$20,000
2013	$5,500	$25,500
2014	$5,500	$31,000
2015	$10,000	$41,000
2016	$5,500	$46,500
2017	$5,500	$52,000
2018	$5,500	$57,500
2019	$6,000	$63,500
2020	$6,000	$69,500
2021	$6,000	$75,500

- Contribution room automatically accumulates each year, with any unused contribution room carried forward indefinitely for use in subsequent years.
- There is no tax deduction on contributions. However, an over-contribution may result in a tax penalty.

Withdrawals

- Withdrawals are tax free and allowed at any time and for any purpose.
- The total amount of withdrawals can be re-contributed into your TFSA starting the following year without impacting your contribution room. However, re-contributing in the same calendar year will result in a tax penalty if you do not have available contribution room, as it is considered an over-contribution.

Other features

- The CRA only allows “qualified investments” in a TFSA. Generally, a TFSA can hold many of the same investments as in an RRSP, which includes mutual funds, GICs, stocks and bonds.
- Certain lenders may allow TFSAs to be used as collateral for a loan.
- Interest on money borrowed to invest in a TFSA is not tax-deductible.

The bottom line on TFSAs:

Regardless of age or investment time horizon, a TFSA should be considered as part of an overall investment strategy.

Who may benefit from a TFSA?

Investors new to the workforce

Investors do not have to "earn" any contribution room, as they would with RRSPs. This means that individuals over the age of 18 just starting a career may use the TFSA while they build RRSP contribution room to use in later years when they are in a higher tax bracket.

People saving for education

Since 18-year-olds are no longer eligible for RESP grants, the TFSA can be a great way to save for post-secondary education.

Money can be withdrawn from the account for any reason, even if post-secondary education is not pursued (unlike with RESPs).

Income splitters

Returns earned in the TFSA account are not taxable, so they do not have to attribute back to the depositing spouse. This means a higher income earner may contribute to the account of his or her spouse, as well as their own, and not have taxes on gains reverted back to them.

Future home-buyers

Rather than contributing to an RRSP and then borrowing those same funds through the Home Buyers' Plan, investors can save for their home by contributing to a TFSA.

When the funds are taken out of the TFSA to pay for the home, there are no taxes to be paid on any growth. Also, unlike the Home Buyers' Plan, money does not have to stay in the account for 90 days before it is eligible for withdrawal, and the funds do not have to be paid back.

Investors already holding interest-bearing investments in a non-registered account

For these investors who are being fully taxed on the interest in the year it is earned, they can take advantage of the tax-free feature of a TFSA by moving some of the investments into a TFSA.

Seniors and those concerned about clawbacks

Seniors are able to save and still collect Old Age Security when they use a TFSA. Investment earnings and withdrawals are not reported on one's tax return, which eliminates the possibility of clawing back income-tested benefits such as OAS. In fact, anyone who collects federal income-tested benefits or credits like OAS, GIS Allowance, Child Tax Benefits or GST/HST Credits should consider a TFSA. That's because income and withdrawal from a TFSA will not affect their eligibility for these benefits and credits.

Investors who have maxed-out their RRSP contributions

Although there is no tax deduction on the TFSA contribution, there is also no tax to pay on the withdrawal, and a TFSA provides another alternative for retirement savings.

RRIF holders

Unlike with RRSPs that must be converted to RRIFs, TFSAs have no expiry. There are no mandatory taxable minimum withdrawals. Furthermore, it can be rolled into a spouse's or common-law partner's plan tax-free.

RRIF holders who are used to having their investments tax-sheltered but have to withdraw a minimum amount each year can have that amount (or up to $6,000 of it) invested into a TFSA if it is not needed right away. The income earned or subsequent withdrawals from the TFSA will not increase taxable income levels.

Ask your financial advisor for more information on TFSAs.

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