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Tax-Free Savings Account (TFSA) Quick Tips 2016

2016 TFSA Contributions

Starting on January 1, 2016, you can contribute an additional $5,500 to your Tax-Free Savings Account (TFSA) to benefit from tax-free growth. With the contribution room from 2009 through 2015, you will be able to contribute up to $46,500 to grow tax-free.

Tax-Free Benefits

With a TFSA, you can contribute up to your contribution limit each year ($5,000 for years 2009-2012, $5,500 for 2013-2014, $10,000 for 2015 and $5,500 for 2016), earn tax-free investment income including interest, dividends and capital gains, and even make withdrawals – at any time, for any reason – without paying tax. Although this may not sound like much at first, with tax-free compound growth, it can add up over time.

Opening a TFSA

Any Canadian resident who has reached the age of majority in their province can open a TFSA. The age of majority is 19 in Newfoundland and Labrador, New Brunswick, Nova Scotia, British Columbia, Northwest Territories, Yukon and Nunavut. In all other provinces, it is 18. Bear in mind that you need to have a valid social insurance number to open a TFSA. To open your TFSA, please ask for assistance.

Making Contributions

Contribution room accumulates every year starting at age 18, and can be carried forward indefinitely. You can continue contributing to your TFSA even when you're retired – it's a lifelong plan.

Choosing Your TFSA Investments

Regular savings TFSA: You can choose from interest-bearing savings products such as GICs.

Full-service TFSA: You can choose from equities such as dividend-paying stocks, most mutual funds and fixed-income investments like bonds, T-bills and GICs.

RBC Dominion Securities offers a full-service TFSA. Generally, a full-service TFSA makes most sense if you want to implement a TFSA strategy designed to maximize tax-free compound growth. To learn more about the difference between a regular and full-service TFSA, please ask for our report "Choosing the Right TFSA."

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Making Withdrawals

You can make tax-free withdrawals for any reason, unlike an RRSP. Plus, the amount you withdraw is added back to your available contribution room the following year. Remember that you have to wait to re-contribute any amounts you have withdrawn in any given year until January 1 of the following year. Otherwise, the Canada Revenue Agency may assess excess contribution penalties. In addition, any income or capital gains earned on overcontributions could be subject to 100% tax. There is no requirement to make withdrawals at a certain age. As a result, you can let your investment earnings continue growing tax-free (see chart at right).

Flexibility

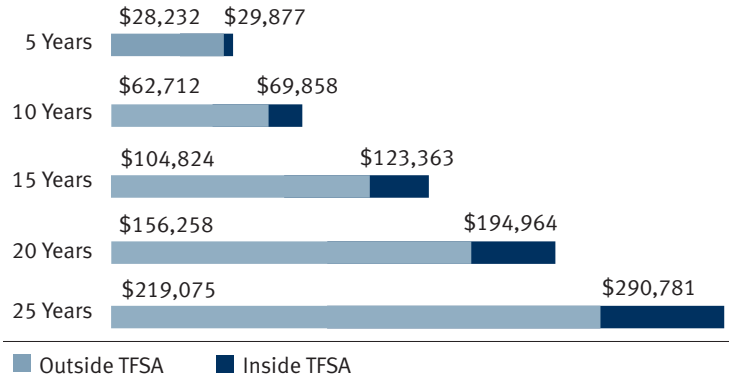
You can use your TFSA to meet a wide range of savings goals – for a major purchase, as an emergency fund or as a complement to your RRSP or Registered Retirement Income Fund (RRIF) for an additional tax-wise savings strategy.

Transferring Your TFSA

To avoid delays and adverse tax consequences, transfer any TFSA assets held at another financial institution into your RBC Dominion Securities TFSA through a "qualifying transfer" instead of withdrawing and re-contributing. We can help you make a qualifying transfer quickly and easily.

Whether you need to open your TFSA, make your 2016 contribution or switch to a new TFSA strategy, please contact us for assistance.

Tax-free compound growth



This chart shows how $5,000 contributed annually and earning 6% interest per year would grow inside of a TFSA compared to a taxable investment account.

Assumes tax rate of 32% outside TFSA, with interest income taxed annually. All contributions made at beginning of year. Annual compound rate of return of 6%. For illustration only and not indicative of future returns. Excludes fees and commissions. Actual tax rates and rates of return will vary.

Ways You Can Use Your TFSA

- Help a child or grandchild fund their education above and beyond their Registered Education Savings Plan (RESP) and/or family trust.
- Shelter some of your taxable capital gains, dividends and interest currently being earned in a regular taxable account.
- Expand your retirement savings beyond your RRSP.
- Earn tax-free income on surplus RRIF payments you don't need immediately.
- Take advantage of family income splitting to reduce your overall tax bill by gifting amounts from your bank account (the income from which is exposed to your higher tax rate) to your lower-income spouse or adult children to contribute to their own TFSAs.
- In provinces and territories where it is permitted, consider naming a beneficiary on your TFSA to avoid probate.
- Consider naming your spouse as successor holder (instead of beneficiary) on your TFSA to simplify administration upon your death.

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