

TFSA

Tax-Free Savings Account

SAVING JUST GOT A WHOLE
LOT EASIER

Accumulate
Access
Tax-free earnings
Tax-free withdrawals
Savings
Flexible
Stability

Saving Just Got a Whole Lot Easier

Canadians need to save for many different purposes over their lifetimes. Reducing taxes on savings can help.

That is why the Government has introduced a new Tax-Free Savings Account (TFSA). It is the single most important personal savings vehicle since the introduction of the Registered Retirement Savings Plan (RRSP).

The TFSA allows Canadians to set money aside in eligible investment vehicles and watch those savings grow tax-free throughout their lifetimes. TFSA savings can be used for any purpose, such as to purchase a new car, renovate a house, start a small business or take a family vacation.

Canadians from all income levels and all walks of life can benefit.

How the TFSA Works

- If you are a Canadian resident aged 18 and older, you can save up to \$5,000 every year in a TFSA.
- Your contributions to a TFSA are not deductible for income tax purposes but the investment income, including capital gains, earned in your TFSA is not taxed, even when withdrawn.
- Your unused TFSA contribution room is carried forward and accumulates for future years.
- You can withdraw funds available in your TFSA at any time for any purpose — and the full amount of withdrawals can be put back into your TFSA in future years. Re-contributing in the same year may result in an over-contribution amount which would be subject to a penalty tax.
- Neither income earned in a TFSA nor withdrawals affect your eligibility for federal income-tested benefits and credits.
- You can provide funds to your spouse or common-law partner to invest in their TFSA.
- TFSA assets can generally be transferred to a spouse or common-law partner upon death.

Tax-free earnings

How Is a TFSA Different From a Registered Retirement Savings Plan?

An RRSP is primarily intended for retirement. *The TFSA is like an RRSP for everything else in your life.*

Both plans offer tax advantages by allowing you to accumulate investment income tax-free within the plan or the account, but they have key differences.

- Contributions to an RRSP are deductible and reduce your income for tax purposes. In contrast, your TFSA savings contributions are not deductible.
- Withdrawals from an RRSP are added to your income and taxed at current rates. Your TFSA withdrawals and growth within your account are not included in your income—they are tax-free.

An Effective Vehicle for Your Lifetime Savings Needs

- Robert withdraws \$10,000 tax-free from his TFSA to renovate his home. Robert will be able to re-contribute the \$10,000 to his TFSA in future years without affecting his other available contribution room. Had he used his RRSP savings, he would have needed to withdraw up to \$18,000 to pay taxes and cover the cost of the renovation, and this contribution room would have been lost.

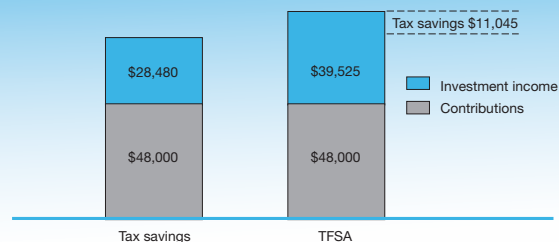
Benefits of Saving in a TFSA

Because capital gains and other investment income earned in a TFSA are not taxed – even when withdrawn (either as they accrue or when they are withdrawn), a person contributing \$200 a month to a TFSA for 20 years will enjoy additional savings of \$11,045 compared to saving in an unregistered account.

Savings
Accumulate
Flexible

TFSA Versus Unregistered Savings

TFSA Versus Unregistered Savings



Notes: Combined federal and provincial tax savings based on a \$200 monthly contribution for 20 years and a 5.5 per cent rate of return. For unregistered savings, a 21 per cent average tax rate on investment income is assumed (based on 40 per cent interest, 30 per cent dividends and 30 per cent capital gains, and a middle-income earning account holder).

A Flexible Account for a Lifetime of Savings

Not everyone is able to save each and every year.

Those who cannot contribute \$5,000 to a TFSA in a given year are able to carry forward their unused contribution room to future years.

In addition, Canadians may want to use their savings—to buy a new car or a cottage, make home improvements, or start a small business—and the full amount of withdrawals can be put back into the TFSA in future years. Re-contributing the withdrawn amount in the same year may result in an over-contribution amount, which would generally be subject to a tax of 1% per month.

Individuals can provide funds to their spouse or common-law partner to invest in their TFSA, up to the spouse's or common-law partner's available room.

Full Flexibility to Withdraw and Re-contribute

- Gillian saves \$3,000 a year for 10 years in a TFSA. She decides to start a small business and withdraws \$40,000 of her TFSA savings, tax-free. A number of years later, Gillian decides to re-contribute the \$40,000 to her TFSA. She may do so without reducing her other available contribution room.

Early Savings to Meet Many Needs

Canadians will also benefit by using the TFSA to start saving early for future needs and goals.

Meeting Unforeseen Needs

- Annette and Roger, a single-earner couple, have been saving in their TFSAs for seven years. Together, they have saved \$59,000. To pay for extensive repairs to the foundation of their house, they withdraw \$40,000 tax-free. They will be able to re-contribute this amount in future years.

Benefits for Seniors

The TFSA also provides seniors with a tax-free savings vehicle to meet ongoing savings needs, even after they reach age 71 and are required to convert their registered retirement savings into a retirement income vehicle.

- François and Evelyn are retired and living comfortably on François' pension. Evelyn also receives a small pension based on her years of work after raising their children. They would like to save Evelyn's pension each month and use it to spend the winter in Florida. The TFSA will provide them with an effective means to save for their trip south each year.

No Impact on Income-Tested Benefits

Neither income earned in a TFSA nor withdrawals will affect your eligibility for federal income-tested benefits and credits, such as the Guaranteed Income Supplement and the Canada Child Tax Benefit. This will improve incentives for people with low and modest incomes to save.

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Benefits for Low- and Modest-Income Canadians

- Alexandre and Patricia, a modest-income couple, expect to receive the Guaranteed Income Supplement (GIS) in addition to Old Age Security and Canada Pension Plan benefits when they retire. They have saved for a number of years in their TFSAs and now earn \$2,000 a year in interest income from their TFSA savings. Neither this income, nor any TFSA withdrawals, will affect the GIS benefits (or any other federal income-tested benefits and credits) they expect to receive. If this \$2,000 were earned on an unregistered basis, it would reduce their GIS benefits by \$1,000.

How Can I Get More Information?

Information is available at www.tfsa.gc.ca, including a Tax-Free Savings Account calculator which allows individuals to estimate TFSA savings amounts.

Ce document est également offert en français.

The rate of returns on investments cited in this document is hypothetical and used only for the purposes of example. This document should not be construed as a guarantee of any specific rate of interest, either expressed or implied, nor should it be considered an endorsement of individual products or organizations offering Tax-Free Savings Accounts.