THE TFSA

When life is full of projects

WHAT IS A TFSA?
A Tax-Free Savings Account (TFSA) is a registered plan in which you can set money aside tax-free for various projects throughout your lifetime.

HOW IS IT DIFFERENT FROM AN RRSP?
Unlike an RRSP, which is designed to focus on retirement, a TFSA affords a lot of flexibility for using your savings to carry out different projects.

The main difference between the two plans is the tax aspect. Money invested in a TFSA is not tax deductible. Then again, when you make a withdrawal, no tax is charged on the withdrawal. In comparison, RRSP contributions are tax deductible, but withdrawals are fully taxable.

You can usually withdraw money from your TFSA at any time[†] and for any reason without tax consequences. You can even re-contribute withdrawn amounts in subsequent years, although there is no obligation to do so.

[†] Some restrictions may apply, depending on the investments chosen.

WHO CAN CONTRIBUTE TO A TFSA?
Anyone 18 years of age or over can contribute to a TFSA. There is no age limit.

ADVANTAGES OF A TFSA

- The income you earn on your investments is not taxed. Your savings grow sheltered from tax.
- The flexible withdrawal rules allow you to save for a rainy day or a special project.
- Unlike an RRSP, a TFSA allows retirees to grow their savings and shelter them from taxes throughout their lifetime.
- TFSA withdrawals are not considered income when qualifying for certain government benefits. Benefit recipients can therefore use the money in their TFSA and their benefits will not be affected.
- Investors who contribute the maximum to their RRSP have a second savings vehicle that provides tax-sheltered growth.

Find out more about the many benefits of a TFSA. Contact us today.

HOW MUCH CAN BE CONTRIBUTED?

From 2009 to 2012, the annual contribution limit was $5,000. In 2013, this limit was increased to $5,500. The annual limit is indexed to inflation, in $500 increments, unless otherwise changed by the federal government.

SPOUSES AND TFSA

Unlike an RRSP, you cannot use your unused TFSA contribution room to contribute to your spouse's TFSA. Your contributions must always be paid into your own TFSA.

However, you can give money to your spouse, who can then contribute to his or her own TFSA, and you will not be taxed on the income earned in your spouse's TFSA. This provision allows a married or common law couple to take advantage of income splitting, even if one spouse does not earn income.

In the case of divorce or separation, if you must share the amounts accumulated in a TFSA, the transfer can be made directly from your former spouse's account to yours, or vice-versa. Such a transfer does not affect either individual's eligible contribution room.

WHICH INVESTMENT TO CHOOSE?

A TFSA offers multiple options, similar to an RRSP. For example, you can choose readily cashable investments to take advantage of the TFSA's flexibility in an emergency or choose to invest in a product with a longer investment time horizon in preparation for a major project or to supplement your retirement income.

Since capital losses on investments held in a TFSA (or an RRSP) are not tax-deductible, it may be more advantageous, from an income tax perspective, to choose investments with a low risk of capital loss.

CALCULATE YOUR CONTRIBUTION ROOM

Unused contribution room in the previous year
+ qualifying withdrawals from your TFSA made the preceding year
+ dollar limit for the current year

Year	Annual limit	Contribution room	Deposit	Unused	Withdrawal
2009	$5,000	$5,000	$5,000	$0	$0
2010	$5,000	$5,000	$5,000	$0	$1,500
2011	$5,000	$6,500	$1,500	$5,000	$0
2012	$5,000	$10,000	$0	$10,000	$0
2013	$5,500	$15,500			

The annual TFSA contribution limit is indexed to inflation, and subject to change by the federal government.

RE-CONTRIBUTING WITHDRAWN AMOUNTS

In 2009, Michael contributed $5,000 to his TFSA. In 2010, he contributed another $5,000. Later that year, he decided to withdraw $1,500 to buy a new bike. Unfortunately, he hurt his knee and postponed the bike purchase. Since Michael had already contributed the maximum amount allowed under his TFSA, he had no contribution room left. He had to wait until the beginning of 2011 to replace the $1,500 in his TFSA.