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 2009 as a way of helping investors save more. It is a flexible registered savings account, suitable for Canadians of all incomes.

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

- 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.

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 in future years. However, re-contributing in the same calendar year will result in a tax penalty, as it is considered an over-contribution.

Other features

- The account can hold any security that is RRSP-eligible
- TFSAs can be used as collateral for a loan. Interest on money borrowed to invest in this account is not tax-deductible.

Who might benefit from a TFSA?

Investors new to the workforce	Investors do not have to “earn” any room, as they would with RRSPs. This means that individuals just starting a career may use the TFSA and build RRSP contribution room to use in later years when they earn more.
People saving for education	Since 18-year-olds are no longer eligible for RESP grants, the TFSA may 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 Money can be withdrawn from the account for any reason, even if post-secondary education is not pursued (unlike with RESPs).

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.
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 can contribute to the account of his or her spouse, as well as their own, and not have taxes on gains reverted back to them.
Investors already holding interest-bearing investments in a non-registered account	There's simply no reason not to move non-registered, income-bearing investments into a TFSA. You, the investor, are being fully taxed on the interest in the year it is earned anyway, so why not move some to a TFSA and stop paying taxes on it?
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 like OAS, GIS Allowance, Child Tax Benefits or GST Credits should consider a TFSA. That's because any interest income they would otherwise earn outside the shelter of the TFSA could disallow them from receiving GIS, OAS or federal income-tested benefit payments or credits.
Investors who have maxed-out their RRSP contributions	Although there is no tax deduction on the contribution, there is also no tax to pay on the withdrawal, and a TFSA provides another alternative for increasing retirement savings.
RRIF holders	Unlike with RRSPs, there is no age limit on this plan. It never has to be collapsed or rolled into another type of plan. There are no mandatory taxable minimum withdrawals. Furthermore, it can be rolled into a spouse's plan upon death or inherited by heirs completely 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) deposited into the TFSA if it is not needed right away. The TFSA will keep income levels down (by keeping interest earned tax-free), which can help to keep levels below the thresholds where GIS, OAS or Allowance amounts are reduced.

The bottom line on TFSAs:

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

Ask your financial advisor for more information on TFSAs.

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