Tax free savings

Now is the perfect time to start healthy financial habits to last your lifetime. Tax Free Savings Accounts (TFSA) were introduced by the federal government in 2009 to help Canadian residents 18 and older save money and plan for future expenses. You can use TFSA funds for anything you'd like and, depending on your product type and length, the money isn't locked in for any length of time. It's a great tool to set up your life beyond banking.

What is a TFSA?

Money contributed to a TFSA is in after-tax dollars and as a result, is not subject to tax upon withdrawal. This feature allows you to invest money in an account without being taxed on earnings throughout your lifetime. The elimination of taxes on earnings and capital gains will help your savings grow faster so you can focus on enjoying your life.

While there are annual contribution limits, there are no restrictions on the way the funds in the account are used and no time constraints for using the funds. You can use a TFSA to save for a car, a home, to start a small business or even to take a vacation. There is no maximum age requirement and you can have multiple TFSAs.

How a TFSA works

Every year, residents of Canada who are 18 years and older and who have a valid social insurance number (SIN) earn contribution room to put towards their TFSA. Contribution room is calculated the same for everyone – it's a flat amount that is determined by the government every year. To view the latest in TFSA contribution room, visit the CRA website. Here's a summary from 2009 – 2021:

YEAR	ANNUAL CONTRIBUTION DOLLAR AMOUNT
2009	$5,000
2010	$5,000
2011	$5,000
2012	$5,000
2013	$5,500
2014	$5,500
2015	$10,000
2016	$5,500
2017	$5,500
2018	$5,500
2019	$6000
2020	$6000
2021	$6000
Total lifetime contribution to date	**$75,500**

Even if you don't open or contribute to a TFSA, you will still accumulate contribution room throughout your life. Unused contribution room can carry forward indefinitely and be used in future years. Unlike an RRSP, TFSA contributions are made with after-tax dollars and are not deducted from earned income.

Be sure to keep track of your contributions as you're responsible for ensuring you don't exceed the maximum contribution limit. An over contribution will result in a penalty tax on the amount over-contributed of 1% per month for each month the over-contribution amount remains in the TFSA. Unlike a RRSP, your TFSA contribution room does not appear on your Notice of Assessment. You can always check your contribution room by logging into the Canada Revenue Agency (CRA) website.

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You can withdraw from a TFSA at any time and at any age. A benefit of a TFSA is the money isn't subject to taxation when you withdraw the funds. A withdrawal to correct over-contributions does not increase unused contribution room.

Here is an example to help illustrate how TFSAs work. Meet Sue.

- In 2009, Sue contributes $2,000 to her TFSA, leaving unused contribution room of $3,000
- In 2010, she accumulates additional yearly contribution room of $5,000 and now has a total of $8,000 in unused contribution room
- In 2010, Sue takes a withdrawal of $1,000 for a holiday
- That $1,000 will be added to the contribution room for 2011
- In 2011, Sue contributes $10,000 to her TFSA
- Sue's unused contribution room for 2011 would be $4,000; consisting of $8,000 carried forward from 2010, $5,000 additional annual contribution limit for 2011, $1,000 from the withdrawal taken in 2010, less $10,000 contribution in 2011
- Sue's contribution room for 2012 consists of $4,000 carried forward from 2011 and the $5,000 additional annual contribution limit for 2012, for a total of $9,000
- In 2013, Sue contributes $14,500, the maximum she is allowed, to her TFSA. Sue's contribution room for 2013 consists of $9,000 carried forward from 2012 and the $5,500 additional annual contribution limit for 2013, for a total of $14,500
- Sue makes no contributions or withdrawals in 2014 or 2015. Her unused contribution rom at the end of 2014 will be equal to the $5,500 annual contribution limit for 2014; her unused contribution room at the end of 2015 will include an additional $10,000, which is the annual contribution limit for 2015, for a total of $15500

Year	Contribution	Withdrawal	Unused contribution room *(see breakdown in next table)*
2009	$2,000	$0	$3,000
2010	$0	$1,000	$8,000
2011	$10,000	$0	$4,000
2012	$0	$0	$9,000
2013	$14,500	$0	$0
2014	$0	$0	$5,500
2015	$0	$0	$15,500

Year	Unused contribution room breakdown
2009	$5,000 (Annual contribution limit) -- $2,000 (2009 contribution) = $3,000
2010	$3,000 (Unused contribution room) + $5,000 (Annual contribution limit) = $8,000
2011	$8,000 (Unused contribution room) + $5,000 (Annual contribution limit) = $8,000 + $5,000 (Annual contribution limit) = $8,000
2012	$4,000 (Unused contribution room) + $5,000 (Annual contribution limit) = $9,000
2013	$9,000 (Unused contribution room) + $5,500 (Annual contribution limit) -- $14,500 (2013 contribution) = $0
2014	$0 (Unused contribution room) + $5,500 (Annual contribution limit) = $5,500
2015	$5,500 Unused contribution room) + $10,000 (Annual contribution limit) = $15,500

A TFSA is transferable to:

- Another TFSA that you own, (unless restricted by the investment type (e.g. a locked-in or fixed deposit). The funds must go directly into the new TFSA. If the funds are paid out first, it would be considered a withdrawal
- A spouse/common-law partner, in the event of death
- A former spouse/common-law partner, in the event of a relationship breakdown. When a breakdown happens, an amount can be transferred directly from one individual's TFSA to the others without affecting either's contribution room. Certain conditions do apply

In all of these scenarios, a transfer will not affect the contribution room of the holder of the account receiving the funds.

TSFA options

A TFSA would generally be allowed to hold similar types of investments as a RRSP. The types of investments are restricted under the Income Tax Act and include:

- Variable interest savings accounts
- Term deposits including index linked term deposits
- Mutual funds*
- Publically traded securities
- Bonds

Is a TFSA right for you?

Any person who is a resident of Canada, is 18 years of age or older and has a valid SIN is eligible to open a TFSA. They are not available in the US citizens, and United States financial institutions do not recognize TFSAs. Depending on your circumstances, a TFSA might be right for you.

TFSAs can help you with short and long term goals.

Save for unplanned and planned needs

There are many purchases you may make during your lifetime. You can make a withdrawal from your TFSA without the income and tax consequences that come with making a withdrawal from an RRSP.

Save for long or short term goals

A TFSA allows you the flexibility you can save for a short term goal, like special vacation, or for longer term goals like retirement.

Benefits for seniors

While the TFSA is beneficial for young people who have a lot of time to see their savings grow in a tax-efficient manner, seniors can also take advantage of a TFSA. With a TFSA, there is no age restriction to contribute. As a senior, if you don't have the immediate need for the RRIF mandatory distributions, you can contribute them to a TFSA for continued tax-free growth.

Benefits for low income earners

If you are currently a low income earner, it might be preferable for you to make a contribution to a TFSA because you do not benefit as much from the tax deduction on RRSP contributions. Withdrawals from a TFSA do not affect the National Child Benefit, Guaranteed Income Supplement (GIS) or OAS Benefits since withdrawals are not taxed or reported as income.

TFSA vs other types of investments

How do you know if you should invest in a TFSA? Here's how a TFSA stacks up against other investment types.

TFSA vs unregistered account

Since capital gains and earned income are not taxed in a TFSA, savings grow faster than in an unregistered account.

TFSA vs RRSP

Both the RRSP and TFSA offer tax-free savings, but there are some key differences.

	RRSP	TFSA
Tax deductible deposits	Yes	No
Tax sheltered growth of investments	Yes	Yes
Taxed withdrawals	Yes	No
Spousal contributions	Yes	No*
Unused contribution carry forward	Yes	Yes
Withdrawals increase contribution room	No	Yes
Withdrawals affect federal government benefits	Yes	No
Maximum age limit	Yes	No
Contribution limit based on earned income	Yes	No

**You may give funds directly to a spouse or common-law partner to contribute to their own TFSA.*

Another aspect to consider when deciding on a TFSA or RRSP is how your tax rate will compare at the time of withdrawal versus your tax rate when you contribute.

If at the time of expected withdrawal:	TFSA	RRSP
The expected tax rate is similar to your tax rate when you contribute, then a TFSA and RRSP are equally attractive	X	X
Your expected tax rate is lower than your tax rate when you contribute, the RRSP is a better choice		X
Your expected tax rate is higher than your tax rate when you contribute, the TFSA is a better choice	X	

Four reasons to open a TFSA

There are a variety of benefits to a TFSA, even if you only save a little a year.

1. **You're already contributing the full amount to your RRSP each year.** When you retire, you can draw income from your TFSA tax free. This may allow you to delay taking cash from your RRSP and paying taxes on those withdrawals.
2. **You expect your income tax rate to be higher when you take money out of the TFSA.** The money you put into a TFSA has already been taxed. So if your marginal tax rate is higher when you take the money out, you'll have paid less in taxes.
3. **You need a flexible savings plan.** You can carry forward any unused contribution room in your TFSA to future years. And, if you withdraw your TFSA savings, you can put back the full amount of your withdrawal at a later date and still save the maximum each year.
4. **You want to reduce taxes on your investments.** You can use your TFSA to shelter investments that would otherwise be taxed at the highest rate. That's because you don't pay tax on your TFSA's earnings.

Get started

Take charge of your finances – connect with us to set a course for your TFSA and a Smart Money Plan™ that's right for you. Visit us in-branch, call our Member Hub (604-419-8888) or book an appointment with an advisor online. (https://www.gffg.com/Personal/AboutUs/ContactUs/Financial/)